California Budget Reform

1) Under existing law, every year, the Legislature and the Governor set a budget based on what they expect revenue to be. Instead, they should set the budget on the lower of:

1) what they expect revenue to be, or

2) what the revenue actually was in the previous fiscal year.

When revenue is growing, the extra amount will earn interest. When revenue is falling, the legislature will have one year's lead time; they can spread the necessary cuts over two years. It will take some years to phase in this proposal. To be conservative, let's give it 10 years. After 10 years, we will collect money in the current year, put it in an interest-bearing account, and not spend it until the next year. What's in that account is what we have to spend.

A fiscally responsible Governor can begin to implement such an approach immediately. Such a Governor would line-item veto across the board a small amount, to get the state on course for hitting the mark in 10 years' time. Assuming fiscally conservative Governors, we could actually effectuate this without a Constitutional amendment, just by using the line-item veto which already exists.

This approach prevents the Legislature and Governor from assuming unrealistically that revenue will be higher than it actually is. Indeed, it takes the assumption work out entirely. We should budget on the basis of the amount of money we know the state has, not the amount of money politicians wish it had.

2) If the state experiences a revenue shortfall or expenditure rise greater than 2% in any given quarter, as measured by any one of the following (Finance Director, Legislative Analyst, Controller), then the Legislature must put aside all other business and bring the budget within balance in 30 days. If the Legislature has not succeeded, then automatic expenditure cuts across all items (to the extent permitted by the US Constitution), adequate to make up the short-fall should take effect.

3) When the state budget deadline is reached, but no new budget has been agreed upon, the previous year's budget should continue. This creates a continuing appropriation, that prevents drastic cuts in services. Here are other states that have a provision for continuing appropriations such as I'm proposing for California: Alaska, Arizona, Idaho, Indiana, Kansas, Minnesota, Nevada, New Hampshire, North Dakota, Oklahoma, and Wisconsin.

4) Until other reforms are made, the Governor should exercise the line-item veto to cut expenditures down to the level of realistic revenue. Instead, Governors are often co-opted into the process of spending more than the state has, by promising not to line-item expenditures favored by legislative leaders in return for getting the Governor's own priorities into the budget. The budget is presumed to be balanced based on unrealistically high expectations of revenue, or by shifting funds between accounts. This gives up the one essential function the Governor has for preventing budget deficits.