

CALIFORNIA'S STATE BUDGET: IMPACT OF THE NOVEMBER ELECTION

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▶ **Voters support the governor's budget strategy by approving Proposition 30.**

On November 6, California voters approved Proposition 30 (54% yes, 46% no), an integral part of Governor Jerry Brown's budget plan. Proposition 30 temporarily increases the sales tax and tax rates on higher incomes and is expected to generate \$8.5 billion in revenues this fiscal year. Passage of Proposition 30 also secures other major elements of the governor's budget deficit reduction framework.

▶ **Results for two other tax proposals on the November ballot were mixed.**

Voters also approved Proposition 39 (60% yes, 40% no), which raises corporate taxes to pay for energy efficiency projects and general budget support. The Legislative Analyst's Office estimates the change in corporate taxes will generate about \$500 million in 2012–13 and \$1 billion each year thereafter. The third tax proposal on the ballot, Proposition 38, was defeated (72% no, 28% yes). It would have raised \$10 billion a year in revenues for K–12 education.

▶ **The passage of Proposition 30 protects K–12 and higher education from "trigger" cuts.**

Voter approval of the proposal avoids \$6 billion in "trigger" cuts that would have occurred if Proposition 30 failed. (The trigger cuts would not have offset the full \$8.5 billion of lost Proposition 30 revenue). Schools and community colleges would have been cut by about \$5.4 billion. Another \$500 million would have been cut from the University of California and California State University systems.

▶ **Proposition 30 also resolves two major issues related to the realignment of correctional responsibilities.**

This program shifted responsibility for lower-level criminal offenders from the state to the counties. Proposition 30 gives counties a constitutional guarantee of funding for the realigned jail program. The measure also addresses a lawsuit alleging that realignment illegally reduced the Proposition 98 funding formula for schools and community colleges. Now that these funding questions have been resolved, this part of the governor's deficit reduction package appears to be set for the long run.

▶ **The passage of Proposition 30 completes the governor's budget framework but does not resolve all issues.**

Approval of the measure protects this year's budget and increases the possibility that balancing the budget in 2013–14 will be less difficult than in the recent past. Its passage, however, does not signal the end of the state's budget woes. Several of the more aggressive revenue and savings assumptions in the 2012–13 budget could prove too optimistic. And more work will be needed to eliminate the state's structural deficit and retire the \$35 billion budget-related "wall of debt."

▶ **An improving revenue picture will put pressure on the state to undo recent budget cuts.**

Past budget reductions have significantly lowered General Fund support levels for almost all state programs. Some of these reductions have been partially offset by revenues from other sources. Increases in tuition, for instance, made up for some of the higher education General Fund cuts. But as the economy and revenues recover, the state will come under pressure to restore funding to many programs.

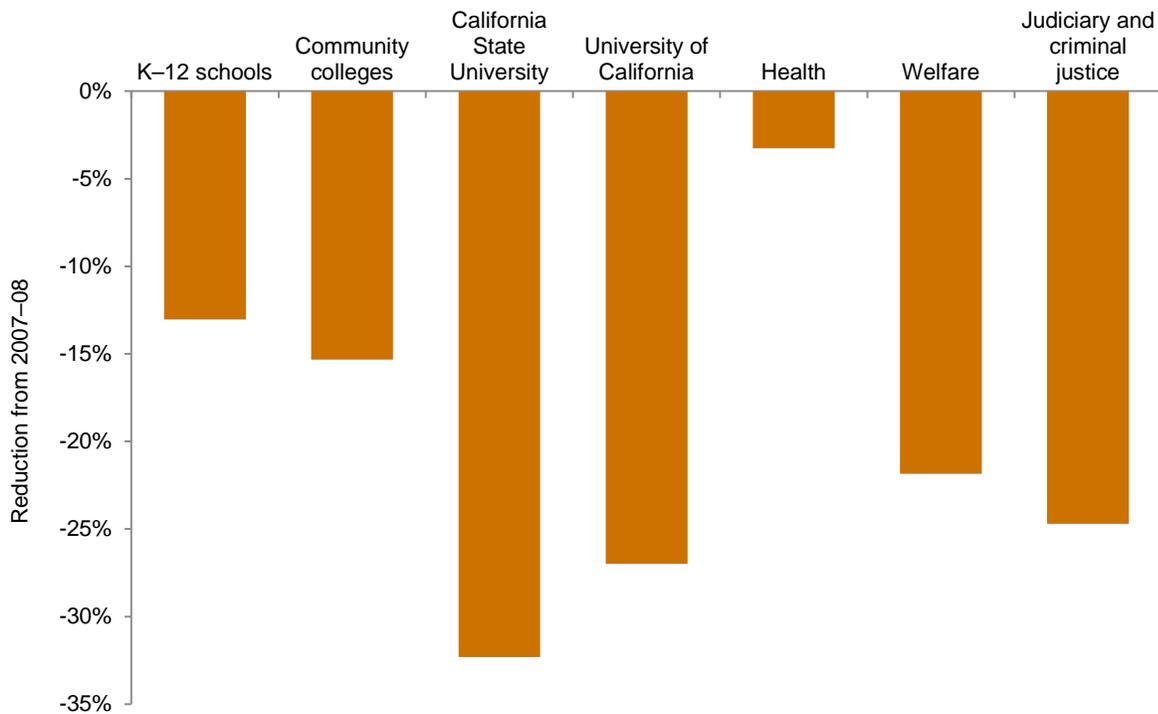


Tax measures on the November 2012 California ballot

	Proposal	Projected annual revenues
Proposition 30	Increase sales taxes by 1/4% and raise income tax rates for high-income taxpayers by up to 3%.	\$ 6 billion
Proposition 38	Increase income tax rates for most taxpayers. Rates for high-income earners increase by up to 2.2%. Funds used for K-12 education, short-term budget relief.	10 billion
Proposition 39	Make corporate income tax rules for out-of-state companies the same as in-state businesses. Funds used for energy efficiency and alternative energy projects, general budget support.	1 billion

Source: Analyses of November 2012 Ballot Propositions, Legislative Analyst's Office, July 2012.

Most programs have experienced major General Fund cuts since 2007-08



Sources: The 2012-13 Budget: California Spending Plan, Legislative Analyst's Office, September 2012. California Spending Plan 2010-11, November 2010.

Note: Change is calculated as the difference between the 2012-13 Budget Act and actual 2007-08 spending levels.

Sources: The 2012-13 Budget: California Spending Plan, Legislative Analyst's Office, September 2012. The 2012-13 Budget: Overview of the May Revision, Legislative Analyst's Office, May 2012. California Spending Plan 2010-11, November 2010. California State Budget 2012-13, Jerry Brown, Governor, Department of Finance, 2012.

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