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California's Sad Budget Saga Has Many Authors

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The ranks of former legislators have expanded rapidly since voters approved term limits in 1990. I'm one of them. I served 10 years in the Assembly and 10 years in the Senate, leaving office in 2000.

While recently shopping at Safeway in Stockton, I was asked by a neighbor, "Why can't they solve the budget mess? If some of you old timers were still there, you'd know how to fix the problem."

Thanks for complimenting us old timers, but it is an illusion that some sort of magic could be worked by simply reenlisting some old school politicians. In fact

we old-timers contributed to the budget crisis facing the state—and we have a lot of company.

The national recession is reason one that revenues no longer come close to matching historical trends or current expenditure levels.

But the severe economic malaise that currently afflicts California is far worse than it need be thanks to three decades of policy choices by legislators, governors, judges, and voters that have driven the state into a fiscal box canyon.

Here are some:

Voter-Approved Debt Financing:

- Deficit reduction bonds to pay operating expenses (2004)
- Stem cell research bonds (2004)
- Transportation bonds (2006)
- Children's hospital bonds (2002, 2008)

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Legislative and Governor Approved Program

Expansions:

- UC and CSU compacts promising budget increases
- Cal-Grant entitlements to college students
- Subsidized health insurance for kids under Healthy Families
- Medi-Cal coverage for poor and elderly in nursing homes
- Welfare payments and job training for poor
- Earlier retirement with higher public employee pensions

Crime and Punishment:

- End of indeterminate sentencing law (1978)
- 30 years of increased minimum penalties for crimes
- Three-strikes law

Budgeting by Initiative:

- Prop 13 restrictions on property taxes (1978)
- Abolition of inheritance tax (1982)
- Tobacco tax dedicated to health programs (1988)
- Prop 98 guaranteed funding for schools (1988)
- Sales tax earmarked for local public safety (1993)
- Tobacco tax for preschool kids (1998)
- Expanded after school programs (2002)
- Requiring sales tax on fuel only for transportation (2002)
- Millionaires tax for designated mental health programs (2004)

Court Requirements:

- Equalize school funding for rich and poor districts
- Pay Medi-Cal providers higher rates
- Mandate more prison health services
- Require the state to pay for broken local levees

The decisions by all the actors can be argued on their merits. And, likely, most people value state government's support for education, health care, transportation, and public safety. The state's fiscal structure needs active and sensitive management—something it did not always receive during the last 10 years. So, over time state budgets became leveraged and unbalanced. When the shocks came in 2008 and 2009—the global liquidity crunch that restricted state borrowing and the national recession that reduced state revenues—the budget simply could not regain its balance. Today, the state's leaders have unpleasant and extremely limited options.

Take the vehicle license fee (VLF). This is a tax on personal property that varies with the value of your auto or truck. Owners pay it once a year so the bill is obvious and unwelcome—unlike sales tax increases that seem like a small part of most purchases.

In the late 1990s then Senator (now Congressman) Tom McClintock led the drumbeat to lower the “car tax” as other states had done. California was riding the tide of the dot.com boom with plenty of income tax revenue, enough to lower class size in the first three grades for

schools throughout the state. So Governor Wilson and the legislature dramatically lowered the VLF. And then we tried to hedge our bet. The tax went down but it could be raised again without a vote of the legislature. We took credit for cutting taxes, preserved the option of undoing the cut, and dumped the responsibility on some future governor.

That governor was Gray Davis. When the dot.com boom ended, state revenues tanked and the “car tax” was reinstated. No legislator lost his election over the issue. But the triggerman, who was set up unintentionally by his fellow Democrats, was recalled.

Arnold Schwarzenegger ran on a promise to cut the VLF and did so the day he was sworn in. Then, facing a massive deficit at the end of 2003, he didn’t propose enough spending cuts or raise new revenue. He borrowed. With the bipartisan support of the legislature, voters approved a bond measure in early 2004 that allowed the operating deficit to be paid down by \$15 billion in loans.

In the case of the VLF, the state gave up revenue without replacing it or reducing expenditures. The Democrats tried to have it both ways by cutting the tax and then having it restored—but the scheme blew up when Davis was recalled. The Republicans got a tax cut but didn’t reduce programs and, in fact, were reluctant to point the finger at some of the largest cost drivers—public education and prisons. Governor Schwarzenegger won election on the issue, but six years later, he faces the same budget

dilemmas that tortured, and eventually brought down, his predecessor. Meanwhile the public is mad: rejecting the latest propositions, arguing for retention of favorite public services, supportive only of taxes that don’t seem to affect most of them (tobacco, liquor, oil), and muttering that we have the wrong cast of elected officials.

The VLF is a cautionary tale. We should have lowered the tax some, not a lot. And we should have made the cut permanent, accepting less political credit to gain more stability. In other words we should have considered the future not just the present.