

California nears record in spending plan stalemate

By Steve Wiegand - swiegand@sacbee.com

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With California on the verge of another dubious record in the Great Budget Debacle of 2008, it would seem prudent for state officials to be preparing for a worst-case scenario.

Trouble is, no one seems to know what that might be.

"I don't think that we can predict the impact of not having a budget in place in the near future," said Hallye Jordan, spokeswoman for state Controller John Chiang. "We know what the pain has been."

Saturday will mark the latest into a fiscal year (which started July 1) that the state has ever gone without a budget. On Monday, lawmakers surpassed their Aug. 31 record for the latest the Legislature had ever approved a budget.

And there is no discernible end in sight. There has been talk in the Capitol about a "half-a-loaf" compromise. The idea is to pass a bill that would allow the controller to make payments to programs he cannot now pay without a budget.

Those include community colleges, some elementary and high school programs, programs that provide medical services to the needy, social service providers and recipients, and private companies that peddle goods and services to state agencies.

Should legislators and Schwarzenegger fail to reach a deal by the end of this month, Chiang has said those groups will be shorted \$7.6 billion in state payments.

That's on top of the total of \$4.25 billion they were stiffed in July and August.

Thursday, Assembly GOP leader Mike Villines renewed a call for an emergency bill to free up money for Medi-Cal patients, programs for the developmentally disabled and 24-hour care services.

"We should all be able to agree that Californians should not have to suffer because we can't agree on the budget," Villines said.

But the governor, who has said he's ready to spend Thanksgiving without a budget, has made it clear he's not in the mood for half a loaf.

"This is the year," he said in Placerville on Wednesday. "The people of California have to finally say, 'Look, you have done this now for decades. You have borrowed, you have increased taxes, you have promised us to fix the system once and for all, and you didn't."

"The legislators should this time fix the problem."

Decision on borrowing is ahead

While lawmakers and the governor exchange punches, it's business as usual for most state and local programs.

Local governments and some medical providers are still being paid. Elementary and high schools are still getting most of their state money.

So are state employees – at least for now. In late July, the governor decreed that to help the state pay its bills, he was cutting the pay of about 180,000 state workers to the federal minimum wage of \$6.55 an hour (\$11.38 for bosses) until a budget is in place.

But Chiang declined to comply, contending that the state has enough cash to cover its \$2.7 billion-a-month payroll.

The clash of constitutional officers is before a federal court but almost certainly won't be resolved before monthly paychecks are printed in mid-September. In the meantime, officials say that a worst-case scenario in which state government shuts down isn't likely.

For one thing, tax revenues were higher than anticipated in July, giving officials a little more breathing room. Revenue figures for August should be known early next week.

And there's always borrowing.

Even in normal years, the state periodically borrows money through Revenue Anticipation Notes (or RANs), because when tax revenues come in doesn't always match when bills come due.

But RANs have to be repaid in the same budget year in which they're issued, and there has to be a state budget in place to make the note holders – banks and other large financial institutions – comfortable that the notes will be paid in a timely fashion.

When there's no budget, the state must fall back on Revenue Anticipation Warrants (RAWs). These cost considerably more than RANs. Not only do they carry higher interest rates, but lenders also charge "credit enhancement fees" for taking on riskier debt.

The last time the state issued RAWs – \$11 billion worth during the 2003 budget crisis, – the fees amounted to more than \$140 million. And the credit market in 2003 was much healthier than it is now, meaning the cost of doing business is likely to be much higher.

A decision on how and when to borrow is still in a holding pattern.

"When we see what August looked like, we'll have a better idea of what we need," Jordan said.

Jordan said the controller's office started the process to issue RAWs last April "just in case" and already has bids from some lenders. A tentative bidding deadline of next Friday has been set.

"It's a delicate dance," Jordan said. "We don't want to pull the trigger too early, but we want to be in a place that when we need the money, it's ready."

But that's scant consolation to programs that can't be paid until a budget is in place, or an emergency bill is passed.

"It's going to be grim," said Jordan. "We've never pressed them this far into the fiscal year without paying them."

Eric Skinner, vice chancellor for finance for California Community Colleges, said the 110-school system has been shorted \$1.1 billion since July 1 because of the budget impasse.

"Districts are rapidly exhausting their reserves and internal borrowing," he said. "So they're doing things like reducing staffing and dropping courses."

"In a worst-case scenario, they are borrowing from outside, which is expensive. But closing the doors isn't really an option."

Unpaid vendor invoices stack up

It is, however, all too real an option for some of the thousands of private firms with which the state does business – and which aren't getting paid even though they are still providing their goods and services to the state.

Chiang estimates that could add up to \$637 million in unpaid vendor invoices this month.

Among the ranks of the unpaid vendors is Superior Produce, a Sacramento company that does 90 percent of its business with the prison system.

In late July, co-owner Cyndy Mulhern told The Bee the state owed her \$360,000 in unpaid invoices, and that the couple had taken out a \$250,000 line of credit on their east Sacramento home to pay their suppliers.

Since then, things have gotten worse. Mulhern said this week the continuing budget impasse has run up the state's unpaid bill to \$830,000. In the meantime, the firm is facing \$80,000 a week in bills from its own suppliers – and is three weeks behind in paying them.

"We're having to take out a second line of credit with the bank," Mulhern said, for \$200,000. "Even then we can't pay off all our vendors, but at least we can get them kind of caught up."

Mulhern said the only thing keeping the lights on at the company is a contract with Sacramento County.

"Their (the Legislature's) attitude is, 'We'll get it done when we get it done,' and nobody is in a big damn hurry," she said. "It's infuriating."

Under state law, vendors like the Mulherns will be in line for interest payments from the state when the budget mess is resolved. But much of it will be gobbled up by the interest payments on their lines of credit. And Mulhern said it's certainly not worth it.

"I'd rather have the thing done on time," she said, "and it's getting to the point that we're running out of options."

Budget deadline usually missed

Options are also apparently lacking in getting at the root of the current budget dilemma: the Legislature's failure to adopt a budget on time.

Article IV, Sec. 12(c) of the state constitution says legislators "shall pass the budget bill by midnight on June 15 of each year." It's an admonition they have ignored every year since 1986 (although, to be fair, they missed it by only one day in 1999). It's been heeded only four times in the past 31 years.

But there is no obvious legal remedy, such as filing a lawsuit, for forcing the Legislature to meet its constitutional obligation.

"I don't know if it's ever been done," said Gerald Uelmen, a law professor at Santa Clara University and a constitutional law expert. "I guess the remedy would be to lock them up in San Quentin until there is a budget."

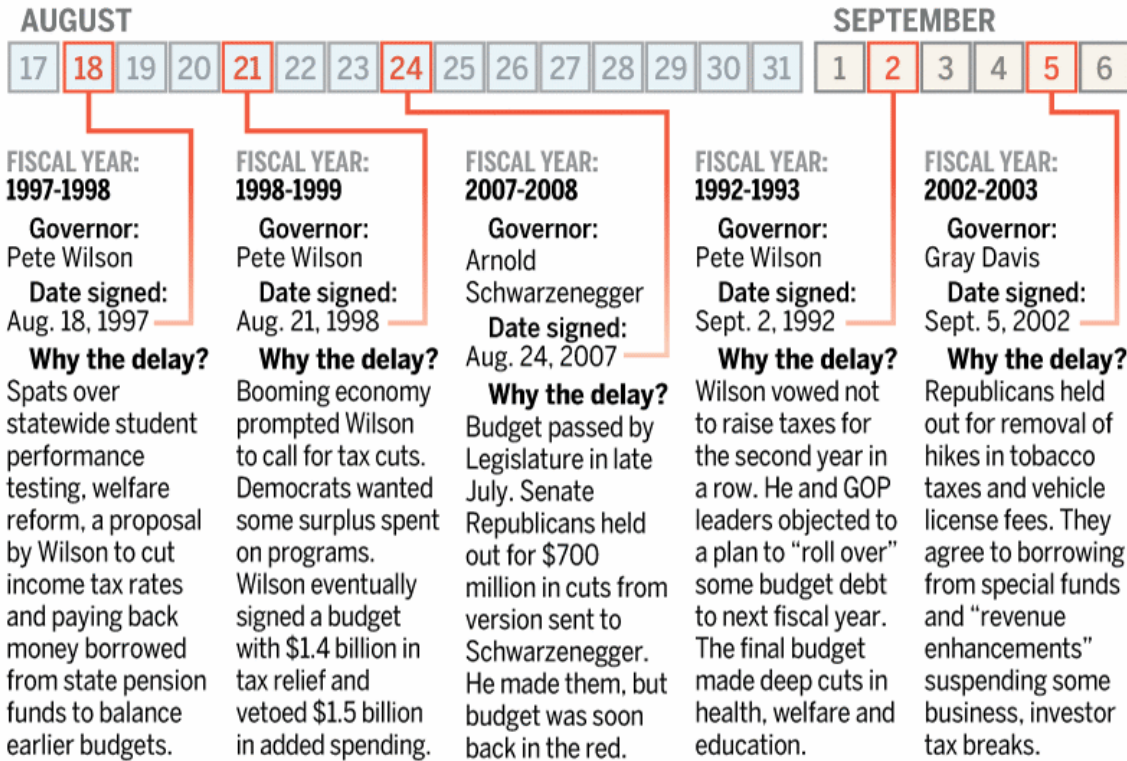
More seriously, Uelmen said it was conceivable that someone could seek a contempt decree from the state Supreme Court "so that for every day they didn't pass a budget, they'd be fined or something like that.

"You know," he said, "that's a great idea."

LATE BUDGETS

THE FIVE LATEST BUDGET SIGNING DATES (BEFORE NOW)

As measured by the date they were finally signed by the governor, here are some highlights of the background behind the five latest California budgets before the current legislative session.



UNPAID BILLS

Here's a sampling of the \$7.6 billion in bills that state Controller John Chiang said will go unpaid this month if there is no budget:

Medi-Cal providers:	\$3 billion
K-12 schools, categorical programs:	\$1.1 billion
Other social service programs:	\$874.2 million
Mental health:	\$709.3 million
Vendors:	\$637 million
Developmental services regional centers:	\$558.1 million
Community colleges:	\$464.6 million
Cal Grants (college financial aid):	\$71 million
Legislators' pay:	\$1.1 million
Legislative staff pay:	\$14.7 million

Wilson



Davis



Schwarzenegger



SEPTEMBER PAYMENTS

Here are the payments that will be made in September, with or without a budget:

Local governments:	\$4.3 billion
CalWORKS (welfare):	\$3.8 billion
K-12 schools (monthly apportionment):	\$3.2 billion
State civil service payroll:	\$2.7 billion
Medi-Cal (non-institutional providers):	\$1.6 billion
Retiree benefits:	\$1.4 billion