



March 19, 2010

To: Darby Fuerst, General Manager
Monterey Peninsula Water Management District

From: John Arriaga, President
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Re: State Report – Budget and Beyond

State Budget Update

On January 8, 2010, Governor Schwarzenegger rolled out his proposed 2010-11 budget outlining a strategy to eliminate a combined \$19.9 billion deficit: \$6.6 billion in 2009-10 and \$12.3 billion in 2010-11. He also called a Proposition 58 Special Session (state fiscal emergency) adding urgency to the need for the Legislature to act quickly to resolve current and 2010-11 year deficits.

In late January, Schwarzenegger and legislative leaders went to Washington, D.C. to ask the Obama administration and the California Congressional delegation for approximately \$7 billion in what the Governor termed "California's fairer share" of federal funds returned to the state.

Unfortunately, the Obama budget only provides about \$1.5 billion, most of it an extension of federal stimulus dollars for Medi-Cal. In addition, under the Obama plan the state would receive only \$90.5 million for housing illegal immigrant inmates in California prisons, a considerable reduction from the \$880 million the Governor requested.

After weeks of Assembly and Senate budget committee hearings little progress has been made in the Legislature's efforts to close the state's \$20 billion budget deficit. Working within the parameters of the Eighth Extraordinary Session (Proposition 58, fiscal emergency) both houses labored to send legislation to the Governor with about \$4 billion in "solutions."

On March 8, the Governor vetoed AB X8 2, which contained \$2.2 billion in spending reductions, including a number of provisions to reduce prison health care costs (\$811 million); savings associated with commutation of undocumented immigrant prisoners (\$182 million); a 5 percent reduction to state workers' salaries (\$580 million); suspension of reimbursable state-local mandates for 2010-11 (\$230 million).

While legislative leaders expressed bafflement, the Governor's veto message made plain he is looking for serious solutions to a very serious problem. The Governor's concern is that ABX8 2 does not actually implement spending reductions to the budget because the 2010-11 budget has yet to be enacted. He called on legislators to redouble their efforts, noting that the state is now spending \$600 million a month more than it is taking in.

The Governor did sign seven other measures to address the budget crisis, bills which save an estimated \$200 million.

Providing a glimmer of hope, State Controller John Chiang announced on March 10 that the state's cash receipts for February were up 8.7 percent or \$480 million above the Governor's 2010-11 budget estimates.

On Thursday, March 11, over protests from Republican leaders in both houses, the Senate and Assembly adjourned the Eighth Extraordinary Session which will allow the handful of budget solutions the Governor has signed to take effect in 90 days.

On Monday, March 15 in a letter to legislative leaders, the Governor took the Legislature to task, saying he will not sign SB8X 32, a measure that would have eased taxes for some homeowners and green energy companies, nor would he sign the more controversial gas tax swap proposal contained in AB8X 6. The gas tax swap, worth about \$1.1 billion in budget "savings" would end a 6 percent sales tax on gasoline and replace it with a 17.3 cent per gallon excise tax on gas, and a 1.75-percent sales tax increase on diesel fuel reducing tax on diesel fuel 4.4 cents per gallon. The Governor also listed a number of so-called job creation bills that he had called for but which were loaded with unacceptable provisions. As of Tuesday afternoon, the quest to close the \$20 billion budget gap was back to square one.

In the meantime, both the Assembly and Senate budget committees have begun scheduling daily hearings in keeping with new Speaker John Pérez' vow to make budget deliberations less dependent on Big 5 discussions and more open and transparent to the public.

Unwilling to carve any further into education, public employee salaries and benefits, and health and human services programs, legislators are unlikely to make any further substantive budget plays until after the May Revise, when they hope the revenue picture will be less bleak.

State and Legislative Highlights

Other than the focus on budget concerns, we have been reviewing amended and newly introduced legislation to determine impacts on the Monterey Peninsula Water Management District. Those measures are reflected in the MPWMD Bill Track, a separate document.

Highlights of other state and legislative activity to date since the second year of the 2009-10 Session began in January include:

- The Governor's nomination, failed confirmation and re-nomination of Senator Abel Maldonado (R-Santa Maria) to fill the vacant Lieutenant Governor's seat
- The election of a new Assembly Speaker, John A. Perez (D-Los Angeles), effective March 1
- The election of new Republican leaders, Senator Bob Dutton (R-Rancho Cucamonga) and Assemblyman Martin Garrick (R-Carlsbad). Garrick has already assumed that role and Dutton is expected to work closely with current Senate Minority Leader Dennis Hollingsworth on budget matters until sometime this summer when Dutton will replace Hollingsworth.
- Given California's lowest in the nation bond rating and the high cost of borrowing, the state treasurer halted the sale of all state bond sales in January. Investors have scaled back investing in the state's general obligation bonds, opting instead for revenue-backed bonds issued by utilities and toll roads, which are secured by a dedicated source of funding. The state risks further credit downgrades, which would increase the cost of borrowing even more.
- President Pro Tem Darrell Steinberg released a Democratic plan consisting of 27 bills to create jobs in California. In response, Republican legislators outlined their own plans to boost employment and will be presenting measures over the next few weeks.
- On March 9, the Legislature held a Joint Oversight Hearing of the Assembly Water, Parks and Wildlife Committee, the Senate Natural Resources and Water Committee, the Assembly Budget subcommittee No. 3 and the Senate Budget and Fiscal Review Subcommittee No. 2. The topic was "Funding and Implementation of 2009 Delta Legislation," and included a briefing from Lester Snow, Secretary of the California Natural Resources Agency and former Director of the Department of Water Resources.
- Coming Soon: An announcement from Speaker Pérez regarding his new leadership team which will include at least two Republicans to chair policy committees.

