



January 11, 2013

Gov. Jerry Brown announced on Thursday, January 9th, that California no longer faces a budget deficit. The spending plan he released calls for a \$2.7 billion increase in K-14 education in a \$97.7 billion general fund budget for the fiscal year that begins July 1 but generally holds the line elsewhere. The governor's director of the Department of Finance, Ana Matosantos, addressed the Legislative Analyst Office's (LAO) prediction that the budget would be nearly \$2 billion in the red by explaining that the proposed budget reassessed how much special fund borrowing would need to be repaid this year, she discounted the LAO's forecast of erosion in "redevelopment assets" flowing to the state, and noted that the General Fund commitment to K-14 education would be reduced by \$500 million due to state's expenditure of Prop. 39 revenue to help reduce utility costs through alternative energy investments.

At his [press conference](#), the governor waxed philosophically about "the progressive agenda." He said the fruits of our prosperity have flowed disproportionately to capital away from labor. He also restated one of his favorite factoids regarding the top one percent of Californians earning 22 percent of state income last year whereas they were at just 10 percent 30 years ago. Stating that it is a classic case of justice, he justified a controversial proposal to modify education funding by saying "to unequals we must give more to approach equality." His proposed K-12 education funding formula would eliminate categorical programs and redistribute most of the categorical funding under a new formula providing greater revenue to districts with low-income students based on their eligibility for free or reduced price meals, and non-English speaking learners. Also, 50 percent of the growth in Prop. 98 sending to districts will be based on the proposed formula. The other half of the growth in funding would be used to repay districts for previous deferrals in funding. The new formula will constitute a massive shift in school funding that the governor said is absolutely necessary because children have more difficulty learning due to a disparity in wealth.

The governor's budget will also give each state university system an extra \$250 million. The addition is not as much as the University of California and California State University had hoped, so it remains to be seen whether university officials will pursue tuition hikes. The governor said he will encourage the UC Regents and the CSUS Trustees to hold the line on tuition increases and to provide greater emphasis on undergraduate education.

The governor promised to "hold the line" on spending just like a "governor on a machine" because there are continuing budget risks including federal deficit actions, uncertain economic recovery, federal government courts blocking budget actions, and potential increases in health care costs. He said we must avoid the boom and bust budgets of the past where exuberant spending due to new sources of revenue ultimately leads to a hangover with required spending cuts. The spending proposal would also start to

pay down the so-called “wall of debt” to \$4.3 billion by 2016-17. California’s debt amounted to \$34.7 billion at the end of the 2010-11 fiscal year and \$27.8 at the end of 2012-13 based on the proposed budget. The bulk of the debt is Prop. 98 deferrals of K-14 education.

The governor calls for a \$1 billion reserve, but its creation does not rely on severe cuts to get there unlike previous years. Instead, he relies principally on two Medi-Cal related taxes on managed care and hospitals that are intended to draw down additional federal funds. The taxes require a two-thirds vote but the payers generally have been supportive because they get reimbursed back with the additional federal money.

The governor’s revenue estimates, always the trickiest part of any state budget proposal, are based on continued moderate growth in California’s economy to produce an improvement in General Fund revenue. In addition to improving economic conditions, the passage of Prop. 30 and Prop. 39 will increase revenue by \$3.2 billion to the General Fund in 2012-13, and by \$5.8 billion in 2013-14.

Proposition 30 is estimated to increase Personal Income Tax revenues by \$3.2 billion in 2011-12, \$4.8 billion in 2012-13, and \$4.9 billion in 2013-14. It is estimated to increase Sales and Use Tax revenues by \$611 million in 2012-13 and \$1.3 billion in 2013-14. Whereas Prop. 39 is estimated to increase Corporation Tax revenue by \$440 million in 2012-13 and \$900 million in 2013-14. Overall revenue is expected to be \$95.4 billion in 2012-13 and \$98.5 billion in 2013-14.

In the coming weeks, we will be analyzing and reporting on specific budget proposals in the areas of [Natural Resources](#), [Environmental Protection](#), and [Labor and Workforce Development](#). We don’t believe there will be any additional cuts in the Department of Food and Agriculture’s budget and, unfortunately, Williamson Act subvention funding is once again proposed at only \$1000. This is essentially a placeholder amount since it is the smallest amount that can be proposed in a budget that counts numbers by thousands of dollars.

Of course, the budget now goes to the legislature for their consideration and action. It appears there is a spirit of cooperation from both sides of the aisle regarding the governor’s budget although some from the democratic camp would like to restore some of the health and welfare programs that have experienced sharp reductions in recent years. Interest groups favoring these programs will be advocating for restoration but the governor has made it clear that paying down debt and building a reserve is his priority.

At the opening of the new legislative session, Senate President Darrell Steinberg (D-Sacramento) introduced legislation substantially amending the mandatory mediation provisions of the Agricultural Labor Relations Act (ALRA). [SB 25](#) would allow a union certified as a collective bargaining agent before January 1, 2003 to immediately force an employer to mandatory mediation. This is undoubtedly intended to facilitate the UFW’s recently-adopted tactic demanding employers bargain on the basis of years- or decades-old collective bargaining certifications. SB 25 also severely limits any due process an employer may have to appeal a mediator’s order to a court. In addition, SB 25 will impose the obligation to bargain on any subsequent purchaser or all or part of an employer who had an obligation to bargain under the ALRA.

Assemblyman Luis Alejo (D-Salinas) has again taken up the cause of raising the California minimum wage by introducing [AB 10](#), also on the first day of the new session. AB 10 will raise the state’s minimum wage to \$8.25 per hour on January 1, 2014; to \$8.75 on January 1, 2015; and to \$9.25 on

January 1, 2016. Beginning on January 1, 2017, AB 10 will index the minimum wage to the California Consumer Price Index, and prohibits any future reduction in the minimum wage should consumer prices go down rather than up.

In an unprecedented move, the California State Assembly Rules Committee made a decision this week to no longer refer pesticide legislation to the Assembly Agriculture Committee. Instead, under this change of jurisdiction pesticide bills will be heard in the Assembly Environmental Safety and Toxic Materials Committee (ESTMC) chaired by Luis Alejo (D-Salinas). Other current members of the ESTMC committee are: Brian Dahle (R-Bieber), Vice Chairman, Richard Bloom (D-Santa Monica), Tim Donnelly (R-San Bernardino), Bonnie Lowenthal (D-Long Beach), Mark Stone (D-Scotts Valley), Phil Ting (D-San Francisco).

Historically the statutory location dictates the legislative committee jurisdiction. Pesticide statutes are located in the Food and Agricultural Code, thus such legislation has always been referred to the Assembly Agriculture Committee for at least one hearing by that body. This is an extremely bad precedent. This switch prevents the opportunity to insure pesticides obtain a fair and judicious hearing by legislators who represent rural areas and could have a better understanding of agricultural issues.

We have been told by Rules Committee staff that legislation related to the Department of Pesticide Regulation will still be referred to the Agriculture Committee.