



California Family Resource Association

Strong Families. Strong Communities.

THE CFRA CAPITOL REPORT

July 2008

State Budget Update

The state Senate and Assembly resolved their outstanding differences on the budget this month with Democrats proposing to balance the budget with almost \$10 billion in new taxes on high-income taxpayers. Republicans opposed the tax increases but were outvoted by Democrats.

The new tax revenue would significantly minimize the deep cuts to health and human services proposed by Governor Schwarzenegger in May. Republicans called the tax increases “the same old solutions” and vowed to oppose the budget plan when it is sent to the full house for a vote.

Governor Schwarzenegger reaffirmed his opposition to new taxes but continues to leave open the possibility by stating that all solutions should be on the table. Now that legislative Democrats have agreed on a single budget, negotiations should begin in earnest between the governor and legislative leaders.

The legislature has already missed the June 15 deadline to pass a budget and the new fiscal year started on July 1st. It is expected the state will begin delaying payments to vendors by early September. (See State Controller’s website for details on which payments will be delayed: <http://www.sco.ca.gov/eo/fiscalissues/payments.shtml>.)

The Democrat’s proposed tax increases would come from the following sources:

Income tax on wealthy

- Additional Revenue: \$5.6 billion
- Who Pays: The state income tax rate for joint filers whose taxable income is above \$321,000 is now 9.3 percent. The Democrats' proposal would increase

the rate to 10 percent for joint filers who earn at least \$321,000 and 11 percent for those who earn more than \$642,000.

Deductions on net losses

- Additional Revenue: \$1.1 billion
- Who Pays: Suspends the deduction for net operation losses for corporations. Companies that experience a loss now are allowed to take a deduction for the same amount in the following year.

Suspend tax adjustments

- Additional Revenue: \$815 million
- Who Pays: Suspends certain tax adjustments for all income brackets, resulting in a slight increase of income taxes for all individual taxpayers. Higher-income taxpayers would pay more income taxes. For example, a taxpayer whose taxable income is \$50,000 would see an increase of about \$34 a year, while a person whose income is \$97,000 would pay about \$180 more.

Corporate tax

- Additional Revenue: \$470 million
- Who Pays: The top corporate tax rate would be increased from 8.84 percent to 9.3 percent. Democrats say the change would restore the top rate to what it was before being reduced in 1997.

Dependent credit

- Additional Revenue: \$215 million
- Who Pays: The dependent credit for taxpayers whose adjusted gross income is more than \$150,000 would be reduced from \$294 per child to \$94 per child.

Tax amnesty

- Additional Revenue: \$1.5 billion
- Who Pays: Institute an amnesty program that allows individuals and companies that have fallen behind on their tax payments to pay them without penalty.

Who are the “Big 5?”

The Assembly and Senate have resolved their differences between their respective budgets therefore we will begin to hear a lot about the “Big 5.” So just what is the Big 5 and what does it have to do with the budget?

The Big 5 refers to the group of legislative leaders from each party and the governor. Together, this group is tasked with negotiating the final budget details that were left unresolved by the legislature. The group meets in private (usually in the governor's office) and no one really knows when they are meeting or the details of their discussions. While the Big 5 may sound undemocratic, the reality is that these five leaders are much better positioned to reach a compromise deal on the budget than negotiations between 120 legislators deliberating in front of television cameras.

The Big 5 consists of the following legislative leaders:

Governor Arnold Schwarzenegger – The Republican governor releases his initial budget proposal in early January and then submits a revised budget in May. The Governor's budget sets out his spending priorities for the year and is the document that each house responds to during budget committee hearings. The Republican governor is opposed to new taxes but has left open the possibility that he would support some increases.

Senate Pro Tem Don Perata – The Democrat from Oakland was elected to the Senate in 1998 and was appointed by his fellow Democrats in the Senate as their leader three years ago. Perata is a former school teacher and county supervisor and oversees his party's priorities within the budget negotiations. Perata is a strong supporter of raising taxes to spare children and families from deep program cuts.

Senate Republican Leader Dave Cogdill – The Republican from Fresno was appointed by his fellow Republicans in the Senate to represent their interests in 2008. Cogdill is a former real estate appraiser and a staunch fiscal conservative. Cogdill will vigorously oppose any new taxes.

Assembly Speaker Karen Bass – The newly appointed Democratic leader in the Assembly is from Los Angeles and a former community organizer with strong interests in foster kids and families. This will be her first budget negotiation as Assembly Speaker but most expect her to fight hard against deep cuts to health and human services.

Assembly Republican Leader Mike Villines – The Republican from Clovis is a former public relations executive before being elected to the Assembly in 2004. He was appointed leader of Assembly Republicans in 2006 and has worked through one budget negotiation. Like his Senate counterpart, Villines will strongly oppose any new taxes.

The Threat to First 5

As reported last month, Republicans are increasingly eyeing approximately \$2 billion in First 5 funds as a partial solution to the state's budget crisis. In reality, most of the First 5 funds are already encumbered to various programs and therefore it would be difficult to redirect the majority of this funding. However, it is estimated that approximately \$400 million in First 5 funding is not encumbered and therefore at risk of being taken by the legislature.

First 5 funds are an attractive target for Republicans because the funding could be available quickly to address the state's immediate cash flow needs. Alternatively, proposals such as borrowing against future revenue from the state lottery would take as much as a year to implement.

The Governor and legislative leaders (the Big 5) will begin deliberations on the budget shortly. It is imperative that CFRA members make their voices heard and ask their representatives and the Governor to reject any attempts at taking First 5 funds.

TAKE ACTION

Please visit CFRA's website (www.californiafamilyresource.org) for background information on First 5 and a sample letter you can use to send to your representatives. This is the time to make yourself heard!

CFRA Working for You

CFRA has been working hard to advance legislation in Sacramento that will help families who are struggling to stay out of crisis. Below is a selection of some of the key bills we are actively supporting on your behalf:

AB 1887 (Beall) – Requires health care service plans and health insurers to expand coverage for mental health services to include all persons with any of the disorders identified in the Diagnostic and Statistical Manual of Mental Disorders.

AB 2123 (Lieu) – Establishes the California Financial Literacy Initiative and authorizes the State Controller to convene a Financial Literacy Advisory Committee to establish and oversee a California Financial Services Corps.

AB 2262 (Torrico) - Allows the safe surrender of a baby up to 7 days old rather than the 72 hours permitted under existing law. Permits a fire agency to designate a safe surrender site, upon approval of the local governing body and indemnifies a safe surrender site and its personnel from criminal, civil, or administrative liability for a surrendered child prior to taking actual physical custody of the child.

AB 2368 (Fuentes) - Excludes the value of a licensed motor vehicle from consideration when determining eligibility for CalWORKs.

SB 32 (Steinberg) - Expands Medi-Cal and Healthy Families Program (HFP) eligibility to cover all children with family incomes at or below 300% of the federal poverty level (FPL). Establishes a HFP Buy-In Program for children in families with family incomes above 300% FPL.

Legislator Profile

This is part of a continuing series of California legislator profiles aimed at providing CFRA members insight into who is making decisions in on their behalf in Sacramento.

Gene Mullin was elected on November 5, 2002 to represent the 19th District of the California State Assembly, following seven years as a South San Francisco City Councilmember, two of which he served as Mayor.

Assemblymember Mullin is the Chairman of the Assembly Committee on Education. He was the Chair of the Assembly Committee on Housing and Community Development in 2005 and 2006. His tenure in the legislature has been marked by numerous distinctive awards including California State University 2006 CSUperb Legislator of the Year, California Coalition for Children's Health and Safety 2006 Legislator of the Year, League of California Cities 2005 Legislator of the Year, California Healthcare Institute 2005 Visionary Award, BayBio's 2004

DiNA and the California County Boards of Education 2003 Legislator of the Year. Gene Mullin's history in the 19th Assembly District began at South San Francisco High School, where he taught government and coached basketball for 32 years. He is most often described by his former students as "my favorite teacher."

Assemblymember Mullin has won multiple awards for excellence in public education, including San Mateo County "Teacher of the Year" in 1991 and the California Teachers Association's 1996 State Teacher of Year in Politics.

Assemblymember Mullin's lifelong dedication to public service includes an appointment to the South San Francisco Planning Commission that voted to approve Genentech in 1976. He was a member of the city's Historical Preservation Commission from 1986-1992 and the South San Francisco City Council named him Citizen of the Year in 1979.

Gene Mullin graduated with a B.A. in Political Science from the University of San Francisco in 1960 and holds a Lifetime Secondary Teaching Credential from University of San Francisco. A lifelong resident of the Bay Area, he and his wife Terri have two children, Jennifer and Kevin, and three grandsons, Austin, Jonathan and Colton.

What's Next in the Capitol?

The capitol has now shifted its focus on the budget as the deadline to pass the budget was June 15th. Action on legislation will be limited to fiscal committees with floor votes resuming in August. The legislature is hoping to wrap-up the 2008-09 legislative session on August 22nd so that Democratic members can attend the Democratic Convention in Denver.