



GOVERNOR ARNOLD SCHWARZENEGGER

January 6, 2009

The Honorable Darrell Steinberg
President pro Tempore
California State Senate
State Capitol
Room 205
Sacramento, California 95814

The Honorable Karen Bass
Speaker
California State Assembly
State Capitol
Room 219
Sacramento, California 95814

Dear Senator Steinberg and Speaker Bass,

This afternoon, you sent me legislation intended to address California's budget crisis and stimulate our state's economy. Unfortunately, this package is deeply flawed and, as promised, I vetoed it the moment it landed on my desk. The measures you sent me punish people with increased taxes, but do not make the serious cuts in spending necessary to balance our budget; do nothing to help keep California families working during this recession; and do nothing to help Californians facing foreclosure in this mortgage crisis. It is unfair and unacceptable to place an even greater burden on hard-working taxpayers without doing all we can to cut spending, create jobs and keep people in their homes.

In the face of a \$42 billion budget shortfall, your package of bills makes \$2.5 billion less in cuts than what I proposed in the special session and more than \$10 billion less than what I proposed in my 2009-10 budget. Specifically, you failed to include even the most common sense proposals to reduce costs in employee compensation, did not make reductions that have been adopted in prior downturns, and did not act to reduce costs in some growing programs. For example:

- I proposed changing state statutes to limit overtime, limit excessive use of sick leave and eliminate extra holiday pay for just two of the 14 holidays California state workers receive. California is one of the few states in the country that counts sick leave and vacation days toward overtime. I also proposed two furlough days for state workers. These proposals would have saved the state \$1.4 billion over the next 18 months. Your legislation does not adopt these proposals and gives public employee unions veto power over any changes.
- I proposed to limit non-medical In-Home Supportive Services (IHSS) and share-of-cost assistance to the neediest individuals for savings of \$135.7 million. IHSS is one of the fastest growing programs in state government.

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- I proposed self-sufficiency reviews to increase the number of California Work Opportunity and Responsibility to Kids participants who are working or attending job preparation classes as required by state and federal law. I also proposed reducing cash grants by 6 percent – even though similar reductions were adopted during previous economic recessions. These changes would have saved the state more than \$300 million.
- You rejected my proposal to provide school districts the flexibility necessary to manage program reductions while protecting direct classroom programs in California schools. My proposal would have unlocked up to \$2.5 billion in categorical programs, allowing schools to shift those funds wherever needed to protect classroom instruction and teachers' jobs. Your measure gives schools very limited flexibility. The new budget proposal I unveiled last week offers even more flexibility, giving schools the ability to shift tens of billions of dollars wherever they are needed to meet this extraordinary budget challenge.

The revenues adopted in this package are also flawed. These proposals take money from individuals' paychecks by establishing a new withholding requirement for independent contractors, putting California out of sync with most states and with the federal government. Not only is this the wrong policy for California, but this proposal couldn't be implemented by the Franchise Tax Board until 2010. Your legislation also gives the Department of Finance the authority to raise taxes administratively, without legislative approval, based on annual revenue projections – this is unconstitutional on its face. Finally, your proposal increases the price of gasoline 13 cents above current levels at a time when hard-working Californians are already suffering.

Relative to economic stimulus, the measures you sent me would do nothing to create jobs and jumpstart our economy. In fact, the bills sent to my desk today would, in some cases, make it even more difficult to create jobs. For example:

- I asked to expedite the environmental review process on more than \$1 billion worth of transportation projects in order to create jobs immediately. Expediting the start of these projects would create more than 18,000 jobs in 2009. The legislation you sent me would have simply replaced the existing environmental review process with an even more time-consuming set of requirements. Further, I asked for expedited permitting on these projects, a request your legislation does not address. Finally, your legislation failed to include the two biggest projects on my list, the Caldecott Tunnel and Highway 50's High Occupancy Vehicle lanes, which together could generate some 10,000 jobs in the East Bay and Sacramento regions.

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- I asked for the ability to form public-private partnerships to leverage limited state resources with private dollars in order to build more projects and create jobs immediately. Allowing public-private partnerships would expedite countless projects and create tens of thousands of jobs. The public-private partnership proposal you sent me is so restrictive it is likely that no public-private construction projects would begin in 2009.
- I asked for broad authority to construct transportation projects using the design-build contracting method, which is proven to speed up the time it takes to move a project from design to construction by as much as 18 months. The California Department of Transportation (Caltrans) has identified at least \$1.6 billion in projects that could commence with design in the next six months if allowed to use design-build contracting. These projects will create 28,000 jobs once construction is underway. Your unwillingness to grant Caltrans design-build authority means these jobs won't materialize until at least 2010. Furthermore, California needs design-build and public-private partnership authority to take full advantage of any federal infrastructure dollars that are part of President-elect Obama's economic stimulus plan. Failure to adopt real design-build and public-private partnership authority jeopardizes California's ability to get the maximum amount of federal stimulus dollars made available.
- I proposed exempting the sale of state property from the California Environmental Quality Act (CEQA) review process prior to the sale, because applying CEQA to surplus properties prior to the sale simply delays any potential revenue from those assets and provides no environmental benefit since any property would have to undergo a second, separate CEQA review if the property were developed. The bill you sent me makes it even more difficult to use these assets by requiring the state to conduct a CEQA review before determining that the property is even surplus. California government owns tens of billions of dollars in property that could be sold to help pay down our debt and bring badly needed revenue to the State without raising taxes.

Finally, you did not send me any legislation to address California's foreclosure crisis. You say you intend to send me legislation on this subject in the coming weeks. I encourage you to wait no longer to take meaningful action to keep people in their homes.

While I appreciate that your letter expresses a willingness to address some of my concerns with the proposals you have sent me, I am confused by your public statements that you are unclear on what it would take for me to sign these measures. You have in your hands detailed language on each and every measure to reduce spending, create jobs and keep people in their homes, which I have asked for since November. In fact, your letter lists many of these specific concerns that you plan to address in the future. I have never wavered in my commitment to address this economic crisis, and I have never minced words on what I believe it will take to get the job done.

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I thank you both for your efforts and for talking with me nearly every day through Christmas and New Year's, even while we were all with our families. I believe we must continue negotiations to solve this crisis without delay and without reservation. California families are depending on us. It is imperative that we all get together, Democrats and Republicans, and address this crisis head on. I look forward to meeting with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Arnold Schwarzenegger". The signature is written in a cursive, flowing style with a prominent initial "A".

Arnold Schwarzenegger