

CORRESPONDENCE NO. 5
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STATE CAPITOL
 SACRAMENTO, CA 95814
 TEL (916) 651-4014
 FAX (916) 327-3523

SENATOR.COGDILL@SEN.CA.GOV
 WWW.SEN.CA.GOV/COGDILL

California State Senate



DAVE COGDILL
 SENATE REPUBLICAN LEADER
 SENATOR, FOURTEENTH DISTRICT

DISTRICT OFFICES

4974 E. CLINTON WAY, SUITE 100
 FRESNO, CA 93727
 TEL (559) 253-7122
 FAX (559) 253-7127

1308 W. MAIN ST., SUITE C
 RIPON, CA 95366
 TEL (209) 599-8540
 FAX (209) 599-8547

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 OFFICE OF SEN. COGDILL

August 12, 2008

Dear City and County Officials:

Attached is a transcript of the **California Report**, an NPR radio interview done by KQED reporter, John Myers' on August 6 which some are using to mischaracterize my position on borrowing money to solve California's budget crisis. The transcript, when read in its entirety clearly points out my concerns about borrowing to close the budget deficit.

Having served in local government myself, please be assured the best interests of cities and counties in my district, as well as the best interests of local governments throughout California, have always been one of my top priorities. As the transcript reveals, it was Mr. Myers who asserts Republicans are supportive of borrowing money from Propositions 1A and 42 specifically. On the contrary, Republicans do not see borrowing as a preferred method for balancing the budget. We see spending reductions and budget reform as the most appropriate means for solving our budget crisis.

Unfortunately, the reason borrowing is still mentioned as one of the budget options still on the table is because Democrats will not address necessary spending reductions.

The Democrats are interested in only one solution – increased taxes to cover their years of over-spending. A tax increase would be devastating to California's economy and would also have a negative impact on cities and counties. As you know, property values are plummeting, unemployment is on the rise as are the prices of most consumer goods. Asking the taxpayer to bail out the state's financial mismanagement is a singularly bad idea – an idea that could have dire consequences for our struggling economy.

There are real solutions to the budget deficit that do not involve tax increases or borrowing schemes, but the Democrats, to date, have refused to entertain solid proposals to reduce spending. If Democrats want to increase spending, they are going to have to find the funding to pay for it. If the Democrats do ultimately decide to borrow money, it is our position that should be done on a short-term basis and include a strong plan to repay that money before the end of the fiscal year, which is what I stated in the interview. Any final solution to the budget must also include real budget reform so this does not continue to happen.

Now is the time all California cities and counties should be contacting the Democrat leadership and Governor, urging them to reduce spending and adopt meaningful budget reform.

Sincerely,

Senator Dave Cogdill

P.S. Senate Republicans have also launched a website dedicated to the 2008-2009 budget crisis. To learn more about Republican budget solutions visit www.senaterepublicanbudget.com.

8-06-08: John Meyers Reporting for the California Report

Host: Rachael Myrow

Reporter: John Myers

Budget Fracas

New taxes, expanded powers for the governor, and a constitutional showdown. Those are just some of the developments in Sacramento where a new state budget is now 36 days late. Democrats and Republicans continue to push very different solutions to the state's \$15 billion budget gap. And soon, the governor may take the issue of the state's current finances to court.

JOHN MYERS:

Anyone who visits the DMV office can find the experience frustrating. But these days there is also frustration being voiced outside those offices. (Chanting protesters heard in the background "We can't survive on \$6.55!")

At this DMV office in Oakland, and others around the state, temporary and part-time employees are protesting the recent cost-cutting actions of Governor Schwarzenegger.

PROTESTER:

"This is our lives. This is somebody in your pocket, taking money out of your pocket, taking food out of your mouth, and the roof over your head. It's serious!"

JOHN MYERS:

Rosanna Moore, an Oakland DMV employee had her hours cut in half last week when the Governor signed an executive order to trim the state's payroll to save money during the state's budget impasse. DMV employee Michelle Freeman also had her hours reduced. "We're very, very upset. The fact is that, you know, we're having three-hour wait times and we're turning people away at three o'clock in the afternoon, you know, I'm sorry, but we can't see you today, come back tomorrow morning. You know, it's really getting them upset, it's getting us upset."

But almost a week after the cutbacks were ordered, the actual savings to the state remains unclear. The debate over state workers' salaries may be high-profile, but larger still is the overall budget impasse, which now seems to have come down to two issues, revenues and reform.

First, revenues. Governor Schwarzenegger now appears willing to abandon his five-year pledge to not raise taxes. The Governor's proposal would temporarily raise the state sales tax by one percent, bringing in some \$5.4 billion a year. After three or four years, the sales tax would go down below its current level, and that's the political cover for Republicans, because the eventual decrease would allow them to say they actually lowered taxes in the long run. If that's the way out though, Republicans aren't yet convinced.

SENATOR COGDILL:

“This is no time to raise taxes, given the economic situation that this state finds itself in.” Senate Republican Leader Dave Cogdill says his colleagues still prefer more spending cuts. But he did say Tuesday they might support a controversial plan to borrow money from various funds set aside by voter initiatives—funds supposed to be used for transportation and local government.

“There are monies available that we could use on a short-term basis. I think we have to have a very strong plan to pay that back, if we borrow those monies.”

JOHN MYERS:

And the borrowing would be paid back with—more borrowing. Cogdill specifically mentioned a plan talked about by Legislative staffers the last few weeks where the internal borrowing would be paid back with bonds sold against future revenues from the California Lottery.

The revenue debate isn’t the only problem. There’s also the issue of budget reform. For months, the Governor has called for changes to the annual budget process: a larger rainy day fund, limits on growth in state spending, and new power for him to unilaterally make cuts if a deficit appears in the middle of the year. Schwarzenegger aids privately say the Governor would agree to a sales tax increase only if the other changes happen too, especially the power to make spending cuts on his own.

SENATOR PERATA:

That is a non-starter with Democrats, says Senate President pro Tem, Don Perata. “I don’t care if the Democrats or the Republicans are in the majority, you can’t take us constitutionally out of the process of approving expenditures. And that’s what they want to do, and we won’t do that.”

JOHN MYERS:

Legislative Democrats are not the only ones saying “no”. The next saga in the budget stalemate goes back to the Governor’s Executive Order, which says many state workers will only receive minimum wage for hours they worked this month. But State Controller John Chiang has already said he won’t do that, and if that position holds, a spokesman for Schwarzenegger says the Governor will file a lawsuit against the Controller and the battle of the state’s cash problems will then be in the hands of the courts.

For the California Report, I’m John Myers in Sacramento.