California's Budget Crisis

Working Toward a Balanced Solution

The Honorable Herb J. Wesson, Jr., Speaker of the Assembly
The Honorable Jenny Oropeza, Chair, Budget Committee

Town Hall Meetings

Convened by the
Honorable Mark Ridley-Thomas
Chair, Assembly Committee on Jobs, Economic Development and the Economy

Executive Summary

Los Angeles - January 11, 2003
Fresno - April 11, 2003
Oakland - April 25, 2003
San Diego - May 9, 2003

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California Legislature

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Dear Friends:

California is in a major financial crisis. Like no other time in state history California faces a budget deficit that threatens our ability to provide core governmental services to millions of residents. While the exact amount of this deficit remains an issue of debate most parties agree that the amount lies between $25 and $38.2 billion. Such significant sums must give everyone pause. Budgetary gimmicks cannot paper over this deficit created by a number of contributing factors including the prolonged nationwide recession, high unemployment, decreased tax revenue, and increased expenditures. Rather than point fingers and argue over the cause of this unprecedented deficit we, as Californians, must cast aside partisanship and work together to make thoughtful and cost-effective decisions. To this end the Assembly convened four town hall meetings throughout the state to solicit input from interested individuals and organizations on how best to meet the fiscal challenges ahead.

These town hall meetings, entitled ***"California's Budget Crisis: Working Toward a Balanced Solution,"*** were held over the past two months in Los Angeles, Fresno, Oakland, and San Diego to ensure that the people were heard and that public comments reflect the vast diversity of our state.

Together with legislators from surrounding areas, local residents and organizations were invited to offer comment on any matter of import to the state budget crisis. Ultimately, it was these unscripted, yet compelling, comments that gave us the greatest insight into proposed budget actions. Over the course of the four town hall meetings we heard from hundreds of individuals who spoke on topics ranging from nursing home care to community college funding. This substantial amount of non-partisan testimony and insight into the public's view of our budget crisis can be summarized into four key points:

1. **Protect K-12 and higher education funding.**
2. **Limit cuts to health care, social services and public safety.**
3. **Balance the budget with cost effective cuts and revenue enhancements.**
4. **Pass the budget on time.**

Protect K-12 and Higher Education Funding:

Speakers at each of the four town hall meetings demonstrated through vivid and inspiring personal stories the importance of protecting education funding. Whether they were concerned with larger class sizes, tuition increases or childcare cuts, the speakers provided us with a unique view into the

daily struggles that make California such a special place to live. An illustrative comment came from Mr. Joseph Kotter at the Fresno town hall meeting. A community college student, Mr. Kotter said:

> *[C]ommunity college is the nest of higher education. It is where future community contributors such as myself learn to fly. And within that nest, we are exposed to the diversity that this county has strived for ... I understand cuts are necessary. I just ask on behalf of all the voices throughout all the community colleges and all the nests of the state that speak through me today, that you ruffle our feathers, just don't cut off our wings. (Fresno Town Hall Meeting, Transcript Pages 106-7)*

According to Genethia Hudley-Hayes, Board Member of the Los Angeles Unified School District:

> *We're going to have to lay off teachers. We're going to have to lay off aids in the classrooms. We've already increased our class size once. We will probably have to in ease it, yet again ... It costs $40,000 to incarcerate, and it costs $9,000 to educate. So it seems to me that what we need to be thinking about in terms of solutions - and I understand that - this may be controversial solution, but if we could just get half of the prison budget back and add it to the education and the health care budget, then we could actually stop the clients that are going to go to be in the prisons. (Los Angeles Town Hall Meeting, Transcript Pages* 69-75)

The comments of Ms. Hudley-Hayes and many others shared a common theme - one that seeks to draw attention to the short sightedness of some proposed cuts. In the opinion of these speakers why make a program cut when such a move will ultimately cost the state more money that it seeks to save. They implore the Legislature to dedicate our scarce public resources to cost-effective programs. Moreover, cuts to such programs should be an option of last resort.

Limit Cuts to Health Care, Social Services and Public Safety:

Judging from the number of individuals who offered testimony, ensuring access to health care providers and maintaining public safety are significant concerns of California's residents. Consider the testimony offered by Dr. Stuart Shikora, an emergency room physician, at the Oakland meeting.

> *[I]t is essential that the money go to MediCal to preserve existing services, and because it would pull down the federal matching funds. But the coalition (Californians United for Quality Health) fully understands the severity of the budget deficit and the difficulty - difficult decisions the Legislature will have to make in order to balance the budget; however, there is a health care crisis now. Access to care is a huge problem. We have no surge capacity in our Emergency Departments or hospitals. We have less capacity now than we did in 1989 ... If the state does not support MediCal, we will all pay for this expensive care through our own increased insurance payments and deductibles. Worse, when someone has a real emergency, their care could be delayed because the ER, lab and x-ray facilities are overcrowded." (Oakland Town Hall Meeting, Transcript Pages 36-41)*

These comments were amplified by the remarks of Dr. Leonard Kutnik, a pediatrician, who said:

> *We like to brag in California we're the fifth largest economy in the world. Well, for God sakes, if we're the fifth largest economy, shouldn't we be in the top tier of payment for health care services, not the bottom tier. (Oakland Town Hall Meeting, Transcript Pages 41-50)*

Substantial testimony also focused on cuts aimed at programs that assist the elderly and infirm meet essential health care and housing needs. Materials provided at the Fresno Town Hall meeting by Michael Kanz of Central California Legal Services, Inc. spell out the consequences for our most vulnerable members of society if proposed cuts to the Supplemental Security Income (SSI) program are adopted. According to Mr. Kanz:

> *California's aged, blind and disabled population deserve better treatment than that which the Governor or the Senate Republicans propose. As some of the poorest and most needy Californians, your priority should be to protect their benefits at any cost, much less the small costs involved in comparison to the magnitude of the budget deficit. Supporting revenues as well as reductions would result in a fairer solution, and leaving the SSI program in its current state is the only fair and humane manner in which to treat our aged, blind and disabled citizens.*

Next to education and health care issues the most prominent issue of concern to speakers was public safety. On this issue we received some significant remarks from Chief Paul Tanaka of the Los Angeles County Sheriff's Department. He recounted to us how specific crimes increased when recent budget cuts forced the elimination of community policing teams.

> *In the four months (since) we eliminated those teams in East Los Angeles, murders increased 267 percent. Lancaster, murders increased 200 percent. In Palmdale, 100 percent; Temple Cities area, 100 percent; Lomita, 200 percent, City of Industry... (Los Angeles Town Hall Meeting, Transcript Pages 55-60)*

According to Chief Tanaka, forcible rape and arson figures also skyrocketed during the same period. His testimony dramatized the importance of dedicating appropriate resources to programs that promote public safety.

Balance the Budget with Cost Effective Cuts and Revenue Enhancements:

On February 26, 2003 the Senate Republican Caucus released a proposal to eliminate the state's General Fund deficit by 2004-05. This plan, among other things, calls for a 7 percent across-the-board spending reduction and rejects the use of new taxes and fees. Information provided at the San Diego Town Hall meeting by Jean Ross, Executive Director of the California Budget Project demonstrated the severity of cuts to various programs should this proposal be adopted. Indeed, passage of the Senate Republican Caucus proposal would mean the loss of health coverage through the Healthy Families Program for approximately 50,000 children, and an additional reduction of $1.8 billion for K-12 education. The cuts will more than double to 18.6 percent if the Proposition 98 funding guarantee is not suspended.

Many individuals questioned why our children should bear such a burden when funding alternatives exist. These individuals suggested the Legislature address the budget deficit with the same balanced approach employed during the last economic downturn in the state.

A decade ago California faced significant budget deficits much like today. Indeed, during the 1991-92 fiscal year the state faced a $14.3 billion budget gap. This figure equaled a third of all General Fund spending at the time. According to Elizabeth G. Hill, the state's non-partisan Legislative Analyst, the Governor and Legislature got out of that crisis by relying on program reductions, deferrals, cost shifts, taxes and fees. In referring to a chart listing the varied budget solutions of the 1990's, Ms. Hill said:

> *You can see that over that period, the state did use a relatively balanced approach. I particularly call your attention to '91-92, where there was a significant amount of both taxes and fees that were increased, which is the bottom portion of the chart, as well as program reductions, which is the white portion of the chart. (Oakland Town Hall Meeting, Transcript Pages 21-35)*

Speakers at each of the Town Hall meetings demanded that the Legislature and the Governor to consider all available revenue sources when crafting this year's state budget. While recognizing the need to make difficult funding choices most speakers suggested that revenue enhancements be included in the final proposal. Take for example the comments of Karen Halliday, President of Las Positas Community College:

> [W]e need a balanced approach to handling this crisis. That means revenue enhancements, as well as budget cuts. (Oakland Town Hall Meeting, Transcript Pages 66-73)

Dr. Leonard Kutnik added to the theme by saying:

> *I strongly support the concept that we have to look at every other alternative available. That includes revenue enhancement programs ...(Oakland Town Hall Meeting, Transcript Pages 41-50)*

The comments of these two individuals, an education leader and a medical professional, are illustrative of comments shared publicly and privately at the four town hall meetings. They recognize that the fiscal challenges ahead can be mitigated, in part, by reasonable consideration of new revenue streams. Absent the adoption of some targeted revenue enhancements the magnitude of cuts needed to balance the budget, as required by the State Constitution, may close the doors of higher education and health care to many needy Californians. Similar views are reflected in the most recent statewide survey conducted by the Public Policy Institute of California (PPIC). This survey found that 43 percent of Californians say they prefer a mixture of spending cuts and tax increases. "Fewer residents (32%) prefer dealing with the deficit through spending cuts along, and fewer than one in 10 think that it is okay to run a deficit (9%) or to deal with the deficit primarily through tax increases (7%)." (PPIC Statewide Survey, February 2003, Page 12)

Pass the Budget On Time:

California's State Constitution requires a balanced budget be signed into law every year by July 1st. Regrettably, this deadline has been missed in 14 out of the last 20 years. The failure to meet this deadline often has severe consequences for students, businesses and health care providers. As Karen Halliday pleaded,

> *[W]e need to have a timely budget. We know it is difficult, but we are registering students right now for summer and fall. We have employed faculty and staff to meet the needs of the students, but we have no idea what our budgets are going to be. We do not know what the tuition will be. You can't imagine what it's going to take when we have to go back and charge other tuition. The impact it's going to have to the students and to the system trying to handle this. (Oakland Town Hall Meeting, Transcript Pages 66-73)*

A prolonged delay in passage of the state budget will not only inconvenience those who depend on funding but also cost the state additional millions in short-term borrowing interest. In a recent letter to legislative leaders, State Controller Steve Westly outlined the means by which the state can continue to pay its bills in the absence of a budget. According to the Controller:

> *The Governor recently authorized my request to borrow an $11 billion RAW (Revenue Anticipation Warrant) - the maximum amount allowable under formulas involving borrowing between State General and Special Funds. This is the largest such borrowing in California history and is a sobering reminder of the scope of our problem and the need for a timely solution to the current fiscal crisis.*

The Controller adds that:

> *In years when a budget is not signed on time, the Controller must suspend certain payments. For example, many vendors and contractors, including small businesses and non-profits, cannot be paid for goods and services provided to State agencies after July 1 ... In addition highway User Taxes cannot be apportioned to cities and counties for street and road projects and Cal Grants to students in higher education cannot be paid.*

Conclusion:

Californians recognize the magnitude of our state's financial crisis. They also understand that substantial cuts are needed to meet the constitutional requirement of a balanced budget. However, as evidenced by comments at the four town hall meetings, many residents do not believe that cuts alone are the correct policy choice. Rather they suggest that revenue enhancements are needed to mitigate the impact of cuts on vital programs such as education, health care and public safety.

Given the public's interest in these town hall meetings and their informed comments the Legislature should take note. The public has little stomach for a delay in budget passage if such a delay is the result of partisanship. They expect the Legislature to make, in a timely fashion, the difficult decisions necessitated by our current financial state. Postponing the inevitable will only give impacted parties less time to accommodate cuts or revenue enhancements. It will also undermine California's economic recovery by delaying payments to thousands of business vendors and requiring costly short-term financing.

Cognizant of the Legislature's track record on passage of timely budgets the public is justifiably skeptical about the prospects for a different outcome this year. Such pessimism will only be reversed when the Legislature takes heed of the consequences, both financial and political, associated with a delay in the passage of a balanced state budget. Continued reliance on past practices will only allow for a repetition of past mistakes. The residents and businesses of California deserve better.

With hope,

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Convener, Town Hall Meetings on California's Budget Crisis

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