

# California Budget Reform



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## The costs of feast or famine budgeting

- Government spending becomes pro-cyclical, worsening downturns
- Risk raises the cost of public borrowing
- Running to keep up putting state behind on infrastructure improvements
- Budget battle distractions from everyday business of running state
- More and more portions of state budget being put on 'auto-pilot' by voter fiat

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## Three major issues

1. The current deficit is part cyclical and part structural and as such any solution must have some permanent component to it
2. Steps need to be taken to prevent or reduce the chance and scale of future crises
3. Changes need to be made in how problems are handled when they do arise in the future



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## 1. Solving the current problem

- Do not push problems into the future
  - Temporary solutions will not do the trick
- Service cuts should not be the sole source of covering the deficit
  - Higher taxes and cost reductions (wages) should also play a role in any solution
- Choose changes that have minimal economic and social impact
  - Use existing systems



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## 2. Reducing future problems

- Its not cyclical revenues, its cyclical expenditures
- The rainy-day fund
  - Current plan calls for fixed reserves
  - Too auto-pilot, can lead to future problems
- Other solutions?
  - Spikes in revenues typically come from the PIT
  - Label spikes as temporary revenues that can only be used for temporary spending



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## 2. Reducing future problems

- Tax reform to reduce cyclical issues
- Shift back to property taxes
  - Prop 13 must go
  - Move revenues closer to users
- Sales taxes on services
  - Not as cyclical
  - Increasing share of consumer spending



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### 3. Dealing with future crises

- Current proposition: allow governor to unilaterally impose across the board cuts
  - Huge shift of power
  - Have a special budget committee help?
- Better planning
  - Multi-year forecasts
  - Worst-case scenario forecasting



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