

Depth of California budget cuts riding on election

SACRAMENTO—Voters will soon decide what Gov. Arnold Schwarzenegger described as two dire scenarios for California: One comes if they approve five budget-related measures on the ballot next week. The other is even worse if they reject them. Ahead of May 19's statewide special election, Schwarzenegger tried to sympathize with voters tired of political gamesmanship but made a final pitch for them to stand with him in filling a piece of the state budget puzzle. He acknowledged that they haven't always done so in the past.

All five budget-related measures were trailing in the polls. Only the sixth, which would cap elected officials' pay during deficit years, was winning majority support.

"To fix the system, I need the people's help," the Republican governor said Thursday, May 14. "I know that the people are sick and tired of hearing about Sacramento's dysfunction. ... People are angry. People are frustrated."

He added: "But people need to know how this election will affect you."

Schwarzenegger on Thursday, May 14, called for laying off thousands of state employees and slashing billions from education to deal with the state's latest budget deficit. He called the cuts painful but said he was left with no other choice as the nation's most populous state sinks further into the fiscal abyss.

He offered no new taxes but proposed some fees for state parks and property owners if the measures don't pass. His budget proposal will go to the Legislature, which has until June 15 to pass a spending plan.

"We are obviously going to look at every proposal the governor puts forward, but I don't know how we do it without raising revenue," said Assembly Speaker Karen Bass, D-Los Angeles.

The governor said the state would have to make even deeper cuts if voters reject the ballot measures, as polls indicate they are inclined to do. He proposed cutting education by \$5.4 billion and shortening the school year by 7.5 days.

His plan called for \$6 billion in borrowing and, under the worst-case scenario, taking \$2 billion from local governments, a move that would affect local police and fire departments.

Schwarzenegger also proposed transferring illegal immigrants in the state prison system to federal custody.

Opponents of the spending cap measure said the governor was releasing his budget proposal earlier than scheduled as a scare tactic to persuade voters to support the special election ballot measures.

"It seems to me it's a brilliant bait-and-switch," said Gary Passmore, spokesman for Congress of California Seniors.

The senior advocacy group opposes Proposition 1A, which has been the most contentious. It would create a spending cap, which most state employee unions oppose, and extend increases in the sales, personal income and vehicle license taxes that lawmakers enacted in February. The extension of those tax increases would generate an additional \$16 billion between 2011 and 2013.

Three other measures have an immediate effect on next year's budget: Proposition 1C, which is intended to raise \$5 billion by borrowing against future lottery revenue, and propositions 1D and 1E. The last two transfer money from mental health and child development programs previously approved by voters.

If voters reject those three measures, the state deficit will grow to \$21.3 billion from \$15.4 billion in the fiscal year that starts July 1.

Starting May 15, the administration will send layoff notices to 5,000 state government employees, a move designed to cut the general workforce by 5 percent.

The governor also suggested selling state property, including the Los Angeles Memorial Coliseum and San Quentin State Prison, to raise \$600 million to \$1 billion over the next two to five years. He said the state could save millions of dollars by eliminating or consolidating certain boards and departments.

Not everyone agrees with the governor's plan to put a price tag on historic structures.

Los Angeles County Supervisor Zev Yaroslavsky, president of the joint-powers Coliseum Commission, said the idea of selling an 86-year-old state landmark was "absurd." The site has hosted the 1932 and 1984 Olympics, the 1959 World Series, and Super Bowls I and VII.

A bill to push the sale of San Quentin through the Legislature became stuck in committee in April when opponents said closing the prison would increase inmate crowding.

To raise revenue, Schwarzenegger proposed increasing some park fees, imposing a property surcharge for emergency protection and selling a portion of a state insurance program. He also would authorize an expansion of oil drilling off the Santa Barbara coast, generating \$1.8 billion in royalties over 14 years. (AP)

Congress weighs federal aid for health insurance

WASHINGTON—House Democrats are looking at big health care changes, including federal aid to help families earning up to \$88,000 pay for insurance and a requirement that all must carry coverage.

A document obtained by The Associated Press shows the plan being developed by the House Energy and Commerce Committee would also require employers to offer coverage to their full-time workers, or pay a percentage of their payroll to the government.

The committee summary is a first look at where House Democrats are headed as leaders try to meet an ambitious goal of passing a health care overhaul by the end of July. Energy and Commerce Chairman Henry Waxman, D-Calif., is expected to play a leading role in crafting the plan

and steering it through negotiations with the Senate later in the year.

The three-page summary broadly tracks with the type of plan President Barack Obama outlined during the political campaign. The summary does not include any cost estimates, but independent experts have put the price tag for such a plan at \$1.2 trillion to \$1.5 trillion over 10 years, with some estimates ranging as high as \$1.7 trillion.

Obama has said the final legislation must rein in costs, guarantee choice of health plans and medical providers, and ensure that all Americans have access to affordable coverage. The president has proposed a downpayment of \$634 billion over 10 years to pay for expanding coverage. He's also promising to hold hospitals, doctors, drug makers

and other providers to their recent offer of \$2 trillion in savings over 10 years.

The Energy and Commerce plan would build on the current system in which employers, government and individuals share responsibility for the cost of health insurance. But it would make major changes in the way Americans get and pay for coverage. Workers and employers would have new obligations to obtain coverage. Insurers would have to abide by new consumer protections to prevent sick people from being denied coverage.

The subsidies for health insurance would be offered on a sliding scale to those earning up to four times the federal poverty level, or \$88,200 for a family of four, according to the document.

The House plan would set up a new insurance purchasing pool

called an "exchange" to help make private coverage more affordable for individuals and small businesses. In its first year, the exchange would be open only to employers with fewer than 10 workers.

Health insurance plans that participate in the exchange would have to follow the same consumer protection rules. They would not be able to deny coverage to the sick, or charge them exorbitant rates.

The document also calls for creation of a new government insurance plan to compete with private companies. The government plan would probably be run by the Health and Human Services department, but it would have to compete on its own. The government insurance plan would be financed by premium payments, not taxpayer dollars. (AP)

Fed official: recovery will be a 'very slow slog'

WASHINGTON—Americans should brace themselves for a slow recovery back to health after the recession ends, with unemployment likely to hit the double-digits, a Federal Reserve official said Friday, May 15.

Consumers here and abroad—fearful of losing their jobs or homes—likely will remain cautious spenders, said Richard Fisher, president of the Federal Reserve Bank of Dallas.

"Under these conditions, I envision a slow recovery," Fisher said in prepared remarks to a banking convention in San Antonio, Texas.

"Not a V-shaped snapback—nor even a U-shaped one—but a very slow slog as we find a more sensible and sustainable mix between consumption and savings and investment."

Looking at the current quarter, Fisher said he expects the "pace of decline will moderate." The economy is "likely to bounce along the bottom for a while, perhaps punching through to positive growth as 2010 dawns," he said.

Federal Reserve Chairman Ben Bernanke told Congress last week that the economy could actually start growing again later this

year. Bernanke—like Fisher—warned that any recovery would be slow, pushing unemployment higher.

Fisher said increases in unemployment will be blunted by a pickup in federal government hiring for the 2010 Census. Even so, the country is likely to see a "10 percent jobless rate before we reverse course," he said.

The jobless rate rose to 8.9 percent in April, the Labor Department said last week.

"The recent pressures have been to the deflationary side, though we seem to have beaten that back," Fisher said. (AP)



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