California’s $84.6-billion General Fund faces a multibillion-dollar shortfall in 2011–12.

Governor Brown has proposed $127 billion in state spending for 2011–12: $84.6 billion from the General Fund for most state services; $34.8 billion from special funds, such as the gasoline tax for transportation projects; and $7.9 billion on bond-funded projects. The General Fund faces a $25.4 billion shortfall over the next 18 months: $8.2 billion in the remainder of 2010–11 and $17.2 billion in 2011–12. California’s 2011–12 budget gap is 20 percent of the General Fund, among the largest in the nation. About a third ($8.7 billion) of this gap stems from 2010–11 budget measures that were temporary or failed to materialize. The expiration of temporary increases to the vehicle license fee (VLF), personal income tax, sales tax, and a smaller dependent tax credit makes a $7.2 billion dent in 2011–12 revenues. Another $4 billion will be lost when federal stimulus funds expire. Tax revenues are $3.1 billion lower than anticipated. Finally, two additional factors—the passage of Proposition 22, which curtails the state’s ability to borrow from local funds, and an increase in caseloads across many programs—add $3.7 billion to the projected 18-month shortfall.

This year’s budget process will be different—and it will involve voters.

By law, the governor must propose a balanced budget by January 10 and a revision by May 14. The legislature has until June 15 to pass a budget bill. This year, Governor Brown is asking the legislature to approve budget cuts by March and place a five-year extension of the expiring tax increases on the ballot for a June special election.

The governor is addressing the budget gap with a mix of spending cuts and taxes.

The governor plans to close the budget gap with equal parts spending cuts (47%, or $12.5 billion) and revenue increases (46%, or $12 billion), primarily the extension of expiring tax increases. Other measures, such as one-time savings and borrowing, would cover the rest (7%, or $1.9 billion). The largest cuts are to Medi-Cal ($1.7 billion), the state’s welfare-to-work program ($1.5 billion), and higher education ($1.4 billion). The revenues would come primarily from an extension of the expiring tax increases. If voters approve this extension, the largest area of General Fund spending, K–12 education, would remain relatively flat.

Localities would gain responsibilities and revenues but lose economic development programs.

The governor proposes a permanent shift of $5.9 billion of program spending to the local level, including criminal and juvenile justice, mental health services, and foster care. Localities would pay for these programs with revenues from the extension of the 1-cent sales tax and 0.5-percentage-point VLF increases, but there is no dedicated funding source after the five-year extensions expire. The governor also proposes to narrow the budget gap by $2.3 billion by eliminating two local economic development programs—redevelopment agencies and enterprise zones.

The budget would erase California’s projected operating deficits, but only if it is fully implemented.

The governor’s plan depends on the legislature passing spending cuts and placing the tax extension on the ballot, which might be difficult if a super-majority approval is required. Also, voters will be asked to extend the expiring tax increases, after rejecting a similar proposal by a nearly 2-to-1 margin in May 2009. If revenue increases are not approved, Governor Brown has indicated that deeper spending cuts are likely, including at least $2 billion to K–12 education.
Proposed general fund expenditures, FY 2011–12

Source: 2011–12 Governor’s Budget Summary, Figure SUM-10.

Note: “Other” includes business, transportation and housing ($691 million), state and consumer services ($597 million), labor and workforce development ($414 million), and environmental protection ($63 million).

Governor’s budget proposal would erase projected operating deficits

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Budget projection absent action</th>
<th>Budget projection under governor’s proposal</th>
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<tbody>
<tr>
<td>2011–12</td>
<td>$17.2 billion deficit (plus $8.2 billion carry-in from 2010–11)</td>
<td>Balanced</td>
</tr>
<tr>
<td>2012–13</td>
<td>$19.2 billion deficit</td>
<td>$15 million surplus</td>
</tr>
<tr>
<td>2013–14</td>
<td>$17.4 billion deficit</td>
<td>$2.4 billion surplus</td>
</tr>
<tr>
<td>2014–15</td>
<td>$21.5 billion deficit</td>
<td>$7 million surplus</td>
</tr>
</tbody>
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Source: Governor’s Budget Summary, Figure INT-03.

Note: Carry-in deficit is the projected shortfall at the close of the 2010–11 fiscal year without any mid-year corrective actions. Budget projection under governor’s proposal in 2011–12 includes a $1 billion reserve.

Sources: Budget gaps: Center on Budget and Policy Priorities and National Conference of State Legislatures. May 2009 election results: California Secretary of State. Budget risks: Legislative Analyst’s Office.

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