

Good Morning.

A week ago today I delivered the State of the State to give people a basic understanding of the budget shortfall facing our state.

Now comes the hard part.

Today, after weeks of number crunching, program analysis, and philosophical debate I am prepared to fulfill my responsibility and recommend a comprehensive, long-term solution to the budget shortfall created by the national recession.

What you will get today is the result of some very hard work by some very talented and very dedicated public servants working for the Ventura Administration.

I want to thank each and every one of them.

I want to thank the hundreds of citizens who called, wrote and personally expressed their opinions on how to attack this problem.

I want to thank the Mayors and County Commissioners who took of their valuable time to personally provide me with their counsel.

I want to thank business community leaders who made timely and insightful suggestions as we contemplated these decisions.

I want to thank the advocates for public safety, affordable housing, education, health care and others, who worked with my commissioners, my staff, and me as we worked through this very intense and agonizing process.

It is a big problem:

A \$1.95 billion dollar shortfall for this biennium - and \$1.25 billion dollars for each of the next two following years.

And no matter how many times someone wishes, it is not going away unless we make the tough decisions to solve the problem.

Today you will see that I am ready to make those tough decisions.

I will not hide behind quick fixes or short-term solutions. I will not mislead the people into thinking that we can wait this problem out.

We cannot.

We cannot wait this problem out because the damage that is done to our budget is real and is permanent-unless we fix it for the long-term.

Why?

Because the November forecast already anticipates that the economy will begin its comeback as early as the second quarter of this year.

Let me repeat: The November forecast that projects an almost two billion dollar shortfall is already counting on the country coming out of the recession by March of this year.

And, contrary to speculation, the most recent revenue information we have indicates that nothing has changed.

The wishful thinkers who argue that we should do nothing because an improving economy will solve our problem do not get it.

Reality is this: Revenues lost to a recession are never regained.

Period.

And even if economic growth is "normal" in the next biennium we will have less money because the growth comes from a lower base.

The bottom line is: If you look at the problem honestly and not through politically colored glasses - we need a permanent fix.

No gimmicks.

No waiting for the fairy godmother to come along after the elections.

No irresponsible borrowing from Peter to pay Paul. And,

No delay.

No delay, because the longer we take to solve the problem the more difficult it becomes.

In fact, I asked my staff to calculate how much money would be lost for every week's delay. The answer is shocking: \$3.7 million a week in lost revenue which would then result in higher spending cuts for every week the legislature fails to act.

Now is the time for straightforward, pragmatic and definitive action.

First, we must cut spending.

In 2002 and 2003 I am proposing cuts of \$700 million dollars to the general budget.

Because we have less than eighteen months left in the current biennium I intend to lessen the pain in '02 & '03 by taking advantage of some one-time balances, drawing down the budget reserve and refinancing some road projects with highway bonds.

Keep in mind though that an integral part of this solution is a very specific plan to partially restore the budget reserve by the first year of the next biennium.

The impact of these proposals is that in '04 and '05 the one time money is not available and therefore spending cuts of \$1.3 billion dollars make up a greater part of the solution in the next biennium.

While these cuts are substantial and widespread I believe they are fair.

For example, my departments will experience permanent cuts of anywhere from 5 to 10% and my office specifically will be cut a full 10%.

This will result in some programs and many staff positions either eliminated or left unfilled.

As I went through this process there were many difficult decisions, but among them were areas that were particularly tough. Among those difficult areas were education, local government, health care, human services, the courts, transportation and public safety.

Over the past three years I approved spending increases to education of over \$1.4 billion dollars. Last year we passed historic tax reform that allowed the state to assume responsibility for the majority of K-12 funding. And also last year we passed significant education policy reforms that I hope will allow for increased accountability for education spending.

The debate over these initiatives has been long, hard, and at times very confusing.

But one thing that I want to make clear is that the shortfalls some districts are experiencing are not because of the tax reform.

In fact, last year's tax bill simply paid the same amount to the school districts directly out of state funds instead of your local property taxes. In addition, we added a \$415 dollar per pupil payment to the formula to begin in 2003.

A more likely explanation for the shortfalls is some districts anticipated extra growth in revenues and taxes that voters didn't approve.

That's local control.

Just how much money does education require?

Believe me, I asked myself the question many times over the past few months. But I still don't have the answer. What I know is that K-12 education funding takes up over 40% of the state's total budget and while most districts seem to be doing fine, many districts appear to be in financial dire straits.

Of course this debate will go on forever. But, in the meantime, we must act and we must solve this budget problem. Therefore my plan recommends less than a 1% cut to the K-12 budget in '02/'03 and a 2.6% cut in '04/'05.

In the interest of not directly hurting the students we will not reduce the basic per pupil funding in the state general education formula.

While this is considerably less than many other areas of the budget, I imagine that like everything I do in education - it will be controversial. But I will not be deterred.

Be assured that I don't want to fight with education. While I am very proud of the students and the schools continuing efforts to provide a quality education, I feel a very strong sense of responsibility to continue my efforts to bring accountability and understanding to a very confusing education finance system.

And then there was Health and Human Services.

In this area I made an effort to be very careful not to affect the most vulnerable in our society. For example I let stand the increase to nursing home workers that was provided in last year's legislation. In addition, I stayed away from programs that are helping to provide health care to our poorest children.

And finally, as I said in my state of the state all levels of government must share in this solution. Therefore I am asking that cities and counties accept relatively small reductions in state aid.

To do this we have devised a system that will protect those cities and counties that have shown restraint by limiting their increases in levies and overall revenue. However, we are recommending a reduction to cities that will, on average, amount to 5.1% of their overall property tax levy and state aid revenue base.

For counties, the reduction will amount to an average of 2.8%.

Next year's state aids and property tax revenue collected by cities will increase by an average of almost 9%. For counties it is scheduled to grow by over 6%. That would indicate to me that most cities and counties have the ability to adjust their budgets to offset the effects of the recession.



Of course many will complain that this reduction will only result in property taxes going up. In some cases they may be right, but in most cases that should only happen as a last resort.

In an effort to restrain cities and counties from automatically raising property taxes and to encourage citizen involvement, I am recommending that voter approval be required in some circumstances where counties and cities attempt to increase levies to make up for their reduction in state aids.

Again, that's local control.

And finally, I would like to address the issue of local government fund balances:

My plan does not directly "raid" any local government fund balances - but it does expect local governments to make use of their reserves to tide them over the short run while they make their own permanent decisions about taxes and spending - just as the state will be doing.

We are also giving local governments more flexibility to use these reserves by moving up half of July's state aid payments to March.

I am sure that over the next few days and weeks much will be said, both positive and negative, about my approach. But in all sincerity, I have worked hard to fix this problem with sensitivity and fairness.

These choices were not easy for me to make.

However, in order to keep from devastating some areas of the budget and severely hurting local government and schools it was necessary for me to go where I hoped I wouldn't have to:

Taxes.

In order to balance this solution and mitigate the stress on programs such as nursing homes and schools, I am recommending that we raise the tax on gasoline, cigarette and tobacco products, expand the sales tax to a limited number of services and items and make some very targeted changes in the individual and corporate income tax.

The cigarette tax is a consumption tax that is paid by choice. And just as important is that a tax increase on cigarettes and tobacco products will have a significant long-term positive impact on health care costs.

The gas tax increase of 5 cents and the indexing of the tax will allow us to backfill most of the general fund dollars that pay for the reductions you receive for your car license tabs and in the future fund additional highway projects.

Transportation and transit was another one of those very difficult areas to consider for cuts.

In my first budget I worked hard to convince the legislature that our transportation and transit needs are great and proposed permanent funding that would meet the needs of a multi-modal transportation system for years to come.

The legislature failed to pass my plan and now it is two years later and we are still trying to find adequate funding.

While we have made some progress, we have not made enough, and therefore I believe it is imperative that we not cut any transportation projects or transit services.

This gas tax increase will be the first in 13 years and by indexing the tax to the rate of inflation we will provide stability to a transportation-funding source and preserve its purchasing power.

When I started this process I said that I would approach this problem in a responsible and fair manner.

By making careful use of our reserves I have held spending cuts and revenue increases in the current biennium to an absolute minimum.

However, as I said all along, in order to preserve our triple 'A' credit rating we must structurally balance the budget out four years.

For those who would do it differently I would give this advice: As I went through this process I determined that everything had to be on the table. And, in the end, "everything" in this budget is touched.

However, let me warn you that if the legislature does not take a balanced approach, areas of the budget that many of you have proclaimed "off limits," like education and nursing homes, may necessarily take a much bigger hit.

I am asking the legislature to take some time to analyze these recommendations and be prepared to act in the first week of February.

Remember, there is a presumption that the legislature will adopt this plan in early February in order to spread out the impact of the spending cuts and begin the flow of new revenues.

If you do not act on the complete package, I will act on those parts of the package that I can. After that, we will all have to deal with the very serious consequences for the remainder of our budget.

Thank you.