

CALIFORNIA'S STATE BUDGET: THE ENACTED BUDGET

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► The 2011–12 budget was enacted on time and with no Republican votes.

On June 28, the legislature passed a budget and the governor signed it on June 30, before the fiscal year began on July 1. The budget spends \$129.5 billion, including \$85.9 billion from the state's General Fund—a decrease of 6.1% from 2010–11. This was the first budget passed since voters approved Proposition 25 (2010), which lowers the threshold required to pass a budget that excludes tax increases from two-thirds to a simple majority. The Democrats, who have a majority in both houses, passed the budget without Republican support.

► The budget was balanced with a mixture of spending cuts and higher revenues.

In January, Governor Brown proposed closing the 18-month \$25.4 billion budget gap with equal parts spending cuts and revenue increases (primarily from extending temporary tax increases). The legislature did not approve the tax extensions, so much of the budget gap is closed by higher, mostly unanticipated, revenues. Given that 2010–11 tax receipts are \$6.6 billion higher than expected, the budget assumes another \$1.2 billion will be collected in the final months of 2010–11 and that in 2011–12 the state will collect \$4 billion in tax revenue above and beyond what was previously forecasted. In March, the governor signed \$11 billion in spending cuts and other measures adopted by the legislature, including large reductions to health and human services programs (\$4.5 billion) and higher education (\$1.2 billion). The final enacted budget imposes additional cuts, including \$1.7 billion to redevelopment agencies, \$500 million to Medi-Cal, \$150 million to each of the state university systems, and \$150 million to state courts. Some earlier cuts to in-home supportive services and child care for welfare recipients were partially restored. Almost \$3 billion of the budget gap is resolved through borrowing and transfers from special funds, as well as other measures.

► If revenues do not materialize, there will be additional cuts.

If the projected revenues do not materialize, the state will impose additional cuts. The plan includes two tiers of cuts: one tier for a shortfall of more than \$1 billion and a second tier for a shortfall of more than \$2 billion. K–12 education would face the largest reduction (\$1.8 billion); to help school districts absorb this reduction, the state would lower the minimum required days of instruction another 7 days (on top of a 5 day reduction that took effect in 2009) to 168 days.

► The budget package increases fees but not taxes.

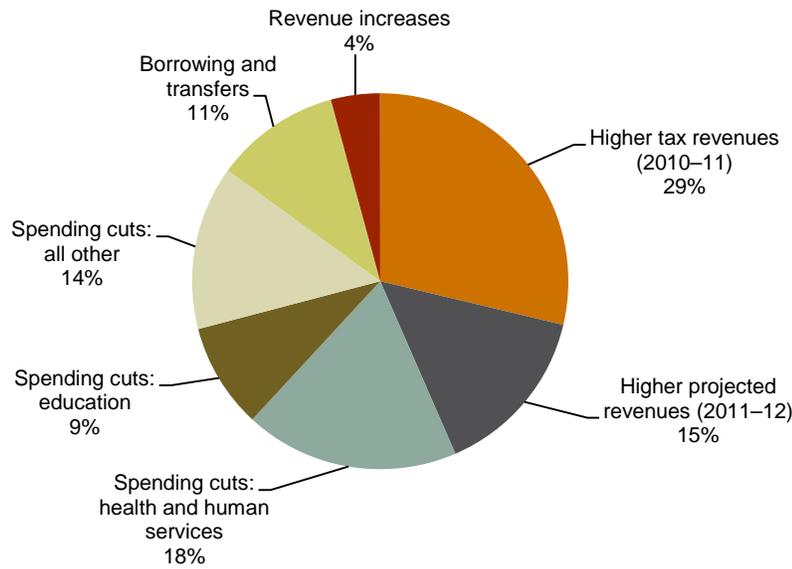
The legislature rejected the governor's proposal to extend the temporary increases of personal income, sales, and vehicles taxes for five years, subject to voter approval. The last of these increases expired July 1. The governor plans to put tax increases on the 2012 ballot aimed at reducing the state's future budget gaps and outstanding debt. However, the budget includes several revenue-producing measures: a \$12 increase to the vehicle registration fee (\$300 million), an extension of a hospital fee (\$210 million), the collection of sales taxes on out-of-state online purchases (\$200 million), the elimination of a child care tax credit (\$75 million), and a new \$150 fire fee on rural homeowners (\$50 million).

► Realignment proceeds even without extended tax increases.

In March, the legislature adopted the governor's proposal to shift nearly 40,000 inmates from state prison to local jails, pending a dedicated source of funding. This shift would satisfy a court order (recently upheld by the U.S. Supreme Court) to reduce California's state prison population. To pay for this realignment, Governor Brown planned to use a portion of the increased vehicle license fee (VLF) and sales tax. Since those increases were not extended, the state will now direct a portion of the existing state sales tax (1.0625 of 7.25 percent; \$5.1 billion) and VLF (\$453 million) to local governments for local programs, including jail costs, mental health, and child welfare services.



California's 18-month budget gap was closed through a mix of revenues and spending cuts



Sources: California Department of Finance, "Enacted Budget Summary," Figures INT-01 and INT-03; Legislative Analyst's Office, "Summary Tables 2011-12 Budget Package."

Notes: Total General Fund savings from increases and cuts shown here: \$27.2 billion: \$11.8 billion in higher revenues, \$11.3 billion in spending cuts, \$2.9 billion in borrowing and transfers, and \$1.2 billion in new revenues. There are some differences in the way the Department of Finance and Legislative Analyst's Office account for spending cuts and revenues. Figure uses LAO estimate of \$0.9 billion reduction in the General Fund's contribution to K-14 education (Finance's estimate is \$2.1 billion). Figure excludes \$5.4 billion in realignment revenue shifts (sales tax, vehicle license fee, motor vehicle fee).

If budgeted revenues fall short, there will be additional cuts

	2011-12 reduction (millions)
Tier I: If revenues are more than \$1 billion below budget act projections	
Health and human services	\$248
Higher education	\$230
Corrections and justice	\$107
Libraries	\$16
Tier I total	\$601
Tier II: If revenues are more than \$2 billion below budget act projections	
Tier I total	\$601
K-12 education	\$1,788
Community colleges	\$72
Tier II total	\$2,461

Sources: California Department of Finance, "Enacted Budget Summary," Figure INT-04; Legislative Analyst's Office, "Summary Tables 2011-12 Budget Package."

Notes: Health and human services reductions include \$110 million to In-Home Supportive Services, \$100 million to developmental services, \$23 million to child care, and \$15 million in Medi-Cal provider payments. Higher education measures include a \$100 million cut to both the University of California and California State University and a \$30 million increase in community college fees (\$10 per unit). Corrections and justice measures include a \$72 million increase in fees charged to counties for juvenile offender transfers, a \$16 million cut to the California Department of Corrections and Rehabilitation, and the elimination of vertical prosecution grants (\$15 million). K-12 education measures include \$1.54 billion from shortening the school year and \$248 million from the elimination of non-special education home-to-school transportation.

Sources: California Department of Finance, "Enacted Budget Summary;" Legislative Analyst's Office, "Summary Tables 2011-12 Budget Package."

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