



Coalition for Humane Immigrant Rights of Los Angeles

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A DYSFUNCTIONAL BUDGET

The U.S continues to grapple with one of the worst economic crisis since the Great Depression. One of the first steps that the new Administration took to manage this financial crisis was a proposal for an economic stimulus legislation that was later approved by Congress. Among other things, this proposal allocated funding to states to assist them with the cost of education, health and human services. This assistance prevented states from making more severe budget cuts to public services as well as layoffs.¹ However, despite this aid approximately 48 states across the nation have faced unprecedented budget deficits,² with combined deficits of \$230 billion through 2011.³

Undoubtedly, California’s economic woes are partially the result of the economic crisis. On the other hand, California’s financial problems are not completely a consequence of the financial downturn. This brief explores the main causes of our state’s structural deficit, analyzes actions taken by the Legislature and Governor to address this problem, and offers some alternatives to solve our current budget deficit.

Budget Year	Deficit
1999-2000	\$ 2.7 billion
2001-2002	\$ 4.5 billion
2002-2003	\$ 12.5 billion
2003-2004	\$ 26.1 billion
2004-2005	\$ 15 billion
2005-2006	\$ 8.6 billion
2006-2007	\$ 6.4 billion
2007-2008	\$ 6 billion
2008-2009	\$ 27.8 billion
2009-2010	\$ 39.9 billion

Table 1. It reflects the deficit budget years that California experienced in the past years. It is based on deficits projected at the beginning of each calendar year. It does not take into account variation in revenues or further deficits. Source of information was obtained from the Legislative Analysis Office.

ROOT CAUSES OF CALIFORNIAN’S DEFICIT: OUTDATED TAX SYSTEM, INITIATIVE PROCESS, AND BUDGET PROCESS

Outdated Tax System

During the past decade, California experienced several deficits (Table 1). The years that the state encountered income surplus was due to fact the national economy was doing well and the housing industry was also booming. This allowed the state collect more revenues than expected. However, one of the major problems that California faces is its outdated taxation system. The state budget heavily depends on personal income tax. It is estimated that about 40% of all the state’s revenues comes from personal income tax, this accounts for more than one-half of the General Fund.⁴ The rest of the general fund comes from sales and use taxes about 28%, 12% from taxation to corporations. The rest comes from other sources such as tax on liquor, cigarettes, and insurance.⁵ While the state’s personal income tax system is one of the most progressive in the nation, that is those who are high income earners are taxed more, corporations that are doing business in California are not paying their fair share. According to the California Budget Project, “corporate income taxes have declined over time as a share of General Fund revenues and as a share of corporate profits. If corporations had paid the same share of their profits in corporate taxes in 2006 as they did in 1981, corporate tax collections would have been \$8.4 billion higher.”⁶ Furthermore, the state’s tax system has not been updated to account for the changes in the state’s industries that have shifted from a manufacturing to service-base. Despite the current outdated tax system which could be fixed, the fundamental problem that California faces is a distrust of its residents towards their government and more importantly sentiment towards taxation.

In the 1970s, California was the birth place of an anti-tax sentiment that led to the Reagan Revolution which essentially changed the perception of the majority of residents in California about the role of government and taxation. The embodiment of this sentiment is the enactment of Proposition 13 in 1978, with more than 60% voting in favor. This proposition was led by Howard Jarvis and Paul Gann. It shifted the structural tax system by capping local property tax rates, limiting the growth of property tax revenues and imposing a super majority vote for the passage of any new taxes. Its effects are reductions in property tax revenues available for local governments and school districts, thus forcing the state to fill the gap without the possibility of raising taxes due to the supermajority vote requirement.

Proposition 13, also shifted much of the burden to new home owners as they pay more in taxes in comparison to commercial and industrial property. According to Peter Schrag, the former editorial-page editor of the Sacramento Bee, Proposition 13, "reinforced the distrust of representative government that helped bring it on and vastly increased reliance on the initiative process and the sway of what became known as the initiative-industrial complex."⁷

Initiative Process

The initiative process in California is another factor that has contributed to the structural budget deficit and created competition for scarce resources among public programs such as K-12, higher education,

health and human services. The initiative process was established in 1911 to provide voters with the opportunity to approve legislation. The idea behind this process was to give voters more power and fight the influence of special interests and or corruption in government.⁸ Unfortunately due to the lack of oversight, this process has given special interest a vehicle to enact legislation without scrutiny about its fiscal and policy impact. According to the California Research Bureau, "nearly 80 percent of the money contributed to successful qualifying initiatives in November 1992, came from contributors giving more than \$10,000."⁹

Continue from Initiative Process

The impact of the initiative process has locked more than half of the general fund to education and other earmarked projects. Once an initiative is enacted it does not allow the Legislature to modify it accordingly to the economic situation. For instance, proposition 98 locked more than one third of the general fund, proposition 184 (three strikes) earmarked money for prisons, and proposition 13 reduced tax property revenue dramatically.¹⁰ Thus, programs such as higher education, health and human services are more vulnerable to budget cuts if the state is experiencing a deficit because they are not protected by any initiative. Some of the initiatives also have litigation cost to state because questions about the constitutionality of some of the initiatives were raised. The Supreme Court intervened and in some cases struck down the enactment of some initiatives because they violated civil rights. Some examples of the initiatives

that have gone through this judicial review are: Proposition 187 (services for immigrants), 184 (three strikes), 209 (affirmative action), and most recently Proposition 8 (same sex marriage).¹¹

The Budget Process

The California budget process is also outdated. The Golden State is one of the few states that requires two-third vote, 47 other states only require a majority vote to pass their budget, and our state is the only state that requires a two-third vote for both enactment of budget and raising taxes. Therefore, there is a distorted vision of the basic principle that the majority governs, specially on issues related to budget and taxation. California's constitution indicates that the Legislature must pass a budget before June 15, and the Governor has until June 30 to sign a budget. Last year's budget cycle

marked the 22nd year in a row that the Legislature did not meet its deadline.¹² By not passing a budget on time, it forced the state to seek private loans with high interest rates to continue its operation. This also provided the minority party with an upper hand to hold the budget hostage if certain demands are not met.¹³ During this year's budget negotiations and despite the structural deficit, tax breaks were included in order to get the votes to pass a budget. These tax cuts may result in \$2.5 billion loss in revenue to the state.¹⁴

A MISSED OPPORTUNITY BY THE LEGISLATURE AND GOVERNOR TO ENACT BUDGET REFORMS

This year, California faced a \$60 billion deficit, as a result the Legislature experienced an unusual budget debate that did not follow the usual protocol. It started with a budget released by the Governor on December 31, 2008. It is customary for the Governor to release his budget proposal on January 10, or days before. Unlike other years that the state faced a deficit, this budget was enacted early, on February, and an eighteen months budget that made adjustments to the current fiscal year and 2009-2010. Unfortunately, this budget did not include any public input because it was a compromise that was reached among the leaders of both parties in both houses and the governor, which are referred as the "big-five." This agreement sought to solve the projected deficit which at that point was estimated to be \$40 billion and the lack of cash flow that the state faced during February. However by the end of June, a new deficit of \$26 billion was projected. This 'new deficit' was partly the result of the economic crisis. However, the budget that was enacted at the beginning of this year overestimated revenues and was based upon the enactment of three ballot initiatives, which the voters overwhelmingly rejected.

The Legislature and the Governor missed an opportunity to start a public debate about deep budget and taxation reforms to ensure that California becomes sustainable. Instead the Legislature and Governor went behind doors to reach a budget agreement that balanced the budget on paper. That package increased the sales tax and included a number of ballot initiatives that would have continued the increase of sales tax until 2012 and imposed a spending cap. Understandably, residents were confused about the initiatives, but most importantly they "disapprove(d) of the leadership in Sacramento."¹⁵ Approval ratings for state elected officials after the budget compromise of February was an all-time low, only 18% of voters approved the work of the Legislature and 39% approved the work of the Governor.¹⁶ Given that the February compromise balanced the budget for no more than four months, the Legislature was forced to continue debating this matter. Unfortunately, during the summer, the winners were anti-tax conservatives because the topic of rising new revenues via taxes was completely off the table, thus the budget was balanced with deep cuts to public services. (Table 2)

The magnitude of the state's deficit called for bold actions by lawmakers to address the root causes of California's financial problems and raise revenues to meet the demand for public programs. In May, several voters were asked to decide on several initiatives that was the product of the February budget agreement, all of these initiatives related to the budget agreement failed. A survey conducted by David Binder Research indicates that the initiatives "failed because voters want real solutions and an end to the political gimmicks, not because the measure extended tax increases."¹⁷ This same survey indicates that voters felt that the special elections embodied the ineptitude by both the Legislature and Governor. In the end, California's families were the losers in this debate as regressive taxes were enacted and funding for public services was slashed.

Actions	February Budget	Revised February Budget	Total
Increase in revenues	\$12.5 billion	None	\$12.5 billion
Borrowing	\$5.4 billion	\$2.182 billion	\$7.582 billion
Overall budget cuts	\$16.2 billion*	\$16.622 billion [^]	\$32.82 billion
Tax breaks for businesses	\$2.5 billion [†]	None	\$ 2.5 billion
Revenue accelerating measures		\$3.5 billion	\$3.5 billion

Table 2

*Includes Governor's line-item vetoed cuts, \$1.3 billion.

[^]Includes Governor's line-item vetoed cuts, \$497 million.

[†] Budget agreements passed by the Legislature in September 2008 and in February included massive corporate tax cuts that will cost the state upward of \$2.5 billion a year when fully implemented. Slipped last-minute into budget deals with no public hearings, these significant changes to state policy will benefit a tiny handful of large corporations.

CHIRLA was formed in 1986 to advance the human and civil rights of immigrants and refugees in Los Angeles; promote harmonious multi-ethnic and multi-racial human relations; and through coalition-building, advocacy, community education and organizing, empower immigrants and their allies to build a more just society.

CHIRLA's State Policy work aims to address and advocate for major immigrant access issues and immigrant workers rights.

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A BUDGET FOR ALL

California's economy is among the largest in the world. But it will continue to suffer. According to the Legislative Analyst's Office, California will face a \$26 billion deficit next year.¹⁸ The failure of the state's economy will be felt not only across the states but also globally. It is in our best interest to get serious about the factors that are causing the state's structural deficit. The Legislature and Governor can no longer cut their way out of the upcoming projected deficit nor run away from the problem. A budget that works for everyone and a serious attempt to bring California back to stability must include deep reforms to the tax system, initiative and budget process.

A reform to the tax system must include closing tax-loop holes that are currently in place, and increase taxes on those who can afford it. The majority of Californians are in favor of this notion. Furthermore, an update to the tax system is also needed to reflect on shift in the state's economy such as finding an effective vehicle to tax services. The initiative process must have oversight to avoid interest groups with vast resources from corrupting this process, and flexibility to manage must be given to the Legislature in regards to earmarked programs approved by voters.

While painful decisions have to be made in order to solve our current deficit. We ask the Legislature and Governor not to eliminate programs that are essential to low-income families, and that programs that suffer funding reduction are able to be fully funded once the economy improves. People across our state are struggling to make ends meet, and our state budget must be responsive to their needs. There is an amplified fear about job losses, how to pay for basic necessities in this time of great need, and lack of funding for public programs such as education, health and human services. A budget for all upholds our values and serves all Californians.

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