

## The Budget Impasse Drags On...

More than two weeks into the new fiscal year, the Legislature is no closer to adopting a State Budget than it was a month or two ago. The Democrats continue to propose to close the \$15 billion (plus or minus) General Fund deficit with a combination of revenue enhancements and budget cuts, while the Republicans remain unified in opposing anything which sounds or smells like a tax increase. As passage of the Budget requires a two-thirds vote in each House of the Legislature, some support must come from members of both parties for a budget bill to be passed and sent to the Governor for signature.

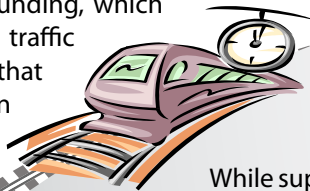


State Controller John Chiang continues to **assure all state civil service employees** that they **will be paid in full and on time** for the month of July. He has expressed serious concerns that the State may run out of money in August or September, without a new Budget, which could require costly short-term borrowing.

In the midst of all this, the Legislature has recessed for several weeks, but leadership remains in Sacramento to continue discussions. The Governor is now becoming more actively involved.

As time goes by, potential solutions begin to look more like band-aids. For example, there is now **discussion of "borrowing" money** from local governments and **from the sales tax on gasoline** to help balance the Budget.

While the voters have twice approved initiatives which require that the gasoline sales tax be used for transportation purposes, the money can be borrowed under certain circumstances if it is repaid within three years with interest. PECG has joined with others in opposing a reduction in transportation funding, which creates jobs and relieves traffic congestion, but it appears that everything is on the table in the effort to adopt a new State Budget.



## ... and So Does High Speed Rail

While supporters claim its trains will travel at more than 200 miles per hour, high speed rail has taken years to get on the ballot and efforts to update the 2002 proposal have been sidetracked if not dismantled.

In 1996, the Legislature approved creation of the High Speed Rail Authority, with an autonomous non-elected Board, broad powers, and no substantial funding. In 2002, a **\$10 billion bond** was approved by the Legislature for the ballot, but it has been postponed every year -- until now. That bond is scheduled for the November ballot, as written in 2002.

**Proposition 1** would be a \$10 billion down payment on a system conservatively predicted to cost \$40 billion. Even its proponents want to make changes to the proposal before the voters cast their ballots. Thus, AB 3034 by Assemblymember Galgiani would make a number of revisions. However, somewhat surprisingly, that bill failed to clear the Senate before they went on recess for several weeks in mid-July.

It appears the Legislature may still be able to withdraw Proposition 1 from the ballot or replace it with another competing bond measure without some of the flaws currently contained in Prop 1. Otherwise, the voters' decision on that measure will determine if high speed rail will get enough funding to start designing and building some of its segments.

There may be other substantial bond measures on the ballot as well. For example, the Governor and U.S. Senator Feinstein have proposed a \$9.3 billion water bond to increase storage, protect the Delta, and address conservation and environmental concerns. Thus far, the Legislature has shown something less than enthusiasm for putting that measure on the November ballot.

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## 58.5¢ Per Mile

Typically, the Internal Revenue Service only increases the deductible mileage reimbursement rates once per calendar year. This year, the rapidly increasing price of gas has caused them to make a mid-year adjustment.



Based on wording in the Unit 9 MOU and a recent memo from the Department of Personnel Administration (DPA), PECG-represented employees (and most other state employees) saw their reimbursement rate increase to **58.5¢, effective July 1.**

## Health Premiums -- Nowhere But Up



Last month we reported that **HMO rates** under PERS (Kaiser and Blue Shield) will increase an average of **6.6% next year.** Nationally, the HMO premium increases are expected to average 11.8%, and perhaps slightly higher in California. These are projections based on large companies which are currently negotiating with health plan providers, so the final increases could be somewhat less. Last year, the projected 11.6% national premium increase for HMOs wound up at 9.4%, with a 10.2% increase in the west.

Thus, it appears that the rates negotiated by PERS are a pretty good deal, compared to the anticipated national average.

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