

## CALIFORNIA'S STATE BUDGET: THE ENACTED 2012–13 BUDGET

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### ► The 2012–13 budget was enacted on time.

Governor Brown signed the 2012–13 Budget Act on June 27, three days before the fiscal year began on July 1. The budget appropriates \$143 billion, including \$91.3 billion from the General Fund. General Fund spending is 11% lower than 2007–08, which was the high point for the budget before the recession, but almost 10% higher than last year's budget. Revenues are expected to reach \$96 billion, up \$12.5 billion from 2011–12.

### ► The adopted budget reflects the need to address a large budget gap.

The governor and legislature agreed to \$16.6 billion in cuts and other measures to close the state's budget gap. The solutions include about \$6 billion in new revenues, spending cuts of about \$5 billion, and \$5.6 billion of funds redirected from other sources. Virtually all of the new revenues are generated via an initiative the governor qualified for the November ballot that raises taxes on upper incomes and sales by about \$8.5 billion (per Proposition 98, \$2.5 billion of this additional revenue will automatically go to schools and community colleges). If voters reject the governor's initiative, there will be \$6.1 billion in "trigger" cuts, most of which would be absorbed by K–12 and higher education. The budget does not specify how the remaining \$2.4 billion would be absorbed.

### ► Health and welfare programs are experiencing significant spending cuts.

The final budget reduces spending on health and human services programs by \$1.8 billion. The cuts include savings of \$612 million from moving individuals who receive services from both Medi-Cal and federal Medicare into a managed care program. An additional \$13 million will be saved by moving children covered by the Healthy Families insurance program into Medi-Cal. Finally, the state will save \$470 million by reducing job training and child care services for recipients of California Work Opportunity and Responsibility to Kids (CalWORKs). The budget also includes a CalWORKs reform that will take effect in 2015: assistance for families that do not meet federal work requirements will be reduced from four to two years.

### ► Education programs are mostly protected from cuts—unless voters reject the governor's tax initiative.

The budget generally will allow schools to continue operations at the same levels as 2011–12—assuming the tax initiative is approved by voters. New revenues to K–12 education are intended primarily to reduce the amount of late state payments to schools, support the growth in the student population, and pay for technical fixes needed to maintain ongoing programs. If the governor's initiative fails, the budget authorizes schools to offset the trigger cuts by reducing the school year by up to 15 days. The legislature rejected the governor's proposal for a weighted-pupil formula, which would have consolidated most K–12 funding streams into a single grant. But the budget includes many of the governor's higher education proposals, including major reductions to financial aid for students attending private or nonprofit colleges that will be implemented over the next two years.

### ► With only a small reserve, the budget could easily be thrown out of balance.

The Legislative Analyst's Office has expressed concern that the budget's revenue assumptions may be overstated by \$550 million. The LAO also believes that the estimate of property tax revenues that will be redirected from now-closed redevelopment agencies to schools and community colleges may be \$900 million too high. And, as noted above, if the governor's tax initiative fails, a \$2.4 billion revenue gap will open up. The budget maintains a reserve estimated at \$950 million, so the state has little to fall back on if these assumptions prove to be incorrect.



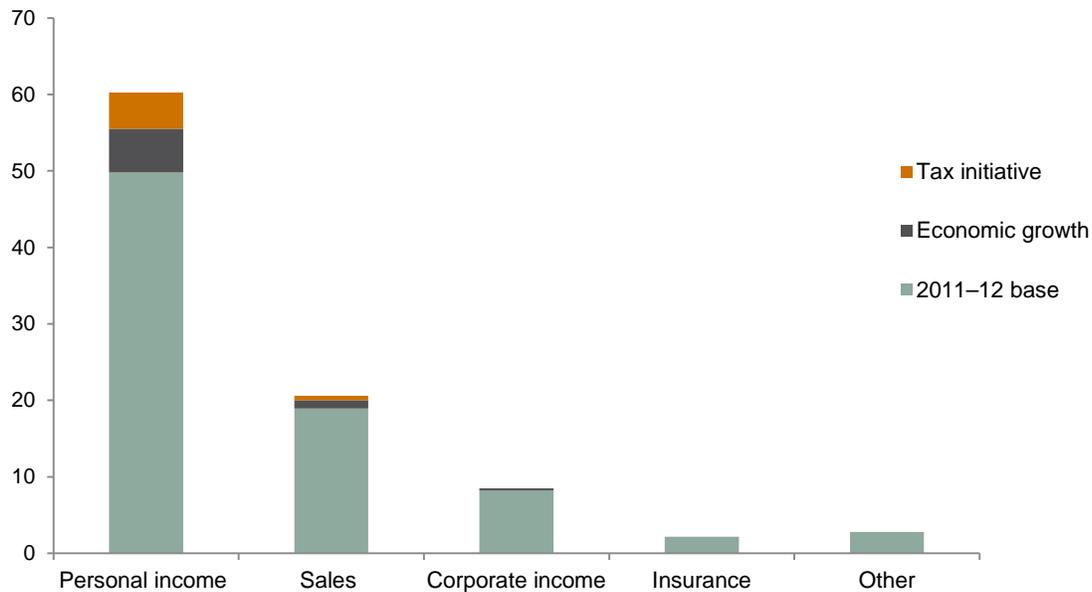
**Spending cuts are distributed throughout the budget (in millions)**

Realignment of K-12 spending to reduce funding requirement <sup>a</sup>	\$1,885
Consolidation of services for joint Medicare/Medi-Cal patients	612
Employee compensation reductions	529
Reduction in CalWORKs training and child care services	469
Lower funding for nursing homes and hospitals	432
Reduction of child care slots	294
Other Medi-Cal reductions	190
Cal-Grant financial aid reforms	134
Deferral of county payments for local mandate costs	100
Other reductions	305
<b>TOTAL</b>	<b>\$4,950</b>

**Sources:** Legislative Analyst's Office Overview of the May Revision (May 18, 2012); Department of Finance Final Budget Summary (June 28, 2012).

<sup>a</sup> The state constitution sets the amount the state must spend on schools and community colleges each year. This cut, which lowers the required funding level, still results in a year-to-year funding increase for K-14 education.

**The budget anticipates significant increases in personal income taxes**



**Source:** Highlights of Governor's Proposed 2012-13 May Revision.

**Sources:** Legislative Analyst's Office Overview of the May Revision (May 18, 2012); Department of Finance Final Budget Summary (June 28, 2012); Highlights of Governor's Proposed 2012-13 May Revision.

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