



2008-09 MAY REVISE

FIXING CALIFORNIA'S BROKEN BUDGET SYSTEM

GOVERNOR'S STRUCTURAL REFORMS WILL MAKE BUDGET MORE DEPENDABLE, PREDICTABLE AND STABLE

In addition to addressing California's immediate budget challenges, the May Revise also ensures that California has the tools necessary to prevent future budget crises. To address the structural problems that are driving California's destructive feast-or-famine budget cycle, the Governor will continue to push the Budget Stabilization Act, a reform plan he introduced as part of his State of the State speech in January. In the May Revise, the Governor's plan has been updated to include mechanisms to immediately establish and partially fund the Revenue Stabilization Fund—or rainy day fund—so that California can begin to address the current deficit without delay, while also bringing the structural changes necessary to prevent similar problems in the future.

The Governor has proposed key structural budget reforms to ensure Californians never have to face such drastic cuts again. The Governor's proposal:

- Establishes the Revenue Stabilization Fund—or rainy day fund—to help stabilize the state's finances. Historically the state spends all the money it takes in during years of above average revenue growth, leading to unsustainable spending levels and budget deficits when revenues return to, or fall below, average levels.
- Uses cash from the securitization of future lottery revenues to establish the Revenue Stabilization Fund and address the deficit immediately. With the changes included in the May Revise, the Revenue Stabilization Fund will be created and capitalized using approximately \$15 billion the state is expected to gain from modernizing the lottery and securitizing its future revenues. \$5 billion is expected in 2008-09, which means that the state can begin to address the deficit right away, while also creating the structure necessary to tackle future deficits.
 - In the future, this rainy day fund will take in excess revenues during high growth years in order to sustain core programs and funding in years like this, when the economy slows.
- The Governor's proposal also includes a measure to keep spending under control and eliminate surprises through predictable, negotiated reductions.

The Governor's budget reform plan builds on his longtime commitment to addressing the state's structural budget problems. The Governor was elected on the promise of greater fiscal stability and responsibility and he has actively pursued policies to achieve this for California. The Governor has:

- Pushed for a state spending limit. In 2003, the Governor called for a state spending limit with the California Recovery Plan and in 2005 with Proposition 76, the "California Live Within Our Means Act."
- Negotiated and championed the Economic Recovery Bond Act. The Governor pushed Proposition 57 in 2004 to pay off California's General Fund deficit, without raising taxes.
- Negotiated and championed the California Balanced Budget Act. Proposition 58 in 2004 established a reserve, required the state to enact a balanced budget, allowed the Governor to declare a fiscal state of emergency and make mid-year budget adjustments and prohibited most future borrowing to cover budget deficits.
- Championed measures to protect local government and transportation funds from being raided to balance the budget. The Governor supported Proposition 1A in 2004 to protect local government revenues and supported expanded Proposition 42 transportation funding protections with Proposition 1A in 2006.

On The Record

Californians Feel The Need For Budget Reform, According To The Latest PPIC Poll. "The poll did include a nugget of good news for the governor: Californians overwhelmingly want to reform the budget to end recurring money crises in Sacramento. Schwarzenegger in recent weeks has been campaigning around the state for a plan to sock away money in flush years to cushion the state during economic downturns. More than two-thirds of

residents think 'major changes' are needed in the budget process." (Mike Zapler, "Economy, Budget Rile Californians," *Contra Costa Times*, 3/27/08)

- **Majority Of Voters Believe "Major Changes" Are Needed To The Budget System.** "When it comes to the overall state budget process, in terms of both revenue and spending, most residents (65%) and likely voters (70%) believe major changes are needed." (Mark Baldassare, Dean Bonner, Jennifer Paluch and Sonja Petek, "Californians And Their Government," Public Policy Institute of California, 3/26/08)
- **Survey Shows The Desire For Budget Reform Is Not Limited By Ideology.** "At least two in three Democrats (66%), independents (67%), and Republicans (69%) believe major changes are needed in the budget process. Solid majorities across regional and other demographic groups agree that significant reform is needed and this view is more likely to be held by older and more educated residents than by others. Of those calling the current budget situation a big problem, 75 percent believe that major changes are needed." (Mark Baldassare, Dean Bonner, Jennifer Paluch and Sonja Petek, "Californians And Their Government," Public Policy Institute of California, 3/26/08)

Daniel Weintraub: "There's Nothing Wrong With Skimming Off A Bit Of That Revenue In Good Times And Saving It For The Inevitable Downturn." (Daniel Weintraub, *Sacramento Bee's Capitol Alert Blog*, "Rainy Day Funds," www.sacbee.com, 3/20/08)

Eureka Reporter: Time For Legislature To "Agree With The Governor" On Budget Reform. "This is a sensible measure that would prevent legislatures from indulging themselves in spending sprees. If it goes to a vote in November and passes, the Budget Stabilization Act may mean that this season's intense battle over budget cuts to erase a deficit of some \$12 billion will become a thing of the past. It's time for both parties in the Legislature to agree with the governor that it should go to the voters this year" (Editorial, "The BSA — An Idea Whose Time Has Come," *Eureka Reporter*, 4/10/08).

Riverside Press-Enterprise: Saving Money During Good Times Just "Common Sense." "California should save money in good years to ease it through lean times. The Legislature's failure to practice such basic common sense is a dismal judgment on state governance. Legislators' standard procedure should be to tuck money away when revenue surges beyond projections -- automatically, if legislators cannot exercise even minimal self-control." (Editorial, "Budget ABCs," *Riverside Press-Enterprise*, 3/19/08)

- **Governor's Reforms Could Have Avoided Budget Turmoil Of Past Years.** "But there is no dispute about the wisdom of setting aside money during boom years...Had the state regularly taken that step, it could have avoided much of the budget turmoil of recent years." (Editorial, "Budget ABCs," *Riverside Press-Enterprise*, 3/19/08)