

ACWA STATE BUDGET ADVISORY

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ACWA State Budget Advisory 05-01

Governor Schwarzenegger Releases a State Budget that Trumpets Government Reform; Calls for CALFED User Fees

Governor Schwarzenegger on January 10 unveiled the first version of his State Budget. This event signals the start of the budget season at the State Capitol that lasts at least through summer and sometimes into early autumn.

The Governor's \$111 billion proposed budget contains reform as the main theme and emphasizes the issues that Schwarzenegger discussed last week in his annual State of the State address: state budget spending reform; state pension reform; state redistricting reform and major education reform.

CALFED User Fees Included

CALFED's 10-year draft finance plan was attached as an addendum to the actual budget. In it, the Governor has suggested that water users pay a total of \$761 million dollars (9% of total CALFED budget) over a 10-year period in order to fulfill the premise of the "beneficiary pays" concept recorded in the CALFED Record of Decision (ROD). Governor Schwarzenegger's draft budget states that, "Water users should pay for projects and programs that result in specific benefits to them. In addition, local governments and water districts will be expected to provide a local match for projects with local benefits." The Administration will look to the State Legislature this spring to introduce legislation that will contain a specific, mandatory funding formula for water users to follow.

ACWA's position has been and will remain that local water agencies should pay only for those projects and programs that directly benefit their ratepayers.

Flood Control & Floodplain Management Highlighted

Another major issue for the water community covered in the budget document is flood control and floodplain management.

It is a welcome surprise that in an austere budget, the Governor is suggesting spending money for a new program to strengthen flood control levees among other related activities. The Administration's proposal contains \$9.6 million from the General Fund for a new program called, "Flood Control Strategic Improvements" that would protect property and prevent future floods. Funds would provide for levee maintenance, structural integrity and capacity engineering evaluations, improved emergency response capabilities, and floodplain mapping to identify flood vulnerable areas in California.

In a related development, the Department of Water Resources released its highly anticipated white paper on flood control issues, known as, "Flood Warnings: responding to California's Flood Crisis" on the same day that the Governor released his budget. This white paper gives recommendations for legislative and constitutional actions that are necessary to implement their recommended strategies as well as justification for the General Fund disbursement of the almost \$10 million for flood control and floodplain mapping purposes. The Administration will likely team up with a member of the Legislature to pursue some of the

concepts to turn them into law. It was just last year that ACWA in cooperation with other member agencies and their contract lobbyists, fought off a serious proposal to increase the local's share of flood control financing burden so the state could redirect and spend the money on floodplain mapping in the Central Valley.

Local Government Left Alone

The Governor did not inflict any more pain on special districts in his January Budget. He did not try to undo the Local Government Agreement deal that was struck between cities, counties, redevelopment agencies and special districts last summer which redirects \$1.3 billion for each of the next two years (2004-05 and 2005-06), for a total of \$2.6 billion to deal with the state budget deficit. The overwhelming passage of Proposition 1A, a resounding 84% voter margin, delivers a clear mandate to end state raids of local funds. The Administration is looking to other industries for the cash to close the budget gap.

Public Employee Pension Reform

The one issue out of the four main issues that the Governor is targeting that could impact water agencies is the pension reform proposal. The Governor is interested in changing the public pension system in California by ending the traditional public employee pension system for new workers beginning in 2007 and instead establishing a defined contribution system similar to a 401(k) system that is used by many private sector companies and corporations. Schwarzenegger addressed his plan in his State of the State speech last week by saying, "We must move away from a defined benefit to a defined contribution system." The change would save the state close to \$300 million per year as well as allow workers more control over their investments, but not guarantee a return on their money, as is the case now.

As contained in his budget, the Governor is proposing that state workers who are left behind in the traditional defined benefit system cover half the cost. They are now paying a fixed rate of 5% of their pay, and the Governor would like it to increase to approximately 11% of pay, a rate that would fluctuate each year depending upon factors like the retirement system's investment returns.

Assemblyman Keith Richman (R-Northridge) in conjunction with the Governor has introduced a constitutional amendment in the Legislature extraordinary (special) session, ACA 1X, and also filed a statewide ballot initiative that would accomplish these pension reform goals that the Governor has described in his January budget.

Other Industries Set to Absorb Painful Cuts

While special districts are still smarting from the deep cuts taken in the current 2004-05 state budget, many other groups, such as the transportation industry, are now feeling the financial pain. The Governor is proposing to snatch \$1.3 billion for two years, for a total of \$2.6 billion, from a state fund earmarked for transportation projects that would negatively affect the state's transportation infrastructure. This is the second budget that has not included new money for highway or mass transit projects.

The education community also has been targeted by the Governor for serious reforms, such as changes from seniority to merit-based teachers' pay, halting the state's contribution of \$543 million to teachers' retirement and taking away \$2.3 billion from public schools in California that they are scheduled to receive under the Proposition 98 minimum funding formula. The education lobby has signaled their desire to fight these proposed reforms and funding shifts.

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ACWA will continue to monitor developments in the state budget area. Please contact Wendy Ridderbusch, State Legislative Advocate, at WendyR@acwanet.com or Danielle Blacet, State Legislative Analyst, at Danielleb@acwanet.com with any questions on this issue.

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