

**CAVC**  
**2011 Legislative Update**  
**January 19, 2011**

**State Budget Update**

Governor Brown's first action as the new Governor of California was to release a proposed state budget plan for the 2011-2012 fiscal year on January 10<sup>th</sup>.

His Budget proposal tackles the deficit anticipated over the next 18 months, proposes to do so in a straightforward manner and spreads the pain to virtually every sector of state spending.

***Governor believes we are emerging from the recession***

The Governor's proposed budget projects that California will face a budget gap of \$25.4 billion in 2011-2012 if no remedies are found. The Governor assumes that California is finally emerging from a Great Recession, the longest and deepest recession since World War II. He estimates that 1 million jobs were lost in the state during this time and the unemployment rate rose to 12.6 % - the 3rd highest in the nation. State Budget revenues dropped by 24%.

***Past Budgets have not solved the problem***

The current year budget shortfall comes from a combination of unrealistic assumptions of federal dollars and spending cuts that were not achieved. Prior budget exercises covering the last 4 years have relied on temporary solutions or budget remedies representing an average of 80% of revenue increases that never materialized.

***Proposed reductions are significant***

The proposed reductions of over \$12 billion include substantial cuts to major programs such as \$1.7 billion to Medi-Cal, \$1.5 billion to Welfare-to-Work, \$1 billion to the UC and CSU, \$750 billion to developmental services, and \$580 million to state operations and employee compensation. The Governor proposes to maintain school funding (K-12) at the same level as 2010-2011. However, to maintain this level of funding for schools and also funding of public safety services at the local level the budget assumes that the current tax rates will remain constant for the next five years.

***Proposed revenue solutions require voter approval***

The revenue solutions of \$12 billion include maintaining the temporary tax increases that are set to expire on July 1st by asking the voters in June to maintain these increased sales, income and vehicle taxes passed in 2009. In addition, the budget proposes to uniformly apply the single sales factor income allocation rules to certain corporate taxpayers and to eliminate an ineffective tax expenditure program.

Governor Brown has asked the Legislature to pass his proposed budget in the next 60 days. In addition, a decision must be made in the next three months to allow enough time for a ballot measure that extends temporary taxes to qualify for a June special election.

## **The New Legislature and Governor**

### ***New Legislative Session is convened***

The Legislature reconvened a new Legislative Session on January 3, 2011. This is the first year of a two-year session that covers 2011 and 2012. On that same day, Governor Jerry Brown was sworn in for his four-year term.

The new Legislature consists of over 40 new members. Its leadership and committee membership has changed. The recent change in administration has already resulted in a slew of new appointments in the Governor's office and at the agency levels.

### ***2011 Challenges will be numerous***

2011 will be a year of renewed vigor and interest by trial lawyers and labor unions. Many believe they can be successful moving workers compensation legislation, civil liability enhancements and employer mandates. In addition, a budget deficit of such magnitude will have an effect on public policy decisions throughout the year.

The deadline to introduce legislation is February 18<sup>th</sup>. There will be numerous bills by that time to review and will require diligent defense by CAVC members and the advocacy team. Issues that could surface in 2011 include:

- Workers' Compensation – Increases in benefit awards
- Health Care Reform – Creation of the Health Care Exchange, development of parameters of the new federal law
- Employer mandates – increases in the minimum wage, family leave, changes in overtime rules
- Taxes – soda tax, increased sales tax, increased VLFs
- Environmental mandates – manufacturer requirement to pay fees for recycling of products, AB 32 implementation