

Governor's Budget-Related Reforms

LEGISLATIVE ANALYST'S OFFICE

Presented To:
Assembly Budget Process Committee
Hon. John Laird, Chair





Main Budget Reform Proposals

Proposition 98
<ul style="list-style-type: none"> • Eliminates ability to suspend minimum guarantee. • Eliminates "Test 3" and maintenance factor. • Overappropriations not counted in Proposition 98 base.
Budget Process
<ul style="list-style-type: none"> • Late budget. <ul style="list-style-type: none"> — Prior year's appropriations continued. • Across-the-board cuts following Governor's proclamation of shortfall. <ul style="list-style-type: none"> — Late budget—if no legislative solution within 30 days. — Midyear—if no legislative solution within 45 days.
Proposition 42 Transportation Funding
<ul style="list-style-type: none"> • Eliminates ability to suspend transfer after 2006-07.
Special Funds
<ul style="list-style-type: none"> • No borrowing from special funds after 2006-07.
Consolidation and Repayment of Obligations Within 15 Years
<ul style="list-style-type: none"> • Existing Proposition 98 settle up and maintenance factor. • Proposition 42 suspended amounts (no less than one-fifteenth per year). • Mandate claim balances. • Loan balances from special funds.



Major Concerns Raised by Governor's Proposal

- ✓ **Proposition 98 Changes Would Seriously Limit Legislative Flexibility**
 - Suspension and Test 3 have been effective tools.
 - Their elimination would leave 45 percent of the budget off limits.
 - The limited flexibility could drive the state to across-the-board reductions.

- ✓ **Across-the-Board Reductions—A Blunt Tool**
 - Result in unpredictable and uneven impacts on programs.
 - Represent major delegation of legislative powers.
 - Fail to distinguish between high- and low-priority programs.



Considerations for Legislature

- Main challenge for lawmakers: managing budgets through times of volatile revenues and rapidly changing fiscal circumstances.

- Reforms should enhance—rather than limit—tools and flexibility lawmakers have at their disposal for managing budgets.

- Specific options:
 - Build on existing provisions of Proposition 58.
 - Unlock budget by modifying or eliminating existing provisions that earmark General Fund dollars.



Examples of Formula-Driven Spending

- ✓ Statutory cost-of-living adjustments
 - Trial court funding.
 - CalWORKs and SSI/SSP.
 - K-12 revenue limits.
- ✓ Voter approved propositions
 - Proposition 98 (K-14 school funding).
 - Proposition 49 (after school funding).
 - Proposition 42 (transportation funding).
- ✓ Multiyear collective bargaining agreements
- ✓ Higher education compacts