

Budget Action Bulletin No. 9

2008-09 Proposed State Budget

Week of August 25, 2008

Via Electronic Mail

DATE: August 29, 2008

TO: CSAC Board of Directors
County Administrative Officers
CSAC Corporate Associates

FROM: Paul McIntosh, Executive Director
Jim Wiltshire, Deputy Director

RE: **Budget Action Bulletin #9**

The Senate took up a modified version of the Governor's "August Revise" today. The modified proposal made changes to the revenue package put forward by the Governor last week. In addition, the Senate's proposal amends some of the spending for local public safety and for services for elderly and disabled Californians. For more detail on these provisions, see "What's Been Happening" below. Assembly Bill 1781 remains the conference budget bill; Assembly Bill 88, the supplemental budget bill, was amended to include the Senate's proposed compromise.

The Senate's compromise did not garner the necessary two-thirds vote, failing on a party-line vote with Senator Lou Correa abstaining. A clearly frustrated Senate President pro Tempore Don Perata called on the Senate Republicans to present their own version of the state budget.

Governor Arnold Schwarzenegger issued the following statement in response to the Senate budget vote today:

"I applaud the step taken by the Senate President pro Tempore Don Perata to put a budget up for a vote. This proposed budget moves the ball forward but is missing key elements of the compromise I proposed last week. I urge Republicans and Democrats to finish negotiations and put a budget on my desk that I can sign."

Please recall that the Legislature is slated to adjourn regular session on Sunday, August 31. If a budget is not completed over the weekend, the Legislature can convene beyond that date to vote on fiscal and urgency bills. The latest the state has adopted a budget is September 5, 2002 (the date that Governor Davis signed the 2002-03 budget package); it is increasingly looking like 2008 may break that record.

WHAT'S BEEN HAPPENING:

The budget proposal considered by the Senate includes modifications to the Governor's "August Revision," even communicating the package by marking up revisions to the Governor's August proposal. Notably, the Senate budget package voted on today does not include borrowing from Propositions 1A and 42. CSAC's Budget Action Bulletin #8 outlined the Governor's August Revision; the details below outline the differences between the Governor's and Senate versions.

Sales Tax Increase. The Senate budget package includes a significant change to the Governor's proposal to increase the state sales tax rate – the package removes provisions to reduce the sales tax rate after the three-year temporary increase.

Modified Net Operating Loss (NOL) Proposal. The Governor's NOL proposal is modified to eliminate a phased-in two-year carry-back conformity to federal law.

Supplemental Security Income COLA. The Senate package would eliminate the proposal to withhold the January 2009 federal SSI COLA. Elimination of this proposal costs \$108.8 million in 2008-09.

Local Public Safety Programs. The Senate package maintains restoration for a number of local public safety programs; however, it reduces the overall level of restorations from \$145 million to \$101 million. Line item details are not presently available, but it appears that the Senate package would take Mentally Ill Offender Crime Reduction Grant funding off the table and would take funding for Citizens' Option for Public Safety and the Juvenile Justice Crime Prevention Act back to \$100 million for each program element.

RDA ERAF Shift. Of particular interest to counties, the Senate package still includes a three-year, \$225 million (or five percent of their tax increment revenue, whichever is greater) shift of property tax revenues from redevelopment agencies to ERAF.

WHAT'S GOING TO HAPPEN NEXT:

Although it appeared agreements had been reached on the Senate side, with the failure of the budget compromise, what will happen next — and when — is anyone's guess. As usual, CSAC will keep you updated as talks continue.

Stay tuned for the next Budget Action Bulletin!

If you would like to receive the Budget Action Bulletin electronically, please e-mail Faith Conley, CSAC Legislative Analyst, at fconley@counties.org.