

## Mandates Proposed for Repeal or Suspension

[All of the mandates listed below have been proposed for suspension in the 2003-04 May Revision, except for the Open Meetings Act Notices mandate, which is proposed for repeal. The Administration intends to come forward with the statutory language necessary for repealing the other mandates for which repeal is recommended during the development of the 2004-05 Governor's Budget.]

### Repeal

<b>Mandate</b>	<b>Departmental Budget</b>
Deaf Teletype Equipment	Office of Emergency Services
CPR Pocket Masks	Office of Emergency Services
Misdemeanors: Booking and Fingerprinting	Justice
Voter Registration Roll Purge	Secretary of State
Handicapped Voter Access Information	Secretary of State
Local Elections Consolidation	Secretary of State
Democratic Party Presidential Delegates	Secretary of State
Election Materials	Secretary of State
Victims' Statements (Minors)	Board of Corrections
Animal Adoption	Food and Agriculture
Elder Abuse, Law Enforcement Training	Peace Officer Standards and Training
Law Enforcement Sexual Harassment Training	Peace Officer Standards and Training
Personal Alarm Devices	Industrial Relations
Adult Felony Restitution	Victims Compensation and Government Claims Board
Property Tax-Family Transfers	Tax Relief
Senior Citizens' Mobile Home Property Tax Deferral	Tax Relief
Proration of Fines and Court Audits	Local Government Financing
Open Meetings Act Notices	Local Government Financing
Filipino Employee Surveys	Local Government Financing
Involuntary Lien Notices	Local Government Financing
Lis Pendens	Local Government Financing
SIDS Contacts by Local Health Officers	Health Services
SIDS Notices	Health Services
Guardianship/Conservatorship Filings	Developmental Services
Short-Doyle Case Management	Mental Health
Short-Doyle Audits	Mental Health
Residential Care Services	Mental Health

### Suspend

Structural and Wildland Firefighter Safety Clothing and Equipment	Industrial Relations
Domestic Violence Information	Local Government Financing
Two Way Traffic Signals	Caltrans
Mineral Resource Policies	Conservation
Investment Reports	State Treasurer's Office
Court, Treasury, Oversight Committees	State Treasurer's Office
Child Abuse Treatment Services Authorization and Case Management	Social Services

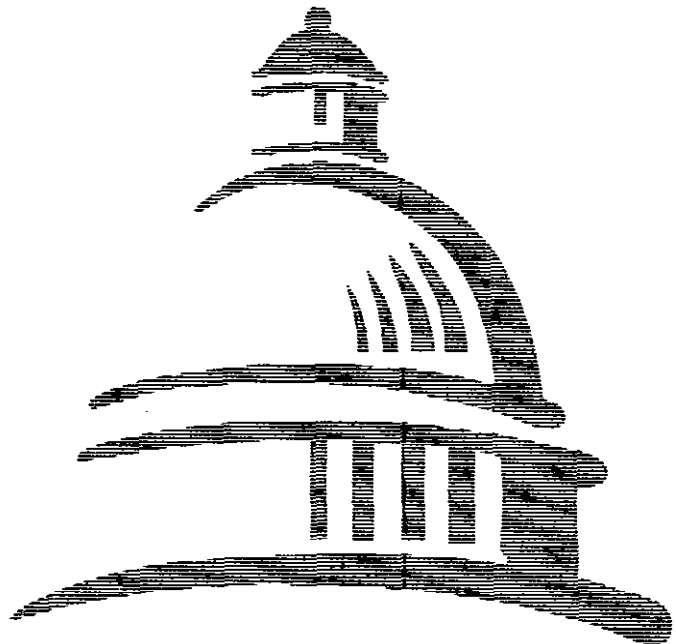
# The 2003-04 Senate Budget Bill SB 53 (Chesbro)

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LEGISLATIVE ANALYST'S OFFICE

As Adopted by the  
Budget and Fiscal Review Committee

June 2, 2003





## 2003-04 General Fund Condition

(In Millions)

	Governor's Budget (May Revision)	Senate Version	Difference
Prior-year fund balance	\$1,410	\$1,443	\$33
Revenues and transfers	70,934	72,408	1,474
Total resources available	\$72,344	\$73,851	\$1,507
Expenditures	70,433	72,290	1,857
Ending fund balance	\$1,911	\$1,561	-\$350
Encumbrances	1,402	1,402	—
Reserve	\$509	\$159	-\$350

- Reserve.** The Senate version results in a 2003-04 year-end reserve of \$159 million, which is \$350 million less than the \$509 million in the May Revision. Like the May Revision, it assumes a \$10.7 billion deficit financing bond to eliminate the 2002-03 deficit.
- Revenues.** The Senate version assumes total revenues and transfers of \$72.4 billion, which is \$1.5 billion more than the May Revision. The Senate version assumes the LAO revenue forecast (\$587 million higher than the administration in the current and budget years). It also includes a \$938 million loan from the Transportation Investment Fund.
- Expenditures.** The Senate's General Fund expenditure total is \$72.3 billion, which is \$1.9 billion higher than the May Revision. A significant part of this net increase reflects restoration of the Governor's proposed major reductions in health and social services programs.



## Major Features

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### Deficit Financing Bond

- Assumes proceeds from sale of \$10.7 billion bond to eliminate 2002-03 deficit.



### K-12 Education—Proposition 98

- Provides the same 2003-04 Proposition 98 funding level as the May Revision— \$41.2 billion.
- Adopts \$1.6 billion in funding increases to pay for pupil attendance growth, increased PERS costs, and net funding deferrals. Adopts \$2.0 billion in targeted program reductions including revenue limits (general purpose funds), instructional materials, and deferred maintenance.



### Higher Education

- Makes additional unallocated reductions in General Fund support for the University of California (UC) and the California State University (CSU), offset in part by restoration of some proposed reductions (such as for outreach).
- Funds proposed enrollment growth of four percent for UC and CSU.
- Restores \$200 million in California Community Colleges funding by “shifting” it to the 2004-05 fiscal year in order to reduce the level of Proposition 98 appropriations in 2003-04, and authorizes a fee increase to \$18 per unit (as proposed by the Governor).



### Health and Social Services

- Adopts the Governor’s revised realignment plan that results in General Fund savings of \$1.7 billion, pending enactment of legislation. The revised plan (1) increases the county



## Major Features

(continued)

share of costs in several programs (primarily CalWORKs, Child Welfare Services, Foster Care, and Mental Health) and (2) provides the counties with commensurate revenues from higher tobacco taxes and the creation of a new 10.3 percent personal income tax bracket.

- Increases spending on social services by about 5 percent compared to the May Revision for 2003-04, primarily due the restoration of the statutory COLAs for CalWORKs and SSI/SSP.
- Provides a net increase of about \$800 million (General Fund) for health programs above the funding level proposed in the May Revision, due primarily to the rejection of major budget reduction proposals affecting eligibility, services, and rates paid to providers. (This increase does not take into account offsets to spending discussed below due to federal funds.)
- Assumes the receipt of \$250 million in federal funds due to recent congressional tax-cut legislation to increase the federal cost-sharing ratio for the Medi-Cal Program.



### Judicial and Criminal Justice Programs

- Offsets General Fund court operations costs by more than \$118 million by adopting new and increased court fees. Also, restores \$40 million of the Governor's \$134 million reduction to the courts.
- Reduces spending for corrections by about \$130 million below the Governor's proposal by adopting policy reforms aimed at lowering the recidivism rate, and the inmate population.



### Transportation

- Rejects Governor's proposal to transfer only \$207 million from the General Fund to the Transportation Investment Fund (TIF) under Proposition 42 and to retain \$938 million in the General Fund. Instead, transfers the full amount of



## Major Features

(continued)

\$1,145 million to TIF and loans \$938 million back to the General Fund, to be repaid by June 30, 2009.

### Resources and Environmental Protection

- Accepts the Governor's fee proposals for air quality, pesticide, and water quality regulatory programs, and adopts additional air and pesticide fee revenue increases. In addition, adopts several new fees to create General Fund savings, in the areas of state firefighting, timber harvest fees, and water rights.

### State Administration

- Assumes Governor's proposed General Fund savings of \$470 million in reduced state employee compensation costs.

### Local Government

- Assumes no vehicle license fee (VLF) backfill for realignment or general local government purposes. Assumes VLF "trigger" is pulled, with local government impact dependent on when VLF rate returns to 2 percent level.
- Limits Governor's proposal to transfer \$250 million from redevelopment agencies to ERAF to the budget year only.
- Defers funding—or suspends the requirement for local governments to implement—most local government mandates. Did not approve Governor's proposal related to Open Meetings Act.
- Accepts Governor's May Revision proposal to continue to fund local property tax subventions for open space protection at a budgeted cost of \$40.1 million.
- Accepts Governor's proposal to eliminate \$38 million for local government booking fees.



## Major Senate Actions K-12 Education—Proposition 98

### General Fund (In Millions)

	May Revision	Senate	Difference
Child care	\$1,239	\$1,239	—
Adult education	568	578	\$9
Revenue limit:			
Growth	504	504	—
Increased PERS <sup>a</sup> costs	459	459	—
Cost-of-living adjustment	—	—	—
Base reduction	-350	-350	—
Public Schools Accountability Act	356	348	-8
Regional Occupation Centers/Programs	354	370	16
Supplemental grants	162	172	10
Peer Assistance Review	62	23	-39
Early Mental Health	—	10	10
Advancement Via Individual Determination	—	4	4
Local Arts Education Grant Program	—	6	6
Basic aid district categorical offset	-20	-10	10

<sup>a</sup> Public Employees' Retirement System.

- The Senate version spends \$27.6 billion from the General Fund for Proposition 98 K-12 programs, the same as the May Revision.
- The Senate version provides \$6,884 in Proposition 98 per pupil. This is \$199 or 2.8 percent below the *2002-03 Budget Act*.
- The Senate approved the Governor's proposals to continue the principal apportionment deferral approved in SB 18x (Chesbro), and provide no equalization funding.
- The Senate approved trailer bill language to relax required reserve and local maintenance funding requirements.



## Major Senate Actions Higher Education

(In Millions)

	2002-03 Enacted	2003-04 May Revision	2003-04 Senate	
			Amount	Change From 2002-03
<b>General Fund</b>				
University of California (UC)	\$3,223.9	\$3,040.2	\$2,959.2	-8.2%
California State University (CSU)	2,680.3	2,576.9	2,509.5	-6.4
California Community Colleges (CCC) <sup>a</sup>	2,755.3	2,246.1	2,454.6	-10.9
<b>General Fund, Student Fees<sup>b</sup>, and Local Property Taxes</b>				
UC	\$3,732.0	\$3,795.2	\$3,714.2	-0.5%
CSU	3,234.3	3,301.5	3,234.2	—
CCC <sup>a</sup>	4,937.7	4,633.7	4,832.2	-2.1
<sup>a</sup> Includes \$200 million payment to be deferred to July 2004. <sup>b</sup> Does not include student fee revenue diverted to financial aid.				

- The Senate adopted unallocated reductions to UC and CSU beyond those proposed by the Governor. It is assumed that a substantial portion of the reductions will be backfilled by student fee increases of about 25 percent. The Senate adopted the Governor's proposal to raise CCC student fees from \$11 to \$18 per unit.
- The Senate funds 4 percent enrollment growth at UC and CSU, which is less than the 7 percent proposed by the Governor. The Senate version reflects a 1 percent reduction in enrollment at CCC, which is about one-third the reduction proposed in the May Revision.
- Senate funding for CCC's 2003-04 programmatic costs includes \$200 million that is appropriated in 2004-05. This funding "shift" permits a lower 2003-04 Proposition 98 appropriation.





## Major Senate Actions Social Services Programs

### General Fund (In Millions)

Program/Department/Issue	Difference From May Revision
<b>SSI/SSP</b>	
Retained June 2003 state statutory COLA	\$292.3
Retained January 2004 state statutory COLA	104.2
<b>In-Home Supportive Services</b>	
Replaced TANF/Title XX funds with General Fund	\$54.1
<b>CalWORKs</b>	
Retained June and October 2003 statutory COLAs	\$217.8 <sup>a</sup>
Augmented employment services	35.0 <sup>a</sup>
Eliminated Statewide Fingerprint Imaging System	-10.4 <sup>a</sup>
<b>Foster Care/Child Welfare Services</b>	
Deleted funding for start-up of Program Improvement Plan	-\$28.0 <sup>a</sup>
<b>Department of Child Support Services</b>	
Net savings from child support collection reform package	-\$52.9
<b>Department of Rehabilitation</b>	
Partially restored proposed 5 percent reduction to the supported employment program	\$1.5
<b>Department of Aging</b>	
Reduced stay well program and state administration	-\$0.8
Restored Brown Bag Program funding	0.9
Restored Senior Nutrition Program	2.9
<b>Total</b>	<b>\$616.6<sup>a</sup></b>

<sup>a</sup> Includes federal Temporary Assistance for Needy Families (TANF) block grant funds.

- Compared to the May Revision for 2003-04, the Senate increased General Fund spending on social services by about 5 percent.
- Compared to 2002-03, the Senate increased General Fund spending on social services by about 7.6 percent, excluding the impact of realignment.



## Major Senate Actions Health Programs

The budget adopted by the Senate provides a net increase of about \$800 million General Fund for health programs above the funding level proposed in the May Revision spending plan. The Senate budget plan also assumes the receipt of \$250 million in federal funds to offset Medi-Cal Program costs due to recent congressional tax-cut legislation. In addition to these funding adjustments, the key Senate changes are summarized below.

### General Fund (In Millions)

	Change From May Revision
<b>Medi-Cal</b>	
Rejected 15 percent provider rate reduction for physicians, nursing homes, and managed care	\$607.3
Rejected elimination of some optional benefits for adults	209.7
Rejected rollback of aged and disabled eligibility expansion	49.9
Rejected reinstatement of quarterly status reporting for parents	38.9
Replaced proposed moratorium on adult day health centers with plan to manage their growth to achieve savings in 2004-05	9.9
Assumed savings on durable medical equipment but sent implementation bill to conference	No net change
Assumed additional savings from semi-annual status reporting for parents	-42.5
Assumed additional savings from dental services cost containment	-27.4
Assumes additional savings from resolving rebate disputes with drug companies	-20.0
Assumed savings from county eligibility work standards but modified implementing legislation	-5.7
<b>Public Health</b>	
Rejected 15 percent provider rate reduction for California Children's Services, Genetically Handicapped Persons Program, and Child Health and Disability Prevention program	\$7.3
Restored Cancer Research Program with an augmentation and assumption of private donations	6.3
Rejected AIDS Drugs Assistance Program copayments, shifted funds for therapeutic monitoring to services, and assumed greater federal drug rebates	1.4
<b>Department of Mental Health</b>	
Rejected 10 percent cut to counties for mental health managed care	\$23.0
Partly restored funding for Early Mental Health Initiative	10.0
<b>Department of Developmental Services</b>	
Rejected implementation of statewide purchasing standards for Regional Centers	\$50.0
Rejected copayments for families of Regional Center consumers age 3 to 17	14.7
Impose freeze on selected vendor rates and an unallocated cut in purchase of services	-28.9
Assume recertification of South Central Los Angeles Regional Center for waiver program	-13.3
<b>Department of Alcohol and Drug Programs</b>	
Expanded and redirected drug court program funding to achieve greater state prison savings	\$2.3



## Major Senate Actions Judicial and Criminal Justice Programs

### General Fund (In Millions)

Issue	Governor	Senate	Difference
<b>Trial Court Funding</b>			
Reduced operations costs	-\$116.0	-\$85.0	\$31.0
Rejected electronic reporting	-36.0	36.0	36.0
Rejected court security flexibility	-22.0	22.0	22.0
Increased existing/created new fee revenue for General Fund offset	-66.2	-116.1	-49.9
<b>Department of Corrections</b>			
Reduced inmate academic and vocational programs	-\$35.0	-\$35.0	—
Adopted closure of Northern California Women's Facility	-10.2	-10.2	—
Identified inmate health care efficiency savings	-13.0	-13.0	—
Delayed opening of Delano II Prison	-8.8	-8.8	—
Delayed 500 substance abuse beds	-5.4	-5.4	—
Adopted population adjustment	59.0	59.0	—
Enacted parole reforms	—	-58.3	-\$58.3
Adopted Drug Treatment Furlough Program	—	-20.1	-20.1
Expanded felony drug courts	—	-17.4	-17.4
Adopted medical parole for incapacitated inmates	—	-5.0	-5.0
<b>Youth Authority</b>			
Adopted closure of Karl Holton Correctional Facility	-\$3.0	-\$3.0	—
Adopted closure of Ventura Correctional Facility	—	-0.6	-\$0.6
Increased county sliding fee for inflation	-6.0	-6.2	-0.2
<b>Board of Prison Terms</b>			
Enacted workload adjustment	-\$3.5	-\$3.5	—
<b>Office of Criminal Justice Planning</b>			
Reduced vertical prosecution programs	\$16.3	-\$8.2	-\$8.2
Eliminated War on Methamphetamine program	15.0	-15.0	-15.0
<b>Crime Prevention Act</b>			
Approved juvenile justice grants	\$116.3	\$116.3	—
Funded Citizens' Option for Public Safety program	116.3	116.3	—

- Reduced General Fund spending for court operations by \$85 million and increased fees (\$116 million) to offset General Fund costs.
- Reduced prison costs by over \$100 million through the adoption of policy reforms aimed at reducing the inmate population.
- Reduced funding for vertical prosecution programs (\$8.2 million) and eliminated funding for War on Methamphetamine program (\$15 million).



## Major Senate Actions Resources

### Various Funds (In Millions)

Issue	Governor	Senate	Difference
CALFED Bay-Delta Program	\$499.6	\$499.6	—
Selected Proposition 40 appropriations:			
• Historic and cultural endowment—State Library	128.4	128.4	—
• State park acquisition	35.0	35.0	—
Selected Proposition 50 appropriations:			
• Wildlife Conservation Board—capital outlay	352.0	352.0	—
• Integrated regional water management grants (Department of Water Resources)	51.7	51.7	—
• Desalination	15.0	15.0	—
• Colorado River/Salton Sea restoration	32.5	32.5	—
• Habitat Conservation Fund	22.2	22.2	—
• Water security	15.1 <sup>a</sup>	15.1 <sup>a</sup>	—
Increase state park fees to offset General Fund reduction	20.0	20.0	—
Off-highway vehicle capital outlay projects	30.6	52.6	\$22.0
Conservation Corps program reduction	-11.6	-6.5	5.1
Increase fishing and hunting fees	4.0	4.2	0.2
Suspension of Natural Heritage Preservation tax credit	-8.7	-8.7	—
Loans from beverage recycling funds to General Fund	154.0	154.0	—
Transfer from Colorado River Management Account to General Fund	—	38.8	38.8

<sup>a</sup> Includes \$10.3 million for the Department of Health Services.

- The Senate provided a total of \$573.1 million from Proposition 40 bond funds for various resources and environmental protection programs—slightly less than the Governor's proposal. This largely reflects the Senate's action to delete all funding for the Secretary for Resources.
- The Senate provided a total of about \$1.13 billion from Proposition 50 bond funds for various resources and environmental protection programs—a small increase from the Governor's proposal.
- The Senate adopted various trailer bills to partially cover through fees the state's costs of the dam safety program (\$4.7 million General Fund savings—Governor's proposal), timber harvest review (\$10 million General Fund savings), and firefighting costs on private lands (\$50 million General Fund savings). The Senate also approved trailer bill language to increase existing fees for the State Mining and Reclamation Act and establish a timber product fee to pay for various forestry-related programs.



## Major Senate Actions Environmental Protection

### Various Funds (In Millions)

Issue	Governor	Senate	Difference
General Fund Expenditures Replaced by Fee Revenues			
• Department of Pesticide Regulation	-\$13.8	-\$13.8	—
• Air Resources Board—stationary source program	-10.0	-14.4	-\$4.4
• Water Resources Control Board—core regulatory program	-13.6	-13.6	—
• Water Resources Control Board—water rights program	—	-3.6	-3.6
Department of Pesticide Regulation program augmentations	—	3.0	3.0
County Agriculture Commissioner pesticide program increase	—	8.0	8.0
Loans from various Integrated Waste Management Accounts	17.0	17.0	—

- The Senate adopted additional changes to the fee structure in the Department of Pesticide Regulation beyond the Governor's proposal to shift \$10.5 million from the General Fund to fees (mainly the mill assessment on the sale of pesticides). These changes include (1) an increased fee assessment on "restricted" materials, with additional revenues going to County Agriculture Commissioners; (2) an increase in fees to fully fund the pesticide registration program; and (3) a new allocation of fees to a farmworker outreach, education, and training program.
- The Senate adopted the Governor's proposal to shift \$10 million from the General Fund to fees in the Air Resources Board's stationary source program. The Senate went further by shifting an additional \$4.4 million from the General Fund to fees in the program.
- The Senate adopted trailer bill language to increase the fees on applications for new water rights and establish an ongoing fee on water rights holders under the board's jurisdiction. The combined savings to the General Fund is \$3.6 million in the budget year.
- The Senate adopted trailer bill language to reduce costs associated with Integrated Waste Management Board members and staff, consolidate programs, and provide budgetary savings.



## Major Senate Actions Transportation

(In Millions)

Issue	Senate	Change From May Revision
Transportation Investment Fund (TIF) loan to General Fund	\$938.4	—
Transportation design and engineering	1,235.9	—
State Transit Assistance	100.4	—
Motor Vehicle Account fee increase	163.0	—

- TIF Loan.** The Senate rejected the Governor's proposal to (1) transfer only \$207 million from the General Fund to the Transportation Investment Fund (TIF) under Proposition 42 and (2) retain \$938 million in the General Fund. Instead, the Senate transferred the full amount—estimated at \$1,145 million—to the TIF and then loaned \$938 million back to the General Fund, to be repaid by June 30, 2009. The Senate action would leave \$207 million available in the TIF to fund certain projects in the Traffic Congestion Relief Program (TCRP) in the budget year. Additionally, the Senate approved the Governor's proposal to deposit into the General Fund \$87 million in "spillover" revenue that otherwise would accrue to the Public Transportation Account.
  
- Transportation Design and Engineering.** The Senate approved the Governor's proposal to provide \$1,236 million for the design and engineering of transportation projects. Of this amount, \$49.5 million is for work on TCRP projects.
  
- State Transit Assistance.** The Senate approved a May Revision proposal to cap funding for State Transit Assistance to local transit operators at \$100.4 million.
  
- MVA Fees.** The Senate approved proposals to increase several fees under the Department of Motor Vehicles for a total Motor Vehicle Account (MVA) revenue increase of \$163 million in 2003-04 and \$333 million annually thereafter.
  
- CHP.** The Senate approved the Governor's proposal to shift \$63.4 million in funding for the California Highway Patrol's (CHP's) protective services and homeland security activities from the MVA to a new Public Safety Surcharge Fund. The Senate, however, denied the Governor's proposal to shift, from the MVA to the State Emergency Telephone Number Account, \$41 million in CHP expenditures on activities in response to 911 calls. Instead, the Senate funded these costs from the Public Safety Surcharge Fund.



## Major Senate Actions State Administration

### Various Funds (In Millions)

Issue	Governor	Senate	Difference
State employee compensation	-\$470.0	-\$470.0	—
Increased user funding for workers' compensation	-107.0	-107.0	—
Renegotiation of state contracts	-50.0	-50.0	—
Workers' compensation reforms (state savings)	-30.0	-30.0	—
Fair Employment and Housing	12.6	15.7	3.1
Film California First program	8.2	6.0	-2.2
Arts Council	6.5	11.6	5.1
Emergency housing assistance grants	4.0	5.3	1.3
Tourism Commission	2.5	5.0	2.5
Cesar Chavez Day of Learning grants	—	2.0	2.0

- The Senate assumed the Governor's proposed General Fund savings of \$470 million General Fund from reduced employee compensation costs, \$30 million from workers' compensation reforms, and \$50 million from renegotiation of state contracts.
- The Senate restored General Fund support for Arts Council (\$5.1 million), Housing and Community Development (\$3.7 million), and Fair Employment and Housing (\$3.1 million).
- The Senate approved a shift to full user funding for the administration of workers' compensation (\$107 million).
- The Senate adopted energy-related trailer bill language to (1) enact power plant siting fees and (2) create a special fund for the deposit of electricity settlement funds. The Senate also transferred the responsibilities and funding of the Electricity Oversight Board to a new office in the Governor's office.



## General Fund Spending Trends

(Dollars in Millions)

	Current Dollars		Constant Dollars	
	Amount	Percent Change	Amount	Percent Change
1993-94	\$38,958	—	\$38,958	—
1994-95	41,961	7.7%	40,730	4.5%
1995-96	45,393	8.2	43,010	5.6
1996-97	49,088	8.1	45,415	5.6
1997-98	52,874	7.7	47,867	5.4
1998-99	57,827	9.4	51,333	7.2
1999-00	66,494	15.0	56,816	10.7
2000-01	78,053	17.4	64,133	12.9
2001-02	76,752	-1.7	62,324	-2.8
2002-03				
Governor's budget (May Revision)	\$78,056	1.7%	\$62,221	-0.2%
Senate version	\$78,113	1.8%	\$62,267	-0.1%
2003-04				
Governor's budget (May Revision)	\$70,433	-9.8%	\$55,059	-11.5%
Senate version	\$72,290	-7.5%	\$56,511	-9.2%

- In the Senate version of the budget, General Fund spending in the current year is \$78.1 billion, which is a 1.8 percent increase from 2001-02. In constant-dollar terms, spending declines slightly in the current year.
- General Fund spending in the budget year is \$72.3 billion as proposed by the Senate version of the budget. This spending level is a 7.5 percent reduction from 2002-03, and a 9.2 percent decrease in constant-dollar terms.
- The budget-year amount reflects program savings, elimination of the VLF backfill, issuance of pension obligation bonds, realignment of certain programs to local governments, accounting changes, and the use of federal funds.
- General Fund spending grew moderately during the mid-1990s, and grew rapidly at the end of the decade. Budget-year expenditures are proposed at a level below 2000-01 expenditures.



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# Bond Raters OK State's Borrowing

## Wall Street firms clear path to \$11 billion so California can pay its bills through summer. They also warn officials to shape up finances.

By Evan Halper  
Times Staff Writer

June 6, 2003

SACRAMENTO — Wall Street bond ratings released Thursday cleared the way for state government to borrow \$11 billion and hobble through summer without going broke — but they also contained fine print that lawmakers were advised to consider.

The message: Get your fiscal house in order or we won't be there for you next time.

Top finance officials say the state has never in recent history been on such shaky financial footing. The possibility of running out of money and losing access to the markets has become very real.

Now, all three major bond rating houses in New York have made it explicitly clear that California was able to secure the needed top-tier rating on the \$11 billion in loans only by paying a consortium of large banks \$84 million to essentially piggy-back on their credit standing. If the state's fiscal problems persist, even that might not be an option next time.

Consider the rating from Moody's Investors Service. A half-page of detailed small print comes under the heading "Significant Uncertainty Surrounding Fiscal 2003-2004 Cashflows."

The rating agencies took pains to warn prospective investors of all the uncertainties California faces as lawmakers struggle to close a \$38-billion budget gap.

The agencies advised that if the state does not adopt the governor's revised budget — which includes \$8 billion in new taxes and rolling over \$10.7 billion of the shortfall through borrowing — or some variation that does as good a job bringing the state's finances in order, paying them back could be a problem.

"This represents the end of the runway," state Controller Steve Westly said in reaction. "What it means is

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opportunity  
find you.

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your inbox.

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should the state wish or need to do borrowing in the future and these things have not been accomplished, there will not be other avenues open."

Three bankers and financial consultants to the state who would speak only on the condition of anonymity expressed concern about the failure of the Legislature to be jolted by similar past messages from Wall Street.

"We could easily go down the tubes," said one, who pointed out that Democrats' insistence on saving the social safety net and Republicans' insistence on no new taxes could quickly become irrelevant if they lead to the state's loss of borrowing ability.

"We will have dismantled the social system and it won't matter if we raise taxes; it will all be over."

Yet lawmakers appear nowhere near consensus on the governor's proposed budget or on any other plan to deal with fiscal problems. With the July 1 constitutional deadline for approving a spending plan quickly approaching, lawmakers appear no closer to reaching a deal than they were six months ago.

Westly said it didn't help matters this week when Senate Republican Leader Jim Brulte of Rancho Cucamonga warned all the Republicans in the Legislature that if they vote for a tax increase, he will work to end their political careers. Brulte even showed them an example of a political advertisement he would send out.

"There is a time and a place for partisan politics, and this is not it," Westly said. "If the partisanship goes on, the state will, in fact, run out of money."

Brulte says he was merely trying to stop the majority Democrats from buying off the few Republican defectors they need to pass a budget, as Democrats have in years past with jobs or promises of approval of pet legislation.

Some lawmakers are expressing concern that the failure of both sides to meet halfway could result in the kind of "get out alive" budget that was approved last year.

That spending plan relied heavily on transfers, deferrals and other accounting maneuvers and quickly fell out of balance after it was approved.

State Finance Director Steve Peace said falling back on such tactics again would be extremely ill advised.

"We've pretty much played our last cards," he said. "Wall Street will be waiting very carefully to see what kind of decisions are made."

Raymond Murphy, a senior credit officer with Moody's, made clear that one option not available to California is avoiding hard budget choices by simply assuming that the economy will recover next year and tax receipts will surge.

"The state really can't, and we don't anticipate will, build a budget on the assumption of an economic rebound of any significant magnitude during fiscal 2004," he said.

As negotiations on spending remain stalled, one budget action was pushed through by Assembly Democrats late Wednesday. It was a bill by Assemblyman Mark Leno (D-San Francisco) that would allow local

governments to impose an income tax to preserve local services, if such a tax is approved by 55% of voters. "By giving local governments and voters choices, local budgets won't have to be balanced on the backs of critical services," Leno said.

Republicans and taxpayer groups criticized the measure, calling it a slippery slope that would result in a major financial burden for the public.

They also questioned the legality of the proposal, and suggested that such tax money could end up paying for services that cities cannot fund legitimately with income taxes.

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