

CALIFORNIA'S STATE BUDGET: THE MAY REVISION

Paul Warren and Margaret Weston

► **Governor Brown has revised his budget proposal to address an increase in the state's budget gap.**

The estimated 18-month General Fund budget gap increased from \$9.2 billion in January to \$15.7 billion in May, as revenues fell \$4.3 billion below levels projected in January and costs grew by \$2.2 billion. By law, the governor must submit a revised budget proposal to the legislature in May that includes updated revenue and expenditure estimates, and the legislature has until June 15 to pass a budget bill. On May 14, Governor Brown proposed \$141.9 billion in state spending for 2012–13; this includes \$91.4 billion from the state's General Fund.

► **The governor wants to bridge the budget gap with a mix of new revenues and spending cuts.**

Approximately \$5.9 billion of the budget gap would be addressed by new revenues. Spending cuts would contribute \$8.3 billion in solutions. Revenue transfers and payment delays would make up the remaining \$2.5 billion. These solutions would close the budget gap and leave the state with a \$1 billion reserve. The Legislative Analyst's Office review, however, casts doubt on whether this reserve is sufficient given the size and complexity of the revenue and expenditure proposals.

► **Funding for education hinges on the tax initiative.**

The governor is sponsoring a tax initiative on the November ballot that is by far the largest source of new revenue. It would increase sales taxes by a quarter percentage point and increase personal income taxes on taxpayers earning more than \$250,000. In total, it would generate \$8.5 billion in new revenues through June 2013. A portion of these new revenues (\$2.9 billion) would go to K–12 schools and community colleges. The remaining \$5.6 billion would be available to reduce the budget gap. Should his tax measure fail, the governor has proposed cuts of \$6.1 billion. The vast majority of these cuts would be absorbed by public education: K–12 schools and community colleges would lose \$5.5 billion and the California State University and University of California systems would lose \$250 million each.

► **The governor proposes significant reductions to health and social services.**

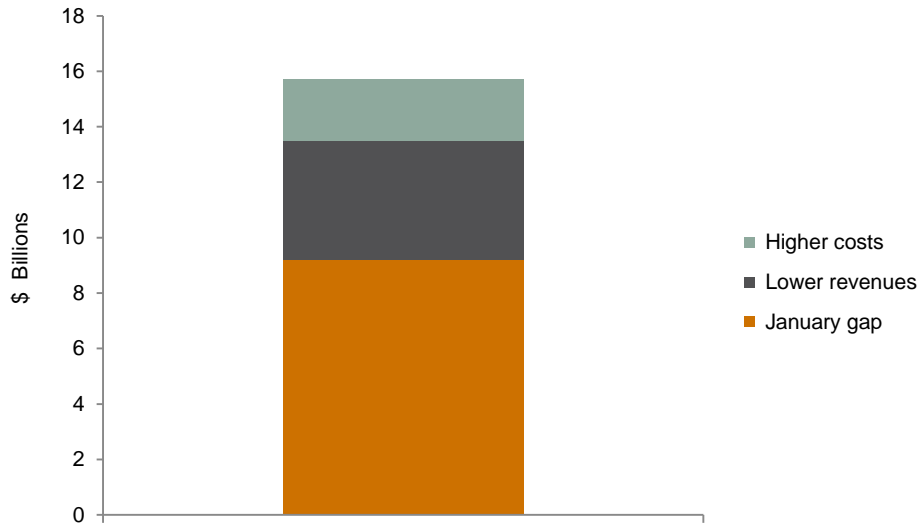
Reductions are proposed for most program areas, but health and human services cuts would be significant, totaling \$2.2 billion. The state's welfare program, CalWORKs, would see the largest reduction: it would be expected to save \$880 million by reducing the amount of time parents can receive aid from 48 months to 24 months and by lowering payments for most welfare recipients. The state would save another \$660 million by enrolling individuals who are eligible for both Medi-Cal and Medicare in a managed care program. The proposed budget also cuts almost \$225 million from In-Home Supportive Services, a program that cares for the aged and disabled in their homes. To achieve these cuts, \$125 million would be saved through the managed care program and \$99 million would come from an across-the-board reduction in service hours. Rate reductions and service cuts to other health and social service programs would save a total of \$475 million.

► **K–12 education faces considerable fiscal uncertainty.**

K–12 school funding may have to deal with a complex financial scenario in the coming year. About \$5 billion, or 9%, of the K–12 budget depends on the governor's tax initiative passing in November. If the initiative fails, districts will be forced to make significant mid-year budget adjustments. The budget allows school districts to save some money by shortening the school year by up to three weeks if the initiative fails. A survey by the Legislative Analyst's Office shows that most districts plan to wait until November to spend any revenues from the proposed tax increase.

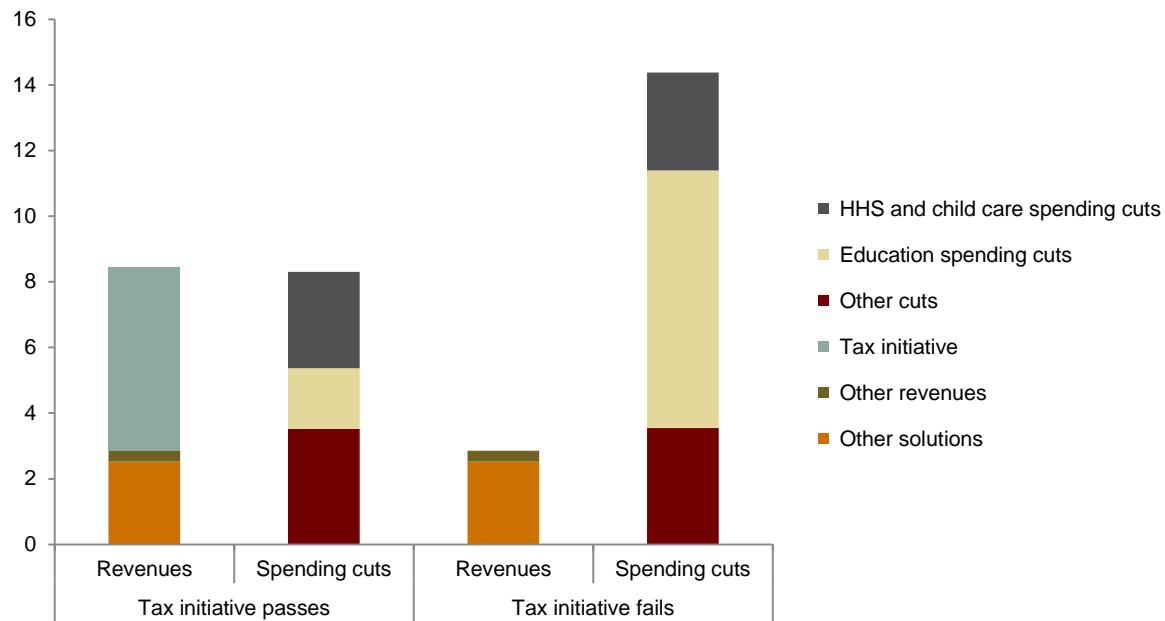


The state's budget gap has grown to \$15.7 billion since January



Source: 2012-13 Governor's Budget Summary.

If the governor's tax initiative fails, education will absorb most of the additional spending cuts



Source: 2012-13 Governor's Budget Summary.

Sources: 2012-13 Governor's Budget Summary, Legislative Analyst's Office Year-Three Survey: Update on School District Finance in California, Senate Budget Committee 2012 May Revision Highlights, and Assembly Budget Committee Highlights of Governor's Proposed 2012-13 May Revision.

Contact: warren@ppic.org