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Governor Brown released his proposed State Budget intended for the next 18 months on January 10th, and while Sacramento's political landscape has changed significantly since last year, some things have remained constant: California's state government is still awash in red-ink, approximately \$25.4 billion worth. The governor is proposing \$12.5 billion in spending cuts, including \$1.7 billion in Medi-Cal, \$1.5 billion in state's welfare program, \$1 billion in UC and CSUS, \$750 million in the Department of Developmental Services, and \$580 million in state operations and employee compensation. According to the Department of Finance, the budget also proposes a "vast and historic" restructuring of government with the goal of delivering services more efficiently and effectively. The state's K-12 education program was the only major budget item that remained essentially unchanged with funding maintained at last year's level (\$63.8 billion) despite a \$2.3 billion decline in the Prop. 98 guarantee. Approximately \$2 billion of the schools' funding will be deferred pushing the total deferred payments in recent years to \$10 billion.

Both the local government realignment proposal and the K-12 funding are dependent upon the Legislature adopting and the voters approving \$12 billion in taxes. The governor is calling for the extension of existing income, vehicle license and sales tax increases that were adopted in February 2009. The 0.25 percent personal income tax (PIT) surcharge and the reduction in the PIT dependent exemption credit expired on Dec. 31st. The one percent increase in the state sales and use tax as well as the 0.65 percent increase in the Vehicle License Fee, which would be dedicated to the realignment proposal will sunset on June 30th.

The governor also proposes the repeal of the California Community Redevelopment Law (CRL), first enacted in 1945, that has siphoned billions in property tax revenue from the state and local governments in the name of fighting urban blight. The repeal of CRL would generate approximately \$3 billion in previously accumulated property tax revenue after current estimated debt obligations (\$2.2 billion) are paid off. Of the \$3 billion, \$1.1 billion would be used for one-time payments for previously negotiated "pass through" agreements between redevelopment agencies and local jurisdictions, \$1.7 billion is proposed to be used for a one-time offset for GF costs for Medi-Cal (\$840 million), trial courts (\$860 million) and payments to cities, counties, and special districts proportionate to their current share of the countywide property tax (\$210 million). This proposal is also crucial to the governor's desire to shift many state responsibilities to local governments.

Another controversial tax proposal is the repeal of Enterprise Zone (EZ) tax benefits, primarily corporate income and personal income tax. The EZ repeal would generate \$924 million for the state's General Fund over 18 months.

The governor's proposed State Budget may not employ the classic smoke and mirrors used for the last decade, which in large measure led to the state's fiscal crisis, but it does rely on a heavy helping of hope; hope that California voters will reverse their strong stance against new taxes. Voters have previously rejected these new taxes as well as a myriad of other tax proposals in the past two elections.

Voters may not even get to vote on the tax proposals if the Senate and Assembly Republicans stick to their pledge not to vote for any new tax increases. Even with a vote of the people, a tax increase still requires a two-thirds vote of the Legislature. There have been rumors that Democratic leaders in the Legislature and the governor have a fall-back plan that may not require an initiative effort and attorneys on both sides of the aisle are conducting analyses to see if a measure can be put before the voters with a simple majority vote.

Some of the budget issues of importance to farmers and ranchers include:

- Eliminates the \$10 million General Fund appropriation for Williamson Act subventions in the current fiscal year and no funding in 2011-12. The governor suggested that increased property taxes due to the repeal of the CRL could help counties continue the program on their own, however, most rural counties don't have redevelopment agencies.
- Eliminates General Fund support for the State Water Resources Control Board (SWRCB) \$12.8 million with a corresponding increase in the Waste Discharge Permit Fund and Water Rights Fund along with a statutory proposal to allow the SWRCB to assess a fee for basin planning activities.
- Eliminates General Fund support for the Network of California Fairs for a permanent decrease of \$32 million.
- Reduces General Fund support for the Department of Food and Agriculture (CDFA) by \$15 million in 2011-12 and \$30 million per year thereafter. When fully implemented this would result in a 31 percent reduction in CDFA's \$95.8 million General Fund support. The budget states that the new Secretary of Agriculture will convene a "consortium" of agricultural leaders to identify cuts and alternative sources of revenue for CDFA programs.
- Eliminates funding for the Department of Forestry and Fire Protection's (CDF) fourth firefighter per engine that was adopted in 2003. This will save \$3.6 million in current fiscal year and \$30.7 million in 2011-12.
- Requires CDF to revise the definition of State Responsibility Areas (SRAs) with the goal of transferring fire protection services in the most highly populated areas to local jurisdictions and save the state General Fund approximately \$250 million per year.

As might be expected, the Democrats' reaction to the governor's spending plan have generally been supportive, except perhaps for Los Angeles Mayor Antonio Villaraigosa, who dismissed the elimination of Redevelopment Zones and Enterprise Zones as a non-starter. With the new majority vote requirement for adoption of the budget, the initial political posturing has been very subdued, although the music has only just resumed for California's marathon budget dance.

AB 10 (Luis Alejo, D-Salinas) would increase the minimum wage for California workers from \$8.00 per hour to \$8.50 per hour on January 1, 2012 and annually index the minimum wage thereafter to inflation. AB 10 specifies that the index to be used is the California Consumer Price Index for All Urban Consumers, as published by the Department of Industrial Relations,

Division of Labor Statistics and Research. The Department of Industrial Relations is given responsibility for calculating and publishing the adjusted minimum wage on January 1 of each year, and AB 10 specifies that minimum wage adjustments will be rounded to the nearest \$.05.

AB 51 (Mariko Yamada, D-Vacaville) is a spot bill for the purpose of regulating the use of payroll debit cards in California. The California Consumers' Union and the California Labor Federation have sought legislation in the past to regulate the use of these cards, claiming that employees have sometimes not been allowed reasonable access to their pay when using these cards.

AB 59 (Sandre Swanson, D-Oakland) would expand the eligibility of employees for family and medical leave provided for under current California law. AB 59 would allow parents access to family and medical leave for the care of independent adult children, parents-in-law, or a grandparent, sibling, grandchild, or domestic partner.

AB 78 (Tony Mendoza, D-Norwalk) would mandate the placement of an advisory question on the June, 2012 ballot to the effect that the federal government should create "a pathway to citizenship" for undocumented immigrants. It would apply to those who have worked in the United States for at least five years, have no felony convictions, have learned to speak English, and have paid all taxes for which they are responsible.

SB 104 (Darrell Steinberg, D-Sacramento) is a card-check bill similar to past versions of card-check. It re-names the card check process a "majority sign-up" election and a secret ballot election a "polling place election." SB 104 also provides for a \$20,000 penalty for willful or repeated employer unfair labor practices.

The recently released Governor's budget calls for \$12.8 million in new water fees. The new fees are proposed to address a shift from state General Fund dollars to fees for various water quality programs funded through the State Water Resource Control Board's Waste Discharge Permit Fund (WDPF), the Water Rights Fund, with proposed statutory changes to authorize the board to assess a fee for basin planning activities. The WDPF accounts for nine programs, including National Pollution Discharge Elimination System permits (NPDES), Waste Discharge Requirements (WDRs), Land Disposal, Storm Water, 401 Certification, Confined Animal Facilities (CAFs), the Surface Water Ambient Monitoring Program (SWAMP), the Groundwater Ambient Monitoring and Assessment Program (GAMA) and the Conditional Agricultural Waivers.

These changes are only proposed and cannot be finalized until the state adopts a budget and the board subsequently adopts the fee schedule in October.

The Governor's proposed budget can be viewed in detail on the Department of Finance webpage at: www.dof.ca.gov.