

LACN LEGISLATIVE UPDATE

Legislative and Regulatory E-mailed news and information
from the Lumber Association of California & Nevada

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This E-mailed report is a service of your Lumber Association of California & Nevada with current information on legislative and regulatory matters. In most instances there will be additional information attached with this report. If there are others in your firm who should receive this report, please contact kend@lumberassociation.org.

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Governor Releases Revised Budget

This analysis of the California state budget was prepared by
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Governor Schwarzenegger released the May Revision of his proposed budget on May 14th. The May Revision projects general fund revenues and transfers from special funds of \$103 billion for the upcoming 2008-09 budget year, this represents a growth of \$2.2 billion, or 2.3 percent over this year's state budget. Proposed expenditures are \$101.8 billion leaving a \$1.2 billion reserve.

The Governor's revised budget reflects significant reductions in tax revenue due to the stagnant economy. He proposes to securitize the states lottery to backfill approximately \$5.1 billion in revenue shortfalls and increased spending. The proposed changes to the lottery require approval by the voters this November, and if the lottery proposal fails, an alternative one cent sales tax increase will automatically be enacted.

The Governor's revised budget proposes to maintain the constitutional requirement to fund schools according to proposition 98, it retains most of the funding for local governments and special districts, it borrows and transfers almost \$800 million from special funds and fee based programs, transfers over \$700 million from transportation funds and it continues to rely heavily on borrowing. The Governor's revised proposal retains the 10% across the board reduction for most state funded programs.

The Governor proposed a budget reform proposal in his original January budget and he modifies this proposal by tying elements of the budget reform to the lottery securitization actions. The budget reform proposal would limit expenditures to the average growth rate over the prior 10 years. If revenues grow beyond the 10 year average, they would be deposited into a "new reserve" account. The reserve account could not be generally accessed but must be held in reserve for years when revenues fall below the average. The stated goal would be to grow the account to a standing reserve of 15%. Additional elements of the proposal includes guidance for one time expenditures of windfalls to the state, mid year automatic budget reductions if revenues do not meet projections and elimination of the provision in the Constitution that allows the Legislature to suspend Proposition 98 for any given year.

The general mood of the Legislature and Sacramento observers was disappointment. The Governor has continually promised to address the structural deficit and avoid "gimmicks" but the May revision is still littered with borrowing, fund transfers, and securitizing the lottery. Some predict these temporary solutions may lead to larger budget deficits in 2010 and beyond, when the "borrowed" funds begin to demand repayment and the lottery securitization funding is spent.

The Legislatures budget committee will continue to meet and further analyze the Governors proposed budget. Alternative ideas for revenue enhancement may be considered such as expanding the sales tax to some specific services, increasing fees to businesses and land owners, closing tax breaks such as the exemption to sales tax for boats and specific agricultural machinery and fuels, and cutting additional state and local government services. The Legislature is required to provide a balanced budget to the Governor by June 15th and the budget is required to be enacted by the Governor by July 1st. Many predict these deadlines will be passed and that the budget stalemate will continue well into the summer and possibly fall.