

## BUDGET PERSPECTIVES

Governor Schwarzenegger has introduced his proposed 2005-2006 state budget to mixed reviews. Both the budget itself and his proposal for revision of the budget process make clear that there are very different perspectives on the proper role of government and what citizens should expect from the state.

Notable differences on the nature of the state's fiscal problems and what the solutions should be have also unleashed a flood of proposed initiatives with widely varying answers to those questions. The Governor has called a special session of the Legislature to consider his own proposals and has said he will call a special election this year.

The League's perspective, as represented first in our Principles, is that responsible government should share in the solution of economic and social problems which affect the general welfare, and should maintain an equitable and flexible system of taxation to do that. Our positions call for revenues "sufficient and flexible enough to meet changing needs" for government services, and a public finance system based on "equity and fair sharing of the tax burden" under a progressive tax structure that takes ability to pay as the "primary but not exclusive criterion."

Our view of equity in taxes also calls for review of tax expenditures, such as tax credits and other tax breaks, and prefers those that are "in the interest of the general public and not just a specific group" and which "provide social benefits which significantly outweigh the increased tax burden to others."

### The Budget

Previous governors and legislatures generally met budget shortfalls with a combination of budget cuts and tax increases. This caused near-term belt tightening but generally got us past the crisis. The state's population continued to grow and our economy became larger than that of most countries.

The Governor said in introducing his budget that we "have to live within our means," which, in his view, is the revenue we are now receiving. That appears to preclude any consideration of new taxes. His rationale is that any increase in taxes will cause people and businesses to leave the state. Tom Campbell, his new Director of Finance, said we need "jobs, not government programs." Government spending is a significant sector of the economy that is declining and tending to cancel out increases in other sectors.

Many economists, and even some business organizations, cite investment in education for a competent workforce and infrastructure as critical for a healthy economy. The Governor's budget aims its biggest cuts at education and transportation funding. It also proposes a number of cuts in programs for those at the bottom of the income scale who do indeed have to live within their scanty means. Many of the cuts hit the same families, making the cumulative impact especially hard.

Legislative Analyst Elizabeth Hill says that "while the budget's proposals would address the 2005-06 shortfall, it

falls well short of fully addressing the state's ongoing structural imbalances."

We were disappointed last year when the Governor vetoed a bill we supported that would have called for the Department of Finance to report on the status of existing tax expenditures and set in motion a review of whether those tax breaks have provided the social benefits they promised. We believe that many of these special tax breaks have not met that criterion, and that removing them could produce new revenue.

### The Budget Process

Of greater concern to us are changes the Governor has proposed to the budget process. He feels that much of the problem with the budget is caused by autopilot spending, such as Proposition 98 for education and Proposition 42 for transportation, which mandates levels of spending for particular programs.

League positions oppose earmarked funds unless the social benefit significantly outweighs the loss of flexibility. We support legislative action to set priorities and a simple majority to pass budgets. Despite his objection to autopilot spending, the Governor wants to remove the ability to suspend Propositions 98 and 42 in the future. Still, he is relying on such suspensions to balance this budget.

The Governor's proposal would set up a process requiring across-the-board spending reductions to close any budget gap if the Governor and the Legislature cannot agree on a budget or if there is a mid-year imbalance.

Given the requirement for a two-thirds vote of the Legislature to pass a budget or budget-related items, this would put a Governor and a one-third minority in the driver's seat to determine when the reductions would go into effect.

Across-the-board cuts seldom make sense, even in a crisis. They neither set priorities nor take into consideration the impact of cuts on the public. They also tend to reward those departments or programs that have padded their budgets and punish those that have made efforts to put forth lean, efficient budgets.

The Legislative Analyst says the proposal would give the Governor the authority to say when the budget is not balanced, thus setting in motion the "automatic across-the-board reductions to most state programs, without regard to program priorities." Hill also says that the changes "represent a serious diminution of the Legislature's authority to appropriate funds and craft budgets."

This proposal, as well as many of the others being floated in Sacramento, clearly flies in the face of established League positions and comes from a perspective about the role and responsibilities of government quite different from ours. It appears that we have a busy year ahead of us.

