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Governor delays order cutting workers' pay in state budget battle Senate leader drops plans for floor vote as talks move along

Matthew Yi, Chronicle Sacramento Bureau

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(07-29) 04:00 PDT Sacramento -- Gov. Arnold Schwarzenegger will wait until Thursday to sign an order slashing state workers' pay to the federal minimum wage and laying off thousands of other employees to save money during the impasse over the state budget, a spokesman for the governor said Monday.

The governor, frustrated by the nearly monthlong impasse, had been expected to sign an executive order Monday cutting pay for about 200,000 state workers to the federal minimum wage level of \$6.55 an hour. Their wages would be restored with back pay when a new budget is enacted.

Also Monday, Senate President Pro Tem Don Perata, D-Oakland, canceled his plans to force a budget vote on the Senate floor today, saying negotiations have been moving forward and he doesn't want to jeopardize the talks.

The two moves could take the heat off the contentious debate over the state's \$17.2 billion deficit, which includes \$2 billion in reserves, and could lead to a compromise soon, political observers said.

"It looks like there's enough momentum at the moment to cease fire, and to see if they can reach an agreement" said Larry Gerston, a political science professor at San Jose State University. "It seems they may be close, but whether close gets the deal done remains to be seen."

So far, the governor and the Democratic-controlled Legislature have been unable to strike a budget deal for the new fiscal year that began on July 1.

In addition to cutting wages of thousands of state employees, the governor's executive order, obtained by The Chronicle, also indicated that he wants to lay off nearly 22,000 seasonal and student workers.

Both ideas were blasted by Democratic leaders in the Legislature as ill-conceived and no help in the continuing budget negotiations.

State Controller John Chiang has argued he has the authority to write paychecks and will not go

along with the governor's plans for drastic pay cuts, setting up for a potential political and legal battle between the Republican governor and the Democratic controller.

Perata also created a stir last week when his office sent notices to senators that he planned to hold a floor session today in order to vote on the budget, even as Republicans argued such a vote would be a drill because there is no compromise deal.

But on Monday, Perata said: "Negotiations are continuing daily and we are making progress. It is clear that a floor vote on Tuesday would disrupt that progress."

Aaron McLearn, a spokesman for Schwarzenegger, refused to say whether the governor's decision to wait until Thursday to sign the executive order is to give lawmakers a chance to hammer out a budget deal.

But the spokesman said that Thursday would be the last day for Schwarzenegger to sign the order if he wants the pay cuts to go into effect beginning in August.

"The first day of the new pay period is this Thursday, so the governor will invoke his order on Thursday to ensure the state has enough cash to cover our costs," McLearn said.

Assembly Republican Leader Mike Villines of Clovis (Fresno County) said Monday's moves by Perata and the governor are good signs that there will be meaningful negotiations rather than political posturing.

Everyone involved "decided to take a little bit of a step back and continue to work on the budget, and budget reform that's real and substantive, and one that we can all agree on," Villines said.

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Governor delays state pay cut

SIGNS OF BUDGET COMPROMISE

By Mike Zapler
Mercury News Sacramento Bureau

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SACRAMENTO - After signaling he would sign an executive order Monday cutting state workers' pay, Gov. Arnold Schwarzenegger decided to wait until later this week to pull the trigger - allowing negotiators a few more days to try to close the state's yawning budget gap.

The move sets up a pivotal Aug. 1 deadline in the financial crisis that has gripped Sacramento for weeks. If Thursday comes and goes with no budget deal and no action from the governor, the pay-cut threat could lose its potency. But if Schwarzenegger proceeds, he will antagonize Democrats whose support is critical to any plan.

The governor has prepared an order that would slash the pay of some 200,000 employees to \$6.55 an hour, lay off about 22,000 temporary workers, and enact a hiring freeze. His representatives say the move is necessary to protect the state's precarious finances in the face of a \$15.2 billion budget gap, but others call it a heavy-handed pressure tactic.

"He will take action on Thursday to make sure the state does not run out of cash," said spokesman

Aaron McLearn. "That's unequivocal."

The pay cuts would save an estimated \$1 billion a month, while the layoffs and hiring freeze would save roughly \$100 million monthly.

On Monday, there were some signs of possible compromise. Schwarzenegger's decision to hold off came within hours of Senate President Pro Tem Don Perata issuing a statement announcing progress in budget talks. Perata's office declined to elaborate.

Perata, who last week derided the pay-cut directive as "gratuitous" and "stupid," had scheduled a Tuesday vote on a Democratic budget plan - a move that would have offered little but political symbolism. The proposal, which included about \$8 billion in taxes, was certain to fall short of the two-thirds majority it needed to pass.

Perata canceled the vote, opting instead to focus on negotiating a budget with better prospects of attracting Republican support.

If Schwarzenegger follows through on his pay-cut plan, it promises political chaos. State Controller John Chiang has vowed to ignore the governor unless he's presented with a court order forcing him to comply. Chiang, a Democrat, is elected independently and does not report to the governor.

But should Schwarzenegger or an outside group press the issue in court, Chiang would almost certainly lose, several legal experts told the Mercury News last week. The governor has not said whether he would pursue legal action.

A unanimous California Supreme Court ruled in 2003 that the controller lacks authority to pay state workers without a budget in place. Two exceptions, the court said, are hourly workers entitled to the federal minimum wage and those who work

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overtime.

Chiang responds that the controller's payroll system is unequipped to figure out which employees are entitled to the minimum wage and overtime during a budget stalemate, and which are not.

In 2003, the last time the issue arose, Chiang's predecessor, Democrat Steve Westly, conceded that the technical hurdles could be overcome. But in an interview on Monday, Westly said it would take several weeks if not months to manipulate the computer system to do the job, by which time the budget impasse will probably be over.

"It's a very, very large project to redo the payroll system for the state of California," Westly said. "It can be accomplished, it's a question of how long will it take. One of the key questions is, if it takes longer than a month or two and everyone knows the budget will be done by then, is that a smart endeavor?"

The state is already six weeks past the constitutional deadline for the Legislature to pass a budget, but only now is pressure beginning to mount. Should negotiations drag on much longer than Aug. 1, the state could be forced to take out a high-cost loan to pay its bills - at a premium of potentially hundreds of millions of dollars. That would exacerbate an already bad budget situation.

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Editorial

PAY CUT WON'T CUT IT

SCHWARZENEGGER TAKING WRONG TACK ON FIXING BUDGET

By ***The Record***
July 27, 2008

Nice stunt, governor.

That's all Gov. Arnold Schwarzenegger's threat to cut state workers' pay is.

He denies it, of course, arguing that he's simply trying to keep things going while his office and state lawmakers argue over the state budget.

As early as this week, the governor may sign an executive order reducing the pay of state workers to the federal minimum wage of \$6.55 an hour. That's \$1.45 less than California's minimum wage.

Such a move, the claim is, could save \$300 million to \$400 million a month starting in late August. An additional \$100 million could be saved by terminating contract workers and suspending overtime.

Right. We're going to suspend overtime for firefighters. And prison guards. And California Highway Patrol officers. Look, that's not going to happen. It can't. It would be irresponsible in the extreme if it did.

And while the cost savings estimates seem massive, they are pennies on the dollar when compared with the \$15 billion-plus deficit the state's facing. If this brain cloud of an idea happens, you can look for more costs associated with the inevitable employee lawsuits. And there's the little problem that the state eventually will have to pay the back wages.

The budget is weeks overdue - as it almost always is - and it's well past time to get this solved.

If the Legislature would do its job, the governor wouldn't resort to such acts of desperation.