



SACRAMENTO UPDATE

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Changes and more of the same

The legislature reconvened the second-year of the two year session this week by electing a new leader and dealing again with another mind-numbing budget deficit.

Gov. Arnold Schwarzenegger has called the Legislature into emergency session to confront a nearly \$6.6 billion budget gap in the current fiscal year. The state faces a \$20 billion shortage, a figure that reflects budget shortages from 2009 through 2011, with roughly \$6.6 billion the first year and \$13.3 billion in the 2010-11 budget year, according to the governor's estimates. In 2009, the legislature confronted a \$60 billion dollar budget deficit and while cobbling together a number of solutions, it was still short because of law suits that blocked cuts and an economy that has not improved. While this year's budget is not as dire as the 2009-10 budget passed last year, it may be harder to bridge the budget gap this year. A number of budget balancing tools have already been exhausted, and there is less one-time federal stimulus money coming into the state this year. That money was instrumental in circumventing some of the deepest cuts in health and education last year.

In the Governor's State of the State speech delivered Wednesday to a joint session of the legislature, the Governor mentioned that the legislature and he had a tough road ahead of them regarding the passage of the water bonds. He noted that it was going to take everything they had to convince voters to pass the \$11 billion bond package.

The Governor stayed away from the budget deficit in specifics, but mentioned that there must be reforms of the budget and tax system, which are both out of sync with today's California. The Governor noted that out of 38 million people, 144,000 pay 50% of all state income taxes.

In his speech the Governor highlighted the need for more jobs and investment into education over investment into prison. His jobs proposal has the following four components:

- \$500 million job package-train and create jobs
- Streamline permitting for construction projects
- Home buyer tax credit-new and existing homes
- Exempt green technology equipment

The Governor vowed to protect schools and rein in the state's spending on prisons. He said that he will protect education in this budget and the state can't afford to cut higher education. Lastly, the Governor declared that he will push the federal government to give California their fair share of federal dollars, of which Senator Feinstein has been responded by basically saying, "don't hold your breath."

The budget unveiled today by Governor Arnold Schwarzenegger includes provisions that will divert state support for public transit and rearrange and revamp the structure of fuel sales and excise taxes.

Provisions of the Budget proposal prepared by the State Department of Finance include:

- Elimination of the State sales tax on gasoline—the revenue source for Proposition 42
- Enactment of additional 10 cents per gallon excise taxes to cover lost STIP and local roads revenue and debt service
- Annual gas tax increases to cover the growth in debt service
- Carry-over of Public Transit Account funds to cover future debt service on Proposition 1B transit and High Speed Rail bonds
- Maximum implementation of Proposition 1B projects

The state's current 6 percent sales tax on a gallon of gasoline would be dropped, and replaced by a 10.8-cent increase in per-gallon excise taxes. The administration estimates the overall impact would be a 6-cent-per-gallon reduction in gas prices. The seemingly arcane switch would allow the state to legally cut the money it must currently pay to local governments for transportation programs, and to schools. That's because the sales tax revenues from gasoline are part of voter-approved formulas that determine how much the transportation and schools get from the state.

Transportation advocates are alarmed by these proposals and have called on the governor and legislature to come up with better solutions than that proposed.

"With regard to the bulk of the budget proposal, I have one reaction: You've got to be kidding," said Senate leader Darrell Steinberg (D-Sacramento).

This is the opening salvo for what is expected to be another protracted budget year.

New Assembly Speaker

The Assembly elected John A. Perez as Speaker this week. Perez will be sworn in later this month. Perez won out in a hard fought internal skirmish. See attached article and interview conducted by Capitol Weekly: <http://www.capitolweekly.net/article.php?xid=yjfo614neddkal>. Senate Republican's also announced the Bob Dutton of Rancho Cucamonga will replace Dennis Hollingsworth of Murrieta later this year. And the Assembly Republican's will likely select a new leader soon, especially if Senator Able Maldonado is confirmed as Lt. Governor and his senate seat opens to current republican leader Sam Blakeslee.

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