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The California Budget Project's Top 10 May Revise Questions For Governor Schwarzenegger

1. **What is the starting point for the estimate of the budget gap?** There's a lot of confusion over the starting point for discussions of the widening budget gap. What is the starting point? The \$14.5 billion identified in the Governor's January Budget? The \$16 billion identified by the Legislative Analyst in February? Or the roughly \$8 billion gap remaining after the mid-year reductions enacted in February?
2. **How big is the gap, really?** There is some speculation that the Department of Finance may pad estimates of the size of the shortfall. As of the end of April, revenue collections for 2007-08 were \$738 million above the Governor's January Budget estimate, thanks to the strength of personal income tax receipts. While most economic indicators have weakened since the beginning of the year, many observers believe that the Federal Reserve's actions aimed at stabilizing financial markets are working and that the downturn may not be as severe as initially believed. Nationally, for example, first quarter GDP growth was positive, suggesting that the economy has not formally entered a recession.
3. **Should California gamble on the future?** Reports suggest that the Governor will propose the sale or lease of the California Lottery to a private operator. Prior budgets have been balanced, in part, with the proceeds of expanded tribal gaming. Proposals to sell or lease the lottery assume an increase in lottery ticket sales through new games and/or increased marketing efforts. Should the state seek to address this year's budget crisis by encouraging more Californians to gamble more of their incomes? Last year, your administration argued that the state would receive \$1 billion from the sale of EdFund (see below). Why should we accept your estimates of what the sale of the lottery might raise? If the lottery is sold or leased, what happens to funding for education? Will education continue to receive at least 34 percent of lottery sales as provided under current law?
4. **Would your proposed Budget Stabilization Act have generated sufficient reserves to head off this year's budget crisis?** The Governor claims that his proposal will "Ensure Californians never have to face such drastic cuts again." Could the state have avoided the need for borrowing or budget cuts during the early years of this decade if the voters had approved your proposal in 2008? If the Budget Stabilization Act had been enacted a decade ago, how much would be available in the Revenue Stabilization Fund to address the 2008-09 shortfall?

5. **How much of the widening gap is due to lower than anticipated bids for EdFund?** The 2007-08 Budget assumed that the state would receive \$1 billion from the sale of EdFund to a private operator. The Governor's January Budget downgraded the estimate of the sales price to \$500 million, and recent reports suggest that the final sales price will be far less. What lessons does the state's experience with EdFund offer for proposals to lease or sell the lottery?
6. **What impact has Proposition 1A of 2004 had on the cost to the state of backfilling local governments for revenues lost because of the VLF tax cut?** The Governor strongly supported Proposition 1A of 2004 which "locked in" local government revenues after allowing a temporary property tax shift. As a result of this measure and related legislation, counties and cities now receive property tax revenues formerly allocated to schools instead of backfill checks from the state. (Schools were, in turn, backfilled by a dollar-for-dollar increase in state funding). What impact has this had on the state budget?
7. **Would you, as Governor, take steps to roll back "autopilot spending," including autopilot spending that you supported earlier in your administration?** The Governor has faulted autopilot spending for the state's budget shortfall. Yet, prior to running for office, the Governor led the campaign to lock in \$550 million per year in spending for afterschool programs and, while in office, the Governor has championed ballot measures to lock in spending for local governments (Proposition 1A of 2004) and transportation (Proposition 1A of 2006), and that boost the state's spending for infrastructure (the \$42.7 billion bond package approved by the voters in November 2006).
8. **How do you reconcile the recommendations made by your Commission on Education Excellence with your proposals to make deep reductions to school spending?** The recommendations made by the Commission would, by the Commission's own estimates, cost \$10.550 billion per year to fully implement. Yet, the Governor's January Budget proposals reduced Proposition 98 spending for K-14 education by \$4.8 billion in 2007-08 and 2008-09 combined. How does the Governor reconcile these two figures in light of studies that show California students continuing to lag behind in academic achievement?
9. **How much will California lose in federal matching funds because of your budget proposals?** The federal government matches most state funding for Medi-Cal on a dollar-for-dollar basis. The administration's own estimates show that the state will lose nearly \$1.2 billion due to your proposed cuts to Medi-Cal and the Healthy Families programs. How many federal dollars will California lose under your proposals? Administration staff have argued that they believe the federal government will allow the state to cut special education funding without losing funding matching dollars. Would you restore these funds to local school districts if, in fact, your proposal would result in the loss of state *and* federal funds?
10. **In the absence of your proposed early release program, what steps will you take to rein in rising corrections costs?** Over the past generation, the corrections system has been the "Pac Man" of the state budget, growing from about 3 percent of General Fund spending in 1980-81 to 9.6 percent in 2007-08. Corrections spending has increased at a rate approximately four times that for the General Fund as a whole, constraining the state's ability to support education, health care, and other critical services. What steps do you think California should take in both the short- and long-term to stop corrections spending from consuming a larger and larger share of the state budget?