



California Council of Churches **IMPACT**

Ballot Recommendations *for the May 19, 2009 Statewide Special Election*

CA Council of Churches IMPACT Calls for REAL Budget Reform

The six propositions on the upcoming May 19 ballot are symptomatic of the massive dysfunction of California's budget process. These six propositions do not offer real solutions to our budget problems, and will render future budgets incapable of meeting real human needs.

Since Proposition 13 passed in June 1978, California has marched steadily toward the crisis we have today. The "tax revolt" of 1978 was very real. Homeowners, especially seniors, were threatened with losing their homes to soaring tax bills linked to unrealistic property valuations. Proposition 13 was portrayed as a way to protect those at risk from tax hikes. However, it also had far-reaching consequences by hobbling the state Legislature from being able to do a thoughtful, rational job of meeting California's growing needs with adequate tax resources.

Proposition 13 allows the Legislature to cut any tax with a majority vote but prohibits the creation or restoration of any tax without a 2/3 vote. Neither party has a 2/3 majority. This causes the annual budget paralysis and habitually late budget votes. It also has strangled our state's fiscal resources. We have provided huge tax cuts for upper-income individuals, corporations, and for some middle-class rates such as the Vehicle License Fee. Once those are cut, they cannot be restored to their traditional levels because there are not enough votes. Had just the personal tax on upper income and the VLF cuts been restored, the state would have had an additional \$16-20 billion per year to meet our state's needs.

With revenues dwindling, and in frustration with this system we ourselves have put in place, voters have repeatedly sought to protect important services such as education. We approved several special Constitutional amendments guaranteeing some programs full payments but *with no tax resources by which to support those demands*.

We have become a state of mixed "entitlement" pressures. Will we continue services for those in need? Will we continue tax cuts for those who have significant private resources? These increasingly partisan divisions have also become, intended or not, a divide on class and race, on who is "worthy" of our budget spending and who is not. Because of the power of the minority, we give permanent tax breaks to corporations and the very well-to-do. Simultaneously we cut social programs and restrict eligibility to those resources. We have chosen privilege over justice through minority control of our budget process.

In the early 1980s Boston Globe columnist Ellen Goodman asked, "Why do the rich need incentives and the poor need desperation?" Nearly 30 years later, California has not answered her question.

As a secular, fiscal document, a state budget is also a moral document that says what and whom we value. As people of faith, we strongly believe that government has a significant role in lifting up people whom the private sector has abandoned or cannot help. Our private sector has faltered severely and many people have lost employment or been forced from their homes. We also have an increasing aging population, and this state faces the need for more and more services. Demand for and the cost of services such as health care will outpace inflation. How will we respond?

Because of Proposition 13, we cannot respond thoughtfully and with compassion. With the power of the minority to hold the budget hostage with their votes, deals are made to obtain those votes. And in those deals, political biases are made manifest. This year, in exchange for one or two votes, we have cut massive services in medical care, basic income supports, and public education. These cuts fall most heavily on those who are poor who are also often people of color. This is not an accident.

The May 2009 ballot propositions do not affect this outcome. Some taxes were temporarily increased as part of the "deal" ratified by the Governor in February, but the program cuts were still made, some of them permanent. None of the ballot measures will add money to restore those programs, and the point of the propositions is to assure that demands from those in need will receive the lowest priority now and in years to come. Others will actually cost us revenue. Proposition 1C to sell off future earnings of the lottery through a bond will "rob Peter to pay Paul — with interest." This is not good fiscal sense.

The propositions extend the duration of those new taxes; they do not create them. We will have that tax revenue through 2010. However, the taxes themselves are highly regressive. Rather than opting to restore the traditional upper-income tax rates, cut by 2 percent in 1998, we all will pay the additional 1 per cent sales tax. California does have a modestly progressive tax rate structure, but the lowest income people pay the greatest percentage of their income in taxes which is compounded by the sales tax that they, unlike the wealthy, cannot avoid. This is profoundly troubling. In a time of deep recession, this state is shifting the responsibility for maintaining our budget to the populations who have lost the most in both service cuts and the current recession.

Why are we not counting the federal economic stimulus money? The “deal” to get the budget votes arbitrarily demanded that California had to receive \$10 billion in federal funding or these program cuts would have to be made and the proposed tax hike would go forward. California Budget Project (www.cbp.org) noted that we will receive some \$30 billion in direct programmatic relief, which should have stopped the cuts and lowered the tax rate, but on March 27 the Department of Finance and the state Treasurer decided not enough of the federal money “qualified” to prevent the cuts.

Why? Because some legislators wanted the higher temporary tax increase. Others wanted the service cuts. We got both, with the burden falling on those most at risk.

The cuts include Medi-Cal optional benefits (dental, vision, psychological help, and even incontinence care); cuts to monthly cash grants for rent and other non-food items for those seeking to get out of poverty; elimination of cost of living increases for the disabled; cuts to In Home Supportive Services allowing those with disabilities to remain at home; cuts to IHSS pay from \$12.10 to \$9.50 per hour thereby driving many providers to other jobs; cuts to higher education and many more. One disabled woman noted that without her incontinence supplies, she adds an additional \$100 per month to her spending on an income of about \$800 per month. And on disability, she does not qualify for food stamps.

The Propositions will solve none of these problems, but they create far, far more difficulties now and down the road.

If we vote NO on these six propositions, and since we have to reopen the budget due to another state revenue shortfall, the Legislature and Governor may be forced to include the \$30-plus billion in federal economic stimulus as part of our budget solution. To date, we have no suggestions from either the Legislature or the Governor as to how the federal money will be used, even though that money is directed to assist California to meet its current budget services.

As people of faith, we believe cuts for those most severely at risk is fundamentally immoral. We are not without resources, thanks to the federal dollars, but we are being told we have no choice but to lock in budget limitations from now through the unforeseeable future. We are still postponing dealing with our Proposition 13-created structural budget problems, but we are sacrificing real human beings whose needs are dire and whose ability to sustain themselves is severely limited.

The budget is a moral document, and to those of faith, our commandments are clear: “One who oppresses the poor to increase one’s wealth, and one who gives gifts to the rich – both come to poverty.” (Proverbs 22:16) and “From one, to whom much is given, much is required.” (Luke 7:48)

We must change the focus of our tax laws, of our governance, of our society. Passing these ballot propositions not only postpones this day of reckoning, but also creates hardship for those in the middle and working classes, and especially for the growing numbers facing unemployment, uninsurance, and homelessness. The time for all Californians to renew their commitment to a moral budget begins with refusing to be misled with false promises.

We have the resources to give us the time. Now we must have the will. California Council of Churches IMPACT would support these ballot measures if they provided real reform to make the budget process accountable and provide the Legislature and Governor with the tools to do their job. These measures do not accomplish that goal and actually worsen the “robo-budgeting” that robs this state of its necessary leadership. We therefore must recommend voting NO on all six propositions.

Proposition 1A: State Budget. Changes California Budget Process. Limits State Spending. Increases “Rainy Day” Budget Stabilization Fund.

————— California Council of Churches IMPACT Recommendation -

OPPOSE

As part of the 2008-09 and 2009-10 “deal” that was ratified February 20, 2009, certain taxes were increased and mandates for controls over future spending were authorized. Both require voter approval. Nothing in this proposition will eliminate the taxes. They will simply be extended for longer periods beyond 2010. The taxes are:

- Increase of 1% in the state sales tax through June 30, 2011. Proposition 1A extends the sales tax to June 30, 2012.
- Increases the state Vehicle License Fee from the current .65% of assessed car value to 1.15%. The increase will expire June 30, 2011 unless Proposition 1A passes in which case it will continue to June 30, 2013.
- Increases personal income tax rate by 0.125% expiring June 30, 2010 unless extended to 2012 through Proposition 1A. The emphasis of Proposition 1A is not on providing services but on controlling the ability of the Legislature to meet growing and changing needs in our state. Proposition 1A mandates the creation of a highly-controlled “rainy day fund,” the Budget Stabilization Fund (BSF), that would take 3% of our scarce revenues annually until we had a fund worth 12.5% of the yearly budget. While a fund is a very

good idea and already in place, these revenues would be tightly regulated and not readily available for most health and human service growth in need or costs.

All budget spending would be capped, based on the average of the past 10 years, the last 8 of which have included the worst recession in contemporary history. Even when the economy improves, we could not restore cuts made in bad times. Future spending is curtailed further by the rate of consumer spending, a highly inaccurate index of costs. Health spending alone grows at four times the consumer price index. We are also facing a rapid increase in our “baby boomer” senior population who will have many services requirements. Automatic spending restrictions mean thousands of people could be denied housing, nutrition, and health care. Furthermore, when mid-year cuts might be required, the Governor alone could make these decisions without participation by the Legislature. We already voted this proposal down in 2005. Unilateral power vested in the Governor is not good for democracy.

Proposition 1A creates more “ballot box budgeting” and more “robo-budgets” that have no realistic link to our state’s population, growth, or needs for services. There is no urgency that requires we pass this measure. We will have the taxes we need for the current crisis. It is imperative that we do not harm our democratic decision-making processes and our legislators’ ability to speak in our interests, now and in the future.

Proposition 1B: Education Funding. Payment Plan.

California Council of Churches IMPACT Recommendation -

OPPOSE

Proposition 1B is dependent on the passage of Proposition 1A. As a highly-technical ballot measure, simply stated, it locks in future education funding via formulae different from the existing Proposition 98 guarantees voters passed in 1998. Part of the plan will be how to restore what was cut from Proposition 98 over the past few years, but the state already has the ability to make these repayments without Proposition 1B or 1A.

We support the repayment. Some teachers’ groups are in support of 1B precisely for this reason. The status of California schools is already dire without cuts in funding. However, this ballot measure makes it less likely we will spend wisely and generously on our state’s pupils in the future. This second version of automatic budgeting is not intended to improve our state’s educational system but to take away flexibility in meeting upsurges in enrollment, increased operating costs, or expanding and restoring programs that were already cut. We therefore cannot support this proposition.

Proposition 1C: Lottery Modernization Act

California Council of Churches IMPACT Recommendation -

OPPOSE

In 1984 voters passed an initiative that established the state lottery. Half the money raised by the lottery goes to winner pay-outs, 13% for operating costs, and the rest, that must total a minimum of 34%, to education from kindergarten through university.

Proposition 1C 2009 would do several things.

- It would allow the state to borrow against future revenue by issuing bonds upon which the state must pay interest as well as principal from the General Revenue. Immediately it would introduce \$5 billion into the General Fund, but it would have to be repaid to bond holders. California is currently at the bottom of all 50 states in credit standing, meaning that the interest rates would be extremely high. We could easily be required to pay more than double the face value of the \$5 billion bond. This is “robbing Peter to pay Paul with interest.” It’s poor fiscal sense.
- No money would ever again be directed to education from the state lottery. While that is a small portion of K-14 spending, this nevertheless increases the amount due to education through Proposition 98 from the General Fund.
- It would expand the lottery outlets throughout the state to try to increase revenues from gambling. Lottery outlets would be far more numerous than they currently are. Especially in a recession, encouraging gambling to shore up a budget is utterly immoral.

Failure to pass 1C does create a current budget shortfall of \$5 billion. However, once again, no legislative or executive calculations are looking at the federal stimulus to close some or all of that “hole” in the current 2009-10 budget, which should be our first priority ahead of encouraging gambling.

Proposition 1D: Protects Children’s Services Funding. Helps Balance State Budget.

California Council of Churches IMPACT Recommendation -

OPPOSE

This proposition “temporarily” redirects \$5 billion from “First 5” program budgets to fund child health and social services over the next five years. It does anything but “protect” children’s services funding.

“First 5” was created by Proposition 10 in 1998 to use tobacco tax money to fund a wide variety of programs benefiting pre-school children, from birth to 5 years old. Each county has a First 5 Commission with wide latitude to create programs ranging from preschool to health coverage to prenatal and dental care along with good anti-smoking programs. Much of county First 5 money is saved and encumbered by future contracts and plans for capacity building to add more and wider services. In some counties, the First 5 Commissions have been able to provide universal health coverage to all the county’s children. Because tobacco use is declining, the Commissions have had to exercise good stewardship over what funds they have been given to keep safe the programs they started

However, the state legislature has decided those encumbered but unspent funds are ‘surplus’ and therefore ripe for the picking. Proposition

1D will take a proposed 50% of those funds from each county, leaving First 5 with no way to build new capacity and even to cover existing contracts. In one county, plans for universal dental care will have to be scrapped. Because tobacco taxes are down, the decision to take \$340 million the first year and \$268 million in each of the four succeeding years, it is possible that after three years a given county could have their reserve funds totally gone and that the percentage would actually be 60-70% of First 5 revenues.

Taking money from First 5 to cover state budget issues on other children's programs is hard to justify. Proposition 1D violates the will of voters who twice approved these funds for local health, education, and antismoking programs. Prop. 1D also replaces voter-mandated local control with Sacramento decision-making.

Proposition 1E: Mental Health Services Funding. Temporary Reallocation. Helps Balance State Budget.

California Council of Churches IMPACT Recommendation -

OPPOSE

This Proposition will redirect funds from the 2004 voter-approved Proposition 63 that set up a statewide system of county and local mental health programs. These programs were supported by a 1% additional tax on upper-income earners and was restricted to be used for only these local mental health programs.

Proposition 1D directs \$230 million per year for two years (2009-10 and 2010-11) to fund a federally mandated mental health screening program for children and youths under 21 (Early and Periodic Screening, Diagnosis, and Treatment Program – EPSDT). It is a draw on the state General Fund to meet this federal requirement. Legislators are now looking to the Prop. 63 money as a source of revenue by which California can meet this federal mandate.

Taking this money from the counties means each jurisdiction could incur major costs in homelessness, social service programs, jails and prison operations, and other outflows from their mentally ill populations once again going untreated. Many of the federally-directed pediatric and youth screenings are already done at the county level although the state does share the greater cost than the counties.

California Council of Churches IMPACT originally opposed Proposition 63 due to the concern that the money from the new 2004 tax increase should go to the General Fund. However, we did support the principle of increased and improved local mental health programs. Proposition 1D is now being set up as a 'cash cow' to cover the General Fund mental health mandates.

Destroying much of the Prop. 63 county mental health system, now that it is finally in place, is a highly risky process. Even for two years, capacity can be permanently lost, and people who need services permanently harmed. \$230 million is a fairly small amount that on the local level does significant good, but at the state level may not be as effective, even in meeting the federal requirement.

Proposition 1F: Elected Officials' Salaries. Prevents Pay Increases During Budget Deficit Years

California Council of Churches IMPACT Recommendation -

OPPOSE

California voters created a Commission that sets salaries for the Legislature and all other Constitutional officials including the Governor, Treasurer, etc. The Commission has no control over per diem payments for lodging, meals, and other expenses when Legislators are in Sacramento where they do not permanently live. These expenses are tax-free.

Currently, the Constitution does not list the financial condition of the state as a factor the commission must consider when setting the pay and benefits of these officials. In addition, Proposition 6 — approved by voters in November 1972 — prohibits the reduction of elected state officials' salaries during their terms of office.

Obviously pay raises in a recession are not good sense. Proposition 1F, however, has a small fiscal savings, if any, since the Commission does not grant raises every year. But since this measure has no effect on per diem amounts, it is not clear there would be a real benefit if the tax-free portion of support is unregulated as well.

In 2004 California Council of Churches IMPACT did support Proposition 56, which called, in part, to restrict pay from Legislators when the budget was late, but raises were not an issue. This measure is punitive and unnecessary and serves no real good. Voting should be for something other than venting one's frustrations, especially when it has no socially meaningful purpose.

Spread the Word!

We encourage members and friends to distribute these ballot guides from now until the election through "IMPACT Sundays." Share them with members of your own congregation plus other churches, temples, synagogues, mosques, and temples and any other places of worship. Please ask for permission first if you are distributing inside any place of worship or feel free to stand outside to distribute them. We thank you for your interest in encouraging active deliberation on these and all issues that affect our democratic process and our moral perspectives as people of faith. If you find these recommendations helpful, please help defray the considerable cost with a contribution to California Council of Churches IMPACT. Make your check payable to IMPACT and send it to 4044 Pasadena Ave, Sacramento CA 95821 or contribute through PayPal online at www.churchimpact.org.