



MAY REVISE 2008-09

A RESPONSIBLE, TEMPORARY, TAX-NEUTRAL SAFETY NET

MODELED ON FORMER REPUBLICAN GOVERNOR'S MECHANISM, AN ADDED FAILSAFE THAT SHOULD NEVER HAVE TO BE USED

In 1983, facing a similar economic slowdown, Republican Governor George Deukmejian put in place a safety net budget mechanism known as a "trigger" that would have compensated for slowing revenues by enacting a temporary and tax-neutral adjustment to the state sales tax. When the economy bounced back, the trigger would have been pulled again to drop the sales tax back to its previous level; and when the economy improved even further, the trigger would reduce the sales tax below its original level until the entire temporary increase was paid back to taxpayers. Because the economy improved, Governor Deukmejian never had to employ this trigger.

Governor Schwarzenegger has proposed a mechanism modeled after Governor Deukmejian's as a safety net – a responsible budgeting backup plan – in his May Revise. If his budget plan is followed, it, too, won't be necessary.

This safety net is an element of responsible budgeting that will ensure the state budget remains balanced.

The trigger mechanism is another effort to be responsible with the state budget. The trigger is tied only to the Revenue Stabilization Fund (or rainy day fund) and will turn on only if the balance in the rainy day fund is not enough to provide the General Fund with the amount, if any, required by the Budget Stabilization Act .

- The trigger will be pulled only if there is not enough money in the rainy day fund to bring the General Fund to its 10-year average level.

The mechanism would be in place only temporarily. The safety net is intended only to guarantee the state budget gets through a down economy.

- The trigger mechanism is in effect only in fiscal years 2008-09 through 2010-11.
- If it triggered on, it would only do so in order to replenish the Rainy Day Fund, and would then trigger off. Regardless of the size of the Rainy Day Fund, it would trigger off permanently no later than June 30, 2011.

Taxpayers would be paid back in full. If the trigger is pulled, it would temporarily raise the state sales tax by one penny. It would trigger off quickly – either when the Rainy Day Fund reaches its maximum or June 30, 2011, whichever is sooner. If the tax is triggered, then whenever the Rainy Day Fund has excess funding, it will trigger a tax rebate until taxpayers are completely repaid.

- The safety net will be tax neutral.

The Governor never intends to have to use the safety net – and if his budget plan is adopted it will not be necessary. Governor Deukmejian's trigger mechanism was never turned on. Governor Schwarzenegger does not want this mechanism to turn on. If California enacts budget reform, gets more out of the state Lottery, and the economy picks up again, the trigger will not turn on.

- Raising funds from a modernized Lottery will help current and future budgets. The Governor's plan to raise money from the modernized state Lottery will create and fill the Revenue Stabilization Fund and then help balance budgets from this budget year and beyond.

Tax increases are not the way to fix our broken budget system.

- The Governor is opposed to increasing taxes. He has held the line against tax increases consistently over his 4½ years in office and over the five budgets he has proposed.