

AN ANALYSIS OF THE GOVERNOR'S PROPOSALS  
REGARDING THE 1982-83 DEFICIT

JANUARY 24, 1983

LEGISLATIVE ANALYST  
STATE OF CALIFORNIA  
925 L STREET, SUITE 650  
SACRAMENTO, CALIFORNIA 95814

AN ANALYSIS OF THE GOVERNOR'S PROPOSALS  
REGARDING THE 1982-83 DEFICIT

STATEMENT TO THE SENATE FINANCE COMMITTEE

\*\*\*

MONDAY, JANUARY 24, 1983

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I RECOGNIZE THAT WHAT THE GOVERNOR HAS PROPOSED WITH REGARD TO THE DEFICIT IN THIS YEAR'S BUDGET WILL NOT BE HIS FINAL WORDS ON THE SUBJECT, AND THAT HE WILL HAVE A LOT MORE TO SAY ABOUT HOW YOU SHOULD DEAL WITH THE DEFICIT IN THE WEEKS AND MONTHS AHEAD. NEVERTHELESS, I FIND THE COURSE OF ACTION HE HAS PROPOSED IN HIS BUDGET VERY DISTURBING.

THE ESSENCE OF MY REMARKS THIS AFTERNOON IS THAT YOU SHOULD NOT FOLLOW THE GOVERNOR'S RECOMMENDATION TO CARRY OVER A DEFICIT INTO FISCAL YEAR 1983-84, AND THAT INSTEAD YOU SHOULD ACT TO BALANCE THE STATE'S BUDGET NOW.

THE GOVERNOR'S PROPOSALS WITH REGARD TO THE DEFICIT

IN HIS BUDGET, THE GOVERNOR ACKNOWLEDGES THAT WITHOUT FURTHER ACTION BY THE LEGISLATURE, THE GENERAL FUND IS LIKELY TO END THE CURRENT FISCAL YEAR WITH A DEFICIT OF \$1.5 BILLION. THE BUDGET ALSO ACKNOWLEDGES WHAT I ADVISED YOU ON DECEMBER 7TH: THAT THE PROJECTED 1982-83 DEFICIT CANNOT BE

ELIMINATED SOLELY BY REDUCING EXPENDITURES DURING THE CURRENT YEAR.

HAVING ACKNOWLEDGED THE PROBLEM, HOWEVER, THE BUDGET, FAILS TO COME TO GRIPS WITH IT.

IN HIS BUDGET, THE GOVERNOR SETS FORTH A PLAN FOR DEALING WITH ONLY ONE-HALF OF THE \$1.5 BILLION PROBLEM. THE BUDGET PROPOSES--OR MORE PROPERLY IDENTIFIES AS "OPTIONS"--A PACKAGE OF SPENDING CUTS, SPENDING DEFERRALS, FUNDING SHIFTS, AND BORROWING FROM SPECIAL FUNDS THAT WOULD SAVE \$750 MILLION BY THE END OF 1982-83. THIS PACKAGE OF PROPOSALS OR OPTIONS IS REFERRED TO AS PHASE 1.

WITH REGARD TO THE OTHER HALF OF THE PROSPECTIVE \$1.5 BILLION DEFICIT, THE GOVERNOR MAKES NO PROPOSAL WHATSOEVER. INSTEAD, HE ADOPTS A WAIT-AND-SEE POLICY, PROMISING YOU A REASSESSMENT OF THE PROBLEM AND A SET OF PROPOSALS FOR DEALING WITH IT IN MAY. THIS HE REFERS TO AS PHASE 2 OF HIS PROGRAM.

#### COMMENTS ON PHASE 1

WE HAVE ANALYZED THE SPECIFIC ACTIONS INCLUDED ON THE GOVERNOR'S PHASE 1 LIST OF POSSIBLE OPTIONS. BASED ON THIS ANALYSIS, WE CONCLUDE THAT THE POTENTIAL SAVINGS FROM THESE

ACTIONS--AND I EMPHASIZE "POTENTIAL"--IS ABOUT WHAT THE BUDGET INDICATES. LET ME SUMMARIZE OUR PRINCIPAL CONCLUSIONS REGARDING THE PHASE I PROPOSALS OR OPTIONS:

1. WE BELIEVE THERE IS CONSIDERABLE MERIT TO SOME OF THE ITEMS ON THE PHASE I LIST. FOR EXAMPLE, A \$69 MILLION REDUCTION IN FUNDING FOR LOCAL SCHOOL DISTRICTS WOULD SEEM TO BE WARRANTED BECAUSE THESE DISTRICTS WILL REALIZE COMPARABLE SAVINGS AS A RESULT OF THE PUBLIC EMPLOYEES RETIREMENT SYSTEM'S DECISION TO REDUCE THE SIZE OF THE CONTRIBUTIONS THAT THEY MUST MAKE TO THE SYSTEM DURING THE BALANCE OF THIS YEAR. THE LEGISLATURE WAS NOT AWARE OF THESE SAVINGS WHEN IT TOOK FINAL ACTION ON THE BUDGET.

2. THE ACTUAL SAVINGS FROM THESE OPTIONS, IF ADOPTED, WILL BE CONSIDERABLY LESS THAN THE POTENTIAL SAVINGS UNLESS THE STATE TREASURER LIFTS THE FREEZE HE HAS IMPOSED ON BOND SALES. IN FACT, ABOUT \$60 MILLION OF THE PROJECTED SAVINGS CAN BE ACHIEVED ONLY IF THE FREEZE IS LIFTED.

3. THE RATIONALE GIVEN FOR, AND THE FORMULAS THAT WOULD BE USED TO ACHIEVE, THE PROPOSED \$108 MILLION REDUCTION IN LOCAL GOVERNMENT FISCAL RELIEF DO NOT STAND UP UNDER SCRUTINY.

PART OF THE RATIONALE FOR THIS REDUCTION IS THAT LOCAL GOVERNMENTS SHOULD SHARE IN THE STATE'S REVENUE SHORTFALL, JUST AS THEY SHARED IN THE STATE'S SURPLUS. WE BELIEVE THIS IS A REASONABLE ARGUMENT. ANOTHER PART OF THE RATIONALE, HOWEVER, IS THAT LOCAL GOVERNMENTS WILL SAVE \$131 MILLION IN RETIREMENT COSTS BECAUSE THE PUBLIC EMPLOYEES RETIREMENT SYSTEM'S DECISION TO REDUCE THE CONTRIBUTION RATE FOR PARTICIPATING EMPLOYERS. THE PROBLEM WITH THIS ARGUMENT IS THAT A NUMBER OF LOCAL GOVERNMENTS WHICH WOULD BE AFFECTED BY THE CUTS IN SUBVENTIONS WILL REALIZE NO SAVINGS FROM THE PERS ACTION. THESE LOCAL GOVERNMENTS HAVE THEIR OWN RETIREMENT SYSTEMS; THEY DO NOT BELONG TO PERS. FOR EXAMPLE, 22 COUNTIES, INCLUDING LOS ANGELES, ORANGE, SAN DIEGO, ALAMEDA, SAN FRANCISCO AND CONTRA COSTA WILL RECEIVE LITTLE IF ANY OF THE BENEFITS FROM A LOWER PERS CONTRIBUTION RATE. YET, THESE SAME 22 COUNTIES COLLECTIVELY WOULD LOSE \$46 MILLION DURING THE CURRENT FISCAL YEAR IF THE PROPOSED REDUCTION IN SUBVENTIONS IS APPROVED.

FURTHERMORE, THE FORMULA PROPOSED BY THE ADMINISTRATION TO ACHIEVE THE \$108 MILLION REDUCTION WOULD RESULT IN 362 CITIES PROVIDING A BAILOUT TO THE STATE. THAT IS, THE PROPOSED FORMULA WOULD REDUCE SUBVENTIONS TO THESE

CITIES BY MORE THAN THE AMOUNT OF FISCAL RELIEF THEY NOW ARE RECEIVING FROM THE STATE.

4. SOME OF THE OPTIONS DO NOT "SAVE" ANY MONEY, IN THE SENSE OF REDUCING COSTS TO THE STATE. IN FACT, \$180 MILLION OF THE POTENTIAL SAVINGS CAN BE VIEWED AS JUST ANOTHER WAY OF BORROWING TO MEET THE STATE'S CASH FLOW NEEDS. THE THREE ITEMS IN THIS CATEGORY ARE (1) DEFERRAL OF THE STATE'S CONTRIBUTION TOWARD THE \$14 BILLION UNFUNDED LIABILITY IN THE STATE TEACHER'S RETIREMENT SYSTEM, (2) THE "TRANSFER" OF \$49 MILLION FROM THE EMERGENCY TELEPHONE NUMBER ("911") ACCOUNT, AND (3) THE "TRANSFER" OF TOLL BRIDGE AUTHORITY FUNDS.

OBVIOUSLY, A NUMBER OF THE PHASE 1 PROPOSALS/OPTIONS RAISE IMPORTANT POLICY, AS WELL AS FISCAL, ISSUES, AND YOU WILL WANT TO GIVE THEM VERY CAREFUL CONSIDERATION BEFORE YOU ACT ON THEM. THE PROBLEM YOU FACE, HOWEVER, IS THAT IF YOU DON'T ACT QUICKLY, IT WILL NOT BE POSSIBLE TO REALIZE THE POTENTIAL SAVINGS NOW OFFERED BY THE PHASE 1 ITEMS. FOR EXAMPLE, THE POTENTIAL SAVINGS FROM DEFERRING THE STATE'S CONTRIBUTION WILL BE \$20 MILLION LESS THAN THE AMOUNT SHOWN IN THE BUDGET IF A BILL TO DEFER THIS PAYMENT IS NOT ENACTED AND SIGNED BY MIDNIGHT THURSDAY.

COMMENTS ON PHASE 2

TEI LET ME NOW TURN TO THE SECOND PHASE OF THE GOVERNOR'S PLAN. IT IS THIS PHASE THAT I FIND SO DISTURBING.

WOH IN HIS BUDGET, THE GOVERNOR DOES NOT SIMPLY POSTPONE TAKING ACTION ON THE OTHER \$750 MILLION OF THE ACKNOWLEDGED 1982-83 DEFICIT UNTIL NEXT YEAR, AS HAS BEEN WIDELY REPORTED. IN FACT, HIS BUDGET CONTAINS NO PROPOSALS FOR ADDRESSING THE PROBLEM, EITHER IN 1982-83 OR IN 1983-84.

IT IS LITTLE WONDER THAT THE FINANCIAL COMMUNITY IS CONCERNED.

PROCL I RECOGNIZE THAT THE BUDGET IDENTIFIES SOURCES OF FUNDS THAT POTENTIALLY COULD BE USED IN 1983-84 TO COVER THE OTHER HALF OF THIS YEAR'S \$1.5 BILLION DEFICIT. I WANT TO EMPHASIZE, HOWEVER, THAT EVERY PENNY OF THE AMOUNTS ON THAT LIST IS PROPOSED FOR APPROPRIATION IN THE BUDGET YEAR. THE ADMINISTRATION CAN'T HAVE IT BOTH WAYS. IT CAN'T SPEND THE MONEY ONCE FOR K-12 COLA'S, PUBLIC SAFETY AND STATE EMPLOYEE SALARY INCREASES, AND THEN SPEND THE SAME MONEY A SECOND TIME TO PAY THE LEFTOVER BILLS FOR THIS YEAR'S SERVICES. THE MONEY CAN ONLY BE SPENT ONCE.

TO PAY I RECOGNIZE THE GOVERNOR'S INTENTION TO DROP THE OTHER SHOE IN MAY, AND PROPOSE A PROGRAM FOR FINANCING THE

DEFICIT NEXT YEAR. AS YOUR FISCAL ADVISER, HOWEVER, I MUST TELL YOU THAT, IN MY JUDGMENT, THAT'S NOT GOOD ENOUGH. DEFERRING ACTION ON THIS YEAR'S DEFICIT UNTIL NEXT YEAR WOULD BE BOTH UNWISE AND UNSOUND.

THE PROPOSAL TO CARRYOVER A \$750 MILLION DEFICIT FROM THIS YEAR INTO NEXT YEAR HAS TWO SERIOUS DEFECTS:

1. IT WOULD BE COSTLY TO THE TAXPAYERS, BOTH NOW AND FOR MANY YEARS TO COME.

2. IT WOULD WEAKEN PERMANENTLY THE DRIVING FORCE PROMOTING FISCAL RESPONSIBILITY IN CALIFORNIA'S BUDGET PROCESS, BY GIVING CREDENCE TO THE NOTION THAT SOMEHOW THE STATE CAN SPEND MORE THAN IT HAS AVAILABLE FOR EXPENDITURE.

THESE PROBLEMS ARE SO SERIOUS THAT, IN MY OPINION, THEY WARRANT AN ACTION BY THE STATE'S ELECTED OFFICIALS THAT NONE OF THEM--AND CERTAINLY NOT I--VIEW WITH ANY ENTHUSIASM. THAT ACTION IS AN IMMEDIATE, BUT TEMPORARY, INCREASE IN STATE TAXES SUFFICIENT TO BALANCE THIS YEAR'S BUDGET. THE REVENUES FROM SUCH AN INCREASE, WHEN COMBINED WITH THE SAVINGS TO BE REALIZED FROM THE FURTHER REDUCTIONS IN SPENDING THAT CAN AND SHOULD BE MADE, WILL ALLOW THE STATE TO PAY ITS BILLS, LIVE WITHIN ITS MEANS, AND AVOID DIMINISHING THE STATE'S FISCAL INTEGRITY. THE BENEFITS FROM



SUCH A PACKAGE OF TAX INCREASES AND SPENDING CUTS WOULD, I AM CONVINCED, OUTWEIGH THE PROBLEMS ASSOCIATED WITH A TEMPORARY INCREASE IN TAXES.

LET ME DISCUSS IN MORE DETAIL WHAT I CONSIDER TO BE THE TWO DEFECTS IN THE GOVERNOR'S PROPOSAL TO CARRYOVER PART OF THIS YEAR'S DEFICIT INTO NEXT YEAR.

CARRYING OVER THE DEFICIT WOULD BE COSTLY TO THE TAXPAYERS

DEFERRING ACTION ON THE DEFICIT THIS YEAR WOULD NOT CAUSE THE PUBLIC TO PAY LESS IN TAXES OVER TIME.

EVENTUALLY, THE SERVICES THAT HAVE BEEN PROVIDED TO THE PUBLIC IN THE CURRENT YEAR WILL BE PAID FOR WITH MONEY RAISED FROM THE PUBLIC THROUGH TAXES. THERE IS NO DISAGREEMENT ON THIS POINT. RATHER, THE DISAGREEMENT HAS TO DO WITH WHEN THESE SERVICES WILL BE PAID FOR.

THE GOVERNOR SAYS "NOT THIS YEAR." I AM SUGGESTING THAT YOU NOT DELAY ACTION.

TO THE EXTENT THAT THESE SERVICES ARE FINANCED WITH BORROWED MONEY NOW AND ACTUALLY PAID FOR IN 1983-84 OR LATER, THE TAXPAYERS WILL HAVE TO PUT UP MORE TAX DOLLARS THAN THEY WOULD HAVE IF THESE SERVICES HAD BEEN PAID FOR IN 1982-83. THIS IS SO FOR THREE REASONS:

ALOT 1. IT IS COSTLY TO LOCATE INDIVIDUALS WILLING TO LEND MONEY TO THE STATE. AS YOUR COMMITTEE HEARD SEVERAL WEEKS AGO, THE STATE CONTROLLER LAST YEAR SPENT MORE THAN \$1.5 MILLION ON LAWYERS, CONSULTANTS, ADVISERS, AND PRINTERS JUST TO BE IN A POSITION TO BORROW THE \$400 MILLION NEEDED TO MEET THE STATE'S NOVEMBER PAYROLL.

2. IT IS COSTLY TO INDUCE INDIVIDUALS TO LET THE STATE BORROW THEIR MONEY, EVEN WHEN THE RISKS ASSOCIATED WITH THE LOAN ARE NEGLIGIBLE. FOR EXAMPLE, THIS YEAR'S BUDGET, ALREADY DEEPLY IN THE RED, HAS HAD TO TAKE ON ANOTHER \$8 MILLION IN INTEREST PAYMENTS JUST TO GET US OVER THE FIRST CASH-FLOW HUMP. FURTHER BORROWING DURING THE CURRENT YEAR WILL REQUIRE THE TAXPAYERS, AT SOME POINT, TO FINANCE AN EVEN HIGHER LEVEL OF INTEREST COSTS.

PIC 3. OUR REFUSAL TO ADDRESS THIS YEAR'S BUDGET PROBLEM THIS YEAR HAS--RIGHTLY OR WRONGLY--BEEN INTERPRETED BY THE FINANCIAL COMMUNITY AS AN INDICATION THAT CALIFORNIA IS NOT AS GOOD A CREDIT RISK AS WAS PREVIOUSLY THOUGHT. WHILE I SEE NO MERIT WHATEVER TO SUCH A CONCLUSION, AND STILL REGARD THE STATE AS A TRIPLE-A RATED BORROWER, REGARDLESS OF WHAT MERRILL LYNCH OR STANDARD AND POOR SAY, THE FINANCIAL COMMUNITY'S INTERPRETATION OF OUR ACTIONS AND INACTIONS HAS

EXPERIENCED.

ALOT TO SAY ABOUT HOW MUCH IT WILL COST THE TAXPAYERS TO FINANCE STATE SERVICES IN THE YEARS TO COME. AND AS THE FINANCIAL COMMUNITY DOWNGRADES OUR BOND RATINGS, THE COST OF BUILDING NEEDED PRISONS, NEW SCHOOL FACILITIES, AND OTHER FACILITIES THAT THE VOTERS HAVE INDICATED THEY WANT, WILL INCREASE.

IN SUM, FAILURE TO ADDRESS THIS YEAR'S PROBLEM NOW WON'T SAVE THE TAXPAYERS FROM HAVING TO PAY MORE FOR STATE GOVERNMENT; IT WILL COST THEM.

THE GOVERNOR HAS SAID THAT THESE ADDITIONAL COSTS PALE IN COMPARISON TO THE COST OF A TAX INCREASE THAT OTHERWISE WOULD BE NECESSARY TO BALANCE THE BUDGET THIS YEAR. AS I HAVE ALREADY EMPHASIZED, THIS COMPARISON IS MISLEADING. THE TAXPAYERS--ONE WAY OR ANOTHER--WILL HAVE TO PICK UP THE TAB FOR THE SERVICES ALREADY PROVIDED TO THE PEOPLE OF CALIFORNIA DURING THE CURRENT YEAR. WHILE YOU CAN CHANGE THE TIMING OF WHEN THESE BILLS MUST BE PAID, YOU CANNOT REDUCE THE TAXPAYERS' LIABILITY FOR PAYING THEM.

BUT TO THOSE WHO STILL BELIEVE THAT DEFERRING ACTION TO BALANCE THE STATE'S BUDGET WOULD BE SOUND FROM A TACTICAL STANDPOINT, AND WOULD KEEP TAXES IN CALIFORNIA LOWER THAN THEY OTHERWISE WOULD BE, I SUGGEST A LOOK AT NEW YORK'S EXPERIENCE.

● IN 1965, NEW YORK CITY ISSUED \$256 MILLION IN SHORT-TERM NOTES BECAUSE IT HAD A DEFICIT IN ITS OPERATING BUDGET, AND THE MAYOR WANTED TO BOTH MAINTAIN THE EXISTING LEVEL OF SERVICES AND AVOID A TAX INCREASE.

● IN 1966, ONE YEAR LATER, THE MAYOR WAS FORCED TO PROPOSE A \$520 MILLION TAX INCREASE TO COPE WITH ANOTHER DEFICIT IN THE CITY'S BUDGET--A DEFICIT MADE LARGER IN PART BY THE COST OF BORROWING IN THE PREVIOUS YEAR.

● BETWEEN 1965 AND 1975, THE CITY'S SHORT-TERM DEBT GREW FROM \$526 MILLION TO \$4.5 BILLION, AS EACH YEAR CITY OFFICIALS TRIED TO MAINTAIN EXISTING SERVICE LEVELS WITHOUT RAISING TAXES. MEANWHILE, THE STATE OF NEW YORK WAS EMPLOYING THE SAME PRACTICE OF BORROWING TO FUND CURRENT SERVICES.

● DURING THIS SAME 10-YEAR PERIOD, NEW YORK STATE'S TAXES ROSE AT A RATE THAT WAS 13 TIMES FASTER THAN THE NATIONAL AVERAGE, AND THE TAX BURDEN IN NEW YORK MOVED UP IN THE RANKINGS FROM TENTH IN THE NATION TO FIRST.

CLEARLY, IN NEW YORK'S CASE, THE TAXPAYERS GOT HIT WITH THE ADDITIONAL COSTS THAT GO WITH BORROWING AND THE HIGHER TAXES THAT BORROWING WAS INTENDED TO PREVENT.

DEFERRING THE DEFICIT WOULD WEAKEN PERMANENTLY THE STATE'S BUDGET PROCESS

UNFORTUNATELY, I FEAR THAT THE ADDED COST OF BORROWING TO FINANCE THIS YEAR'S DEFICIT IS ONLY THE TIP OF THE FINANCIAL ICEBERG OFF THE TAXPAYER'S BOW. IF WE ESTABLISH THE PRECEDENT THAT PLANNED DEFICITS ARE "OKAY" DURING "EXTRAORDINARY" CIRCUMSTANCES, EVERY YEAR WILL BECOME "EXTRAORDINARY" TO THOSE WHO ARE NOT ABLE TO GET AS MUCH MONEY AS THEY WANT OUT OF A BALANCED STATE BUDGET. AND IT WILL BECOME CONSIDERABLY MORE DIFFICULT THAN IT IS NOW FOR THE GOVERNOR AND THE LEGISLATURE TO SAY "NO" UNDER THESE CIRCUMSTANCES.

THE STATE'S LONG TRADITION OF LIMITING ITS EXPENDITURES TO THE AMOUNT AVAILABLE HAS SERVED THE PUBLIC WELL. THE DISCIPLINE PROVIDED BY THE NEED TO MAINTAIN A BALANCED BUDGET HOLDS DOWN EXPENDITURES--AND THUS, IN THE LONG RUN, IT HOLDS DOWN TAXES. IT DOES THIS BY SERVING AS A GATEKEEPER TO THE BUDGET. MANY SPENDING PROPOSALS AREN'T

ABLE TO MAKE IT INTO THE BUDGET BECAUSE THEY CAN'T PASS THE TEST NEEDED TO OPEN THE GATES: DOES THE PUBLIC WANT THE PROPOSED NEW OR IMPROVED SERVICES BADLY ENOUGH TO PAY MORE IN TAXES? IF WE REMOVE THE GATEKEEPER--IF WE ALLOW SPENDING TO EXCEED AVAILABLE FUNDS WITHOUT CAUSING ANYONE TO PAY MORE IN THE SHORT RUN--THE BUDGET WILL GROW MUCH MORE RAPIDLY IN THE FUTURE, AND SO WILL THE TAXES WE ALL PAY.

GOVERNOR IN ESSENCE, THE GOVERNOR'S PHASE 2 PROPOSAL WOULD WEAKEN THE MOST IMPORTANT FEATURE OF CALIFORNIA'S BUDGET PROCESS THAT PROMOTES FISCAL RESPONSIBILITY--THE VERY FEATURE, IN FACT, THAT DISTINGUISHES OUR PROCESS FROM THE FEDERAL BUDGET PROCESS. AND IT WOULD DO SO AT THE VERY TIME WHEN THE WEAKNESSES OF THE FEDERAL PROCESS ARE THE MOST GLARING.

I DON'T DOUBT FOR ONE MINUTE THE GOVERNOR'S SINCERITY IN SAYING THAT, "WE'RE ONLY GOING TO DO IT THIS ONE TIME." I SUSPECT, HOWEVER, THAT THOSE GOVERNMENTAL ENTITIES THAT HAVE GOTTEN INTO FINANCIAL TROUBLE BECAUSE OF YEAR-END BORROWING TO MEET BUDGET DEFICITS--AND PERHAPS EVEN THE FEDERAL GOVERNMENT ITSELF--GOT STARTED DOWN THIS LONG PATH MAKING THE SAME PLEDGE AND DOING SO WITH THE SAME SINCERITY AND THE SAME BELIEF THAT EVERYTHING WILL GO "RIGHT" FROM THAT POINT ON.

THE WEIGHT OF HISTORICAL EVIDENCE, HOWEVER, SUGGESTS THAT MAKING PLANS ON THE ASSUMPTION THAT EVERYTHING IN THE FUTURE WILL GO "RIGHT", AND THAT IT WILL BE LESS PAINFUL TO DEAL WITH A DIFFICULT PROBLEM IN THE FUTURE, FREQUENTLY LEADS TO EVEN GREATER PROBLEMS AND AN EVEN MORE PAINFUL SOLUTION LATER ON.

THIS IS WHY I RECOMMEND THAT YOU REJECT THE GOVERNOR'S PHASE 2 PROPOSAL AND ACT RIGHT NOW TO CLOSE THE GAP IN THIS YEAR'S BUDGET BY CUTTING EXPENDITURES WHEREVER YOU CAN, AND BY INCREASING TAXES TEMPORARILY TO MAKE UP THE DIFFERENCE.