

Spending Outside the Budget: The Costs of Signed or Vetoed Suspense Bills

When it comes to state spending, the annual budget receives most of the attention. In addition, a few major fiscal bills generate broad interest on their own, such as the gas tax or cap-and-trade plan. However, lower profile bills that pass through the Senate Appropriations Committee “Suspense” process also combine to create significant new spending. We estimated costs for these “other” bills in order to provide a broader look at the extent to which Governor Brown “holds the line” on spending through policy bills. In short, this review shows that spending through new legislation could significantly reduce the state’s operating reserves or make deficits worse in the near future.

Governor Signed Most Suspense Bills. The two major Suspense file hearings resulted in 462 bills passing on for a vote by the entire Senate. Of these, the Legislature eventually passed 343 on to the Governor. As shown in the table below, these include 225 Assembly Bills (ABs) and 118 Senate Bills (SBs). Out of this group of 343 bills, the Governor signed 77 percent (265 bills) and vetoed 23 percent (78 bills).

Count of Suspense Bills Signed or Vetoed				
	Sign	Veto	Total	
AB	169	56	225	66%
SB	96	22	118	34%
Total	265	78	343	
	77%	23%		

Over \$1 Billion in New General Fund Costs. We project that the total General Fund costs for the signed bills would range from about \$1 billion to \$1.7 billion in a given year, once the bills are fully implemented,¹ as summarized in the table on the next page. In contrast, the Governor vetoed bills with General Fund costs ranging from \$388 million to

¹ The ramp-up period for the bills could differ substantially; in some cases, costs will occur in 2018, but in other cases, it may take multiple years for costs to reach the full implementation level. Also, bills with costs lower than \$1 million per year were excluded from the spending estimate totals since these typically account for less than 10 percent of total spending.

\$964 million per year. An important caveat is that forecasting the costs of legislation is extremely difficult, and thus these estimates should be viewed as providing a general scope of potential costs. Additionally, while most new costs would be recurring, a smaller share will be one-time costs.

Cost Estimates for Signed or Vetoed Suspense Bills					
Costs After Full Implementation. \$ in Millions.					
		Signed		Vetoed	
		Low	High	Low	High
General Fund					
Program Spending	AB	\$404	\$800	\$270	\$818
	SB	195	311	118	146
		\$599	\$1,110	\$388	\$964
Bond Debt Service <i>(if voters approve SB 3 & SB 5 bonds)</i>	SB	\$404	\$582	-	-
Total General Fund		\$1,003	\$1,692	\$388	\$964
Special Funds					
New Spending Not Offset by Taxes or Fees	AB	\$154	\$242	\$22	\$25
	SB	169	207	2	2
		\$323	\$448	\$24	\$27
New Tax and Fee Spending	AB	\$168	\$168	-	-
	SB	\$410	\$410	-	-
		\$578	\$578	-	-
Total Special Funds		\$901	\$1,026	\$24	\$27
Total Funds		\$1,904	\$2,719	\$412	\$991

As shown in the table above, the General Fund costs for signed bills include two general obligation bonds that will appear before voters in 2018: SB 3 (Beall; Housing) and SB 5 (De Leon; Drought, Water, Parks etc.). Since the net state costs for these bonds consist of General Fund debt service, rather than program spending, and are contingent on voter approval, the table breaks out these costs separately from other General Fund program spending. Annual General Fund debt service costs could range from \$404 million to \$582 million for these bonds, once all the bonds are issued.

To put these amounts in context, the 2017 Budget Act authorized General Fund spending of \$125 billion with a discretionary reserve of \$1.4 billion this year. Annual

deficits exceeding \$1 billion were already projected to return by 2019-20. Thus, newly signed legislation would significantly eat into the state's discretionary reserve and exacerbate potential deficits that were already expected in the near future.

High-Cost General Fund Bill Examples. Beside the two bond measures listed separately in the table, below are more examples of higher-cost General Fund bills signed or vetoed by the Governor:

Signed General Fund Bills

1. **AB 10 (C. Garcia):** Costs ranging from \$200 million to \$400 million annually to provide feminine hygiene products in public school restrooms.
2. **SB 384 (Wiener):** Between \$31 million to \$110 million to revise the state sex offender registry. These costs are mostly for one-time system changes but will also include increased annual court costs.
3. **AB 262 (Bonta):** Between \$40 million and \$80 million annually for increased state contracting costs resulting from the requirement that state contractors use materials that meet yet-to-be determined greenhouse gas standards beginning in 2019.

Vetoed General Fund Bills

1. **AB 621 (Bocanegra):** Between \$50 million and \$400 million annually for a new program to match personal savings for certain non-teacher school employees such as janitors and teaching assistants.
2. **AB 1320 (Bonta):** Between \$50 million and \$150 million in extra prison costs by prohibiting California from contracting with out-of-state, private, for-profit prisons.
3. **AB 568 (Gonzalez Fletcher):** Costs ranging from \$80 million to \$90 million annually by requiring that schools and community colleges provide at least six weeks of full pay for pregnancy-related leaves of absence.

Special Fund Taxes and Spending. Special fund spending from signed legislation will also be substantial. The costs from various special funds would range from \$323 million to \$448 million annually for signed bills that are not offset by higher taxes or fees. This compares to a range of only \$24 million to \$27 million for vetoed special fund bills. In addition, some special fund bills will increase fees or taxes to pay for potentially \$578 million in additional new spending. The largest bill in this group is SB 2 (Atkins), which imposes a new tax on real estate transaction documents and is projected to cost \$250 million annually to pay for affordable housing programs.