Children's Roundtable Minutes – January 17, 2003

A. Introductions

B. AG Block, Executive Editor of the California Journal, 2003-04 perspectives on the budget and legislation

The November 2002 elections changes the face of the Legislature. There are more conservative Republicans and more liberal Democrats. It was no coincidence that the Republicans who voted for the budget were either termed out or lost reelection. This lesson is also not lost on incoming Republicans.

Republicans gained 2 seats in the Assembly and 1 in the Senate. This gives them more leverage during the budget negotiations. Last year 4 Republicans were needed to pass the budget on the Assembly side; this year it will be 6 Republican votes. In the Senate, last year it only took 1 Republican vote, this year 2 Republican votes are required. Republicans will continue with their no taxes mantra.

We will need to frame the issues from an alternative's perspective: either $300 off the current VLF or hungry children because there is no CalWORKs COLA. One way to possibly smoke out the Republicans is by putting a budget that has no taxes and just all cuts. Although it would only be a budget drill, Republicans aren't really ready to enact a budget that only cuts services. They would get heat from their constituents.

Governor Wilson's budget gap in the early 1990's was bigger than this one in terms of percentages (33% of General Fund). There may be a special election to deal with revenues if the Republicans continue to hold the line on their no-taxes position. The Governor would have to call a special election but all would have to agree on what goes on the ballot.

C. Delaine McCullough, California Budget Project, summary of the Fiscal Year 2003-04 Governor's budget

- LAO estimates a $24.1 billion deficit while the Governor says its $34.6, a part of the difference is due to accounting practices and differences in revenue and spending assumptions
    - CBP thinks the LAO estimate is probably a little more accurate
- Sharp drop in personal income tax receipts is significant; 49% of GF revenues are from the personal income tax
- Also paying for on-going commitments with one-time money exacerbated the deficit
- Closing modest loopholes would bring in about $95 million in additional revenues
- State-local realignment proposals should consider the following questions:
    - Will revenue sources keep up with costs?
    - Are these the right programs to realign?
    - Where is the most appropriate place of service?
    - Where do we need strict state guidelines?
    - Where do we need county flexibility?
    - Will the incentive to decrease program costs affect the level of services?
- The following shows how the funds would be distributed to counties:

    - Budget Year (i.e. 2003-04) – amount that the county would receive without realignment
    - Budget Year Plus One (i.e. 2004-05) – block grant, criteria not set
- The VLF backfill is crucial for many counties. The LA Times reports that in all counties the VLF amounts to anywhere between 15% and 65% of a county's budget.
- Here are some alternatives for revenues to consider:
    - Sunsetting the Manufacturer's Investment Tax Credit ($400 million). The Manufacturer's Investment Tax Credit often gives a tax credit to those companies that are laying people off. Since 1993, there has been a decrease in manufacturing jobs and the industry has never met its target goal for job growth. There is no data on job retention to ensure that the companies that are getting the credit are the ones creating the jobs, or that the companies that get the credit are also retaining jobs.
    - Broadening the sales tax base to include services ($5 billion). Middle income and upper income families use services more than low income and working poor families. Services would include legal services, dry cleaning, etc.
    - Property tax reform. This needs a ballot initiative. This would also include reassessing the corporate tax for commercial properties.
- CBP will be presenting a tax workshop on March 12 on Prop. 13. For more information, please call (916) 444-0500.

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