

## **BUDGET ILLUSTRATES NEED FOR REFORM**

California has just been handed a budget that does not reflect the desires and priorities of the majority of people in our state. It erodes the California dream of a productive society and a better future for our children. Our state deserves better than this.

Nobody expects that we could navigate this recession without making some painful choices, but this budget makes draconian cuts to programs that will have severe impacts on the most vulnerable Californians. Our schools and colleges will not easily rebound from yet another round of cuts. State funds siphoned from local governments will make it impossible for them to maintain even basic services. Cuts to welfare, health care for low-income families, and in-home services for the disabled and elderly are likely to create greater costs to the state in the long run. These cuts were made despite broad public support for protecting funding for public schools, health care services, and higher education.

Not surprisingly, calls for reform are growing by the day. And the need for change is obvious.

Much of the blame for the failure of our finance system rests on the requirement of a two-thirds vote to pass a budget or raise revenues. California is one of only three states that require a supermajority simply to pass a budget. The two-thirds requirement gives a minority the power to dictate terms to the majority by threatening to vote as a bloc against any additional revenues. The result? Budget stalemates, partisan bickering, and the opportunity for “budget blackmail” demands by swing-vote legislators.

This process has produced budgets with a hodgepodge of cuts, borrowing, and accounting gimmicks that not only denies needed services now, but pushes problems off until next year. For example, this budget, by pushing tax collections ahead and deferring payments until just after the start of the next budget year, guarantees that we will start that year facing a growing deficit.

Reduction of the two-thirds vote requirement for passing a state budget or raising revenues at the state and local levels will break the paralyzing gridlock that now makes effective and responsive government decision-making impossible.

Another much needed reform is a more efficient tax structure that is fair and based on an ability to pay, supports the structure of California’s economy and provides adequate revenues for the programs and services Californians want. Revenue volatility should be addressed, but there are ways to do it that do not sacrifice tax fairness.

Tax expenditures—credits, deductions, and the like—also deserve scrutiny, and should be required to be effective, efficient, and fair. These tax breaks are intended to further a public purpose, such as business tax breaks intended to encourage the creation of jobs. While such tax breaks can be passed with a simple majority vote, rescinding them requires a two-thirds vote.

The Legislative Analyst’s Office (LAO) recommends that tax expenditures programs should be evaluated using the same approach as for direct expenditure programs—by asking whether they are achieving their stated purpose in an effective and cost-efficient manner, or are of low priority. However, these tax expenditures are not reviewed and studied to see if they are producing the expected benefit, because a two-thirds majority cannot be reached to repeal them. The LAO this year urged reconsideration of a number of such tax breaks, which could have saved billions of dollars. Instead, even more were added in the February budget.

The fiscal dysfunction has increased over the years, and the result has been devastating for California. Our state's credit rating has nosedived. Our higher education system—once the envy of the nation—is in decline. Our infrastructure is crumbling, threatening both our economy and our security.

We are at a turning point in California. We cannot maintain the status quo of unreasonable budget manipulations, unsustainable cuts in services, and failure to invest in public facilities and programs. Without reform, we will only continue the constant, draining budget battles that erode public confidence in government, leave systemic problems unsolved, and shatter the California dream.

However, there may be an upside to the budget mess: it has given impetus to calls for reform of a broken process. If the Governor and our legislators cannot commit to fixing our dysfunctional budget system, then it may be up to the rest of us—including ordinary citizens, business groups, and good government organizations—to do the job. All of us must rise to the challenge if we are to make California vibrant, competitive, and productive once again.