

CALIFORNIA'S STATE BUDGET: THE GOVERNOR'S PROPOSAL

Margaret Weston

▶ **Governor Brown has proposed \$137 billion in state spending for 2012–13.**

The proposal includes \$92.6 billion from the General Fund for most state services, \$39.8 billion from special funds—such as the gasoline tax for transportation projects—and \$5 billion on bond-funded projects. In addition, the governor's budget assumes that the state will receive \$73 billion in federal funds.

▶ **The General Fund faces large shortfalls—how large is in dispute.**

The governor projects that the General Fund faces a \$9.2 billion gap over the next 18 months. He proposes a mix of spending cuts and new taxes to close this gap and create a \$1.1 billion reserve. In November, the Legislative Analyst's Office (LAO) projected an even bigger budget shortfall of \$12.8 billion, based primarily on a lower projection of personal income tax collections.

▶ **The budget assumes that the governor's tax initiative will pass and triggers automatic cuts if it fails.**

More than half of the budget gap would be addressed through new, temporary taxes: a half-cent increase to the state sales tax—which decreased one cent last summer—and an increase in the personal income tax on individuals earning more than \$250,000 (\$500,000 for couples). These taxes are part of a planned November ballot initiative, and the governor forecasts that they will generate \$6.9 billion through the end of the fiscal year. The LAO forecast is lower, at \$4.8 billion. If voters reject the taxes, the governor proposes automatic spending cuts, mainly affecting K–12 schools and community colleges (90%) and public universities (7%).

▶ **The budget proposal makes deep and permanent reductions to social safety net programs.**

Governor Brown proposes significant reductions to health and social programs, including CalWORKS (the state's welfare program)—which would occur no matter how voters respond to the tax initiative. These reductions include decreasing eligibility for work assistance and subsidized child care from four to two years for some families, reducing some monthly cash benefits, and eliminating 62,000 child care slots (a \$1.4 billion reduction). Proposed cuts to in-home supportive care (\$164 million) and health programs (\$929 million) are on top of reductions made over the last few years. These proposed cuts would come at a time of increasing demand and rising caseloads.

▶ **The tax initiative offers a permanent funding source for new county responsibilities.**

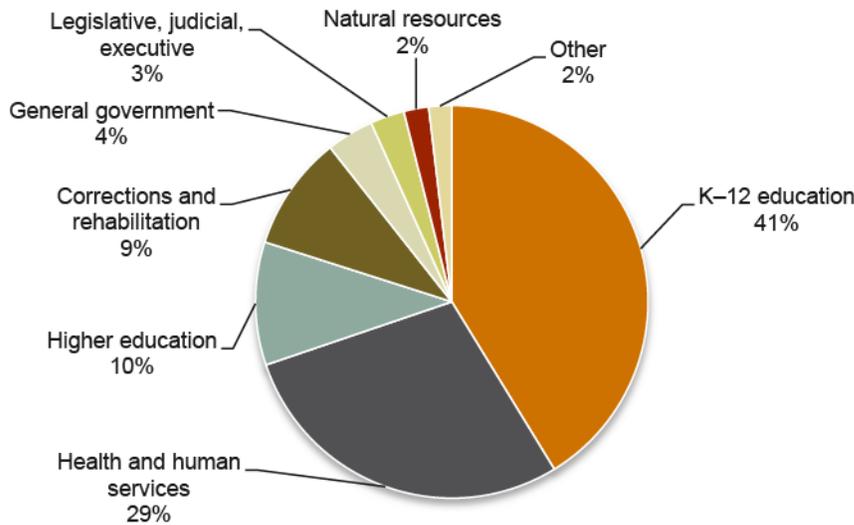
Last year, the state shifted responsibility for some services from the state to the local level, including child welfare, juvenile justice, and some adult corrections functions. To pay for these new responsibilities, the state temporarily transferred a portion of the sales tax (\$5.1 billion) and the vehicle license fee (\$453 million) to a new local account. The governor's proposed tax initiative, if passed, would make this funding structure permanent. With the transfer of state prisoners to county jails, the governor projects a \$1.1 billion savings in state correctional costs.

▶ **The governor proposes big changes to K–12 finance.**

Critics have long charged that California's school finance system is inadequate, inequitable, and overly complex. To address these critiques, Governor Brown proposes eliminating dozens of mandated spending programs and replacing the current funding system with a "weighted-student formula," in which schools receive an equal base level of per pupil funds, along with additional funds for disadvantaged students and English learners. School districts would have complete discretion over the use of these funds. Unlike today, regular public schools and charter schools would receive funding through the same formula.



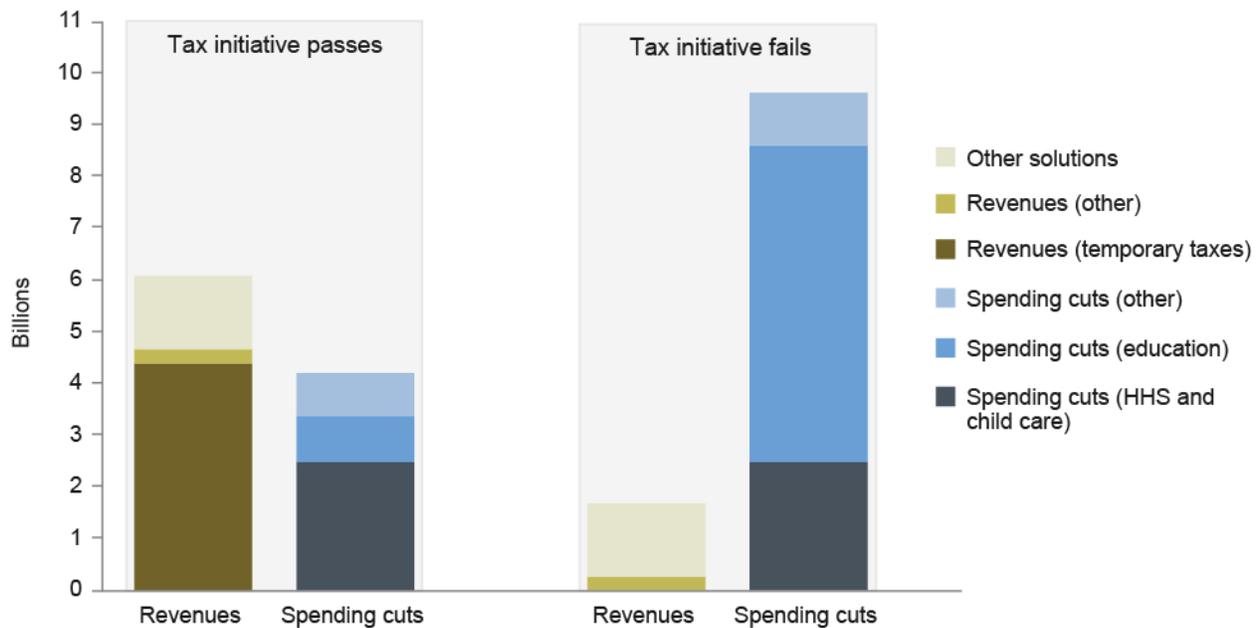
Proposed general fund expenditures, FY 2012–13



Source: 2012–13 Governor’s Budget Summary, Figure SUM-04.

Note: “Other” includes state and consumer services (\$689 million), business, transportation and housing (\$558 million), labor and workforce development (\$448 million), and environmental protection (\$47 million).

If governor’s tax initiative fails, automatic budget cuts will occur



Source: 2012–13 Governor’s Budget Summary, Figures INT-02 and INT-03.

Notes: Proposed budget cuts include \$2.5 billion to HHS and child care, \$874 million to K–14 education and Cal Grants, and \$856 million to state mandates and other programs. Proposed revenues include \$4.4 billion from the governor’s tax initiative, \$89 million from other General Fund revenues, and \$161 million in a special fund tax on some health care plans. Another \$1.4 billion come from other solutions. If the governor’s tax initiative fails, K–14 education would be cut by \$4.8 billion and UC and CSU would each be cut by \$200 million. Trigger cuts also include the Department of Forestry and Fire Protection (\$15 million), flood control (\$6.6 million), fish and game (\$3.5 million), and park rangers and lifeguards (\$2 million).

Contact: weston@ppic.org

