



MAY REVISE 2008-09

A RESPONSIBLE BUDGET IN THE FACE OF A WORSE DEFICIT

FIXES OUR BROKEN BUDGET SYSTEM, FULLY FUNDS EDUCATION – WITHOUT RAISING TAXES

While the budget deficit has worsened since January – with revenues that came in \$6 billion lower than projected – and California's economy is still sluggish, the Governor has produced a revised and improved budget that focuses on fixing our broken budget system once and for all. It is a responsible budget that includes a combination of necessary cuts and new revenues.

It is a budget that also fully funds education under Proposition 98, keeps state parks open, and keeps prisoners behind bars. And it does not raise taxes.

The Governor's May Revise seeks to get more value out of an underperforming state asset – the California Lottery – and in so doing establish a much needed rainy day fund to benefit both current and future budgets. Raising more cash from the Lottery now will jump-start systemic budget reform, which California needs so that it is never again put in the feast-or-famine budget cycle that threatens funding to education, law enforcement, health and human services, and other programs.

Governor Schwarzenegger has produced an improved, responsible budget despite lower revenues and a worsened deficit.

The budget deficit has grown since January. And the economy is still slow. Nevertheless, the Governor has produced a budget that:

- Fully funds education under Proposition 98, increasing funding to K-14 schools over the current year budget by about \$200 million;
- Keeps state parks open;
- Does not let any felons out from behind bars early;
- Does not raise taxes.

It is a budget that includes difficult-but-necessary cuts, as well as new revenues and other solutions.

Difficult cuts are still necessary because the budget problem that was approximately \$14.5 billion in January has grown. It would stand at nearly \$24 billion (which includes a prudent \$2 billion budget reserve) if the Legislature had not done a great job in February of making mid-year cuts. Currently, the budget problem is over \$17 billion.

- Because the size of the budget problem has grown, difficult cuts, like those proposed by Governor Schwarzenegger in January, are still necessary.
- But the budget problem cannot be solved with cuts alone. So the Governor has proposed innovative solutions to increase current revenues, while stabilizing revenues over the long-term, including a timely proposal to better realize the value of the California State Lottery.

California desperately needs a long-term budget fix in order to get off the broken budget rollercoaster – and getting more out of our Lottery will give the Legislature the ability to make that fix this year.

Californians agree that the broken budget system needs reform. Revenues vary from dramatic highs one year to much lower than projected the next, leading to a rollercoaster of excessive spending followed by painful cuts. The Governor has proposed a reform plan that will bring stability to the budget system by: 1) establishing a rainy-day fund just as any responsible business or family would do, and; 2) giving the Legislature the authority to make mid-year cuts easier and more swiftly.

- The Governor's May Revise will put budget reform in place by increasing the value of the underperforming state lottery and using the proceeds to create the Rainy Day Fund (Revenue Stabilization Fund).
- Now is the time to get more out of our Lottery. The California Lottery has for a long time underperformed the national average, and taxpayers deserve more out of it. A bill moving through the state Legislature will help modernize the Lottery, and that modernization will allow the state to jump-start the Rainy Day Fund and pump an estimated \$5 billion in new revenue into the 2008-09 budget.

- Putting a Rainy-Day Fund in place will take California off the broken budget rollercoaster. Protecting California's priorities in the long term means putting in place reform that will help the Legislature and future governors stabilize the state's revenue stream – eliminating the feast-or-famine cycle of dramatic increases in revenue one year and dramatic shortfalls the next.

The May Revise includes a responsible-budgeting safety net – an idea borrowed from a Republican predecessor – to ensure the budget remains balanced.

It is fiscally responsible to put in place a backup plan, in the event that revenues do not come in sufficiently to deposit into the Rainy-Day Fund and balance the budget. The Governor hopes never to have to use that backup plan.

- By improving the Lottery and getting more out of the valuable asset, the safety net will not even be necessary. Also, a rebounding economy will make the backup plan unnecessary.
- The safety net is modeled after Republican Governor George Deukmejian's tax trigger, and would be temporary and tax-neutral.