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The State Budget: Debate spills into new year

Lack of budget deal could affect payments and programs, but little impact is seen at first.

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Today marks the start of another new California fiscal year without a state budget in place, raising the prospect of trouble for legislative staff, vendors and school programs.

Unless Gov. Arnold Schwarzenegger and the Legislature strike a compromise within the month, the state won't be able to make hundreds of millions of dollars in payments to vendors supplying food to prisoners, schools offering summer classes for remedial students, and the salaries and per diem of elected state officials and their staff.

Most of the impact would not be felt until the end of July, because that's when the state's bills come due.

"A budget stalemate that persists until the end of July will threaten California's ability to meet many significant financial obligations," state Controller John Chiang said in a statement Friday.

To date, the governor and the Legislature's Republicans and Democrats have been unable to agree on a state spending plan for the next 12 months.

Schwarzenegger in May released a \$103.8 billion budget that called for some welfare and social service cuts as well as the sale of the state's student loan guarantor, EdFund, in order to generate an estimated \$980 million in one-time cash for the general fund.

Democrats responded to the governor's proposed welfare cuts by rejecting Schwarzenegger's call for early debt payment.

Republicans, however, have found both proposals to be unacceptable. So far they have refused to back the Republican governor's plan and are publicly demanding deeper cuts.

As state leaders continue budget negotiations this week, Chiang said, most of the state's 235,000 employees will not be affected by the delay. The controller's office has the authority to pay for vital services such as schools, health and welfare programs required by federal law, and state employee payrolls, he said.

The state will continue to pay:

- School instructional and operational costs.
- Supplemental Security Income and State Supplementary Payment benefits.
- Medi-Cal and CalWORKS.
- Payroll for employees, such as teachers and Caltrans engineers, who are covered by labor agreements.
- Vendors providing services up to Saturday.
- Income tax refunds.
- Bond payments.

"The state has enough cash to pay bills that come due at the end of June, and we can keep payments flowing for some essential services," Chiang said.

Although Schwarzenegger signed a budget bill last year on June 30, late budgets are not new to the state. Over the past 25 years, the budget has twice been approved during September. The latest was Sept. 5, 2002 -- 67 days after the fiscal year began.

This year, without a budget in place by mid-July, the state could feel the effects sooner, according to Garin Casaleggio, a spokesman for Chiang.

The state would not be able to pay:

- Certain K-12 education programs -- such as special and adult education, summer school, and charter schools -- that are dedicated for a specific purpose.
- Community colleges.
- Vendors that bill for services beginning today.
- Salaries and per diem of elected state officials and their appointed staff.

Without a budget, the state can't make an estimated \$140 million in payments to vendors in July for everything from office supplies to food for prison inmates. The payments would be made, however, once a budget is approved.

As for K-12 public schools, Sharon Taylor, director of fiscal and administrative service division at the Education Department, said the effect of a late budget will depend on how long it's delayed.

The controller's office has estimated that the state could be holding back as much as \$170 million in payments to schools by the end of July. But Taylor said school districts are expected to continue to run normally by dipping into reserves.

"The state has so many late budgets," she said, "that most schools have already figured what they need to get from here to there."

Meanwhile, the controller's office estimated that California's network of community colleges won't receive an estimated \$177 million by the end of July. Frederick Harris, assistant vice chancellor of the California community college system, said colleges with low reserves would be hardest hit.

"Colleges could be forced to consider measures such as reducing classes and suspending maintenance and contractor services," Harris said.

The controller's office estimates that in addition to legislative members and staff, another 500 state workers appointed by constitutional officers -- the governor and secretary of state, for instance -- would be affected by a late budget.

And as in years past, Golden One Credit Union is offering a no-interest loan to members with direct deposit. The credit union is also offering nonmembers a 5.75 percent personal loan, said Teresa Halleck, president and CEO of Golden One.

Halleck estimates that about 1,000 state employees would take the credit union's offer.

"We always hope that nobody is impacted," Halleck said. "In the event it does not happen ... we will loan them their paycheck so there's virtually no impact on them. We will do that as long as a budget delay occurs."

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