

California STATE BUDGET 2012-13



EDMUND G. BROWN JR. GOVERNOR, STATE OF CALIFORNIA

INTRODUCTION

The 2012 Budget Act closes a \$15.7 billion budget gap and rebuilds a nearly \$1 billion reserve. It builds upon important reforms enacted last year—public safety realignment and the elimination of redevelopment agencies. It reforms welfare to refocus the program on returning individuals to work, merges the delivery of services for those who are eligible for both Medi-Cal and Medicare to reduce costs and improve services, and overhauls California’s correctional system. The Budget also protects education and public safety programs, makes government more efficient and less costly, moves government closer to the people, and pays down debt.

While the state continues to face budget risks and pressures, the plan puts California on its most stable financial footing in years. Under current projections, the Budget would be balanced on an ongoing basis for the first time in over a decade. This fiscal stability will make California more attractive for business, investment, and the creation of jobs.

The Budget reinvests in schools and universities. Spending for K-14 schools increases by 14 percent—providing \$6.7 billion in additional funding, \$6.1 billion to schools and \$570 million to community colleges. The University of California and the California State University are provided increased funding in 2013-14, contingent upon the passage of The Schools and Local Public Safety Protection Act, to hold tuition level next year.

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General Fund spending outside of Proposition 98 is projected to decline by \$1.5 billion, or 2.8 percent, excluding a required repayment of \$2.1 billion the state borrowed from local government in 2009. At its peak in 2007-08, General Fund spending was \$103 billion. Given the deep spending cuts included in the 2011 Budget and the 2012 Budget, overall General Fund spending is now \$91.3 billion, \$11.6 billion lower than five years earlier. General Fund spending as a share of the economy is down to its lowest level since 1972-73. By the same measure, total state spending is at the same level as the mid-1990s.

CLOSING THE BUDGET GAP

In closing the \$15.7 billion gap, the Budget relies on deep spending reductions combined with temporary taxes and other actions. In total, as shown in Figure INT-01, the Budget reduces expenditures by \$8.1 billion. Temporary taxes assumed to be approved by the voters at the November election and other targeted revenue increases total \$6 billion. Other solutions of \$2.5 billion were also adopted. The total of \$16.6 billion in changes balances the Budget and leaves the state with a reserve of nearly \$1 billion.

Figure INT-01
Closing the Budget Gap
(Dollars in Millions)

	Two-year total	%
Expenditure Reductions	\$8,089	49
Revenues	6,033	36
Other	2,518	15
Total Solutions	\$16,640	

The Budget permanently reduces spending to a sustainable level, protects education and public safety to the greatest extent possible, and provides a basic safety net for the most vulnerable. Figure INT-02 details the reductions included in the Budget. While cutting spending, the Budget also restructures programs to improve outcomes and reduce spending:

- Reforms CalWORKs by establishing a 2-year time limit for parents who are not meeting federal work requirements. (Savings of \$469 million.)
- Merges the delivery of services for those who are eligible for both Medi-Cal and Medicare to reduce costs and improve the coordination of services. (Savings of \$612 million.)

- Eliminates the Healthy Families Program and transitions children to Medi-Cal to build a unified and simpler system that provides health care at a lower cost. (Savings of \$13 million.)
- Restructures funding for trial courts and makes funding for the Judiciary more transparent. The state assumed funding responsibility for trial courts in 1997. The Budget alters the funding structure for trial courts consistent with the goals of the reform legislation. (Savings of \$544 million.)

Figure INT-02
Budget Balancing Proposals
(Dollars in Millions)

Expenditure Reductions ^{1/}	
<u>Health and Human Services</u>	
Medi-Cal	\$1,234.0
CalWORKs	469.1
In-Home Supportive Services	52.2
Other Health and Human Services Programs	91.2
<u>Education</u>	
Proposition 98	1,885.7
Child Care	294.3
Cal Grant Program	133.5
Other Education	35.7
<u>All Other Reductions</u>	
Redevelopment Assets	1,479.0
State Mandates	828.3
Judiciary	544.0
Employee Compensation	528.6
Other Reductions	513.5
Expenditure Reductions	\$8,089.1 49%
Revenues	
Temporary Taxes	\$5,579.8
Other Revenues	453.5
Revenues	\$6,033.3 36%
Other	
Loan Repayment Extensions	\$1,158.3
Transfers and Loans from Special Funds	612.2
Additional Weight Fee Revenues	385.2
Unemployment Insurance Interest Payment	312.6
All Other	49.5
Other	\$2,517.8 15%
Total	\$16,640.2

^{1/} Includes Vetoes

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- Prohibits colleges and universities that are unable to meet minimum performance standards from participating in the Cal Grant Program. Phases in additional cost-containment measures over time. (Savings of \$134 million.)
- Reforms the state process for K-14 education mandates by providing a block grant as an alternative to the existing, inefficient claiming process. For nonschool mandates, provides a multiyear suspension of most mandates to provide greater flexibility to local governments. (Savings of \$729 million.)

The Budget also reflects the following spending reductions:

- Reduces the cost of state employee compensation by 5 percent. (Savings of \$402 million.)
- Implements various reductions to hospital and nursing home funding to lower Medi-Cal costs. (Savings of \$432 million.)
- Reduces funding for child care programs and eliminates 14,000 child care slots. (Savings of \$294 million.)
- Creates a framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services. Assets transferred to schools will offset General Fund costs. (Savings of \$1.5 billion.)
- Makes various adjustments, including using a 2011-12 overappropriation of the minimum guarantee to prepay Proposition 98 funding required by a court settlement. (Savings at \$1.9 billion.)

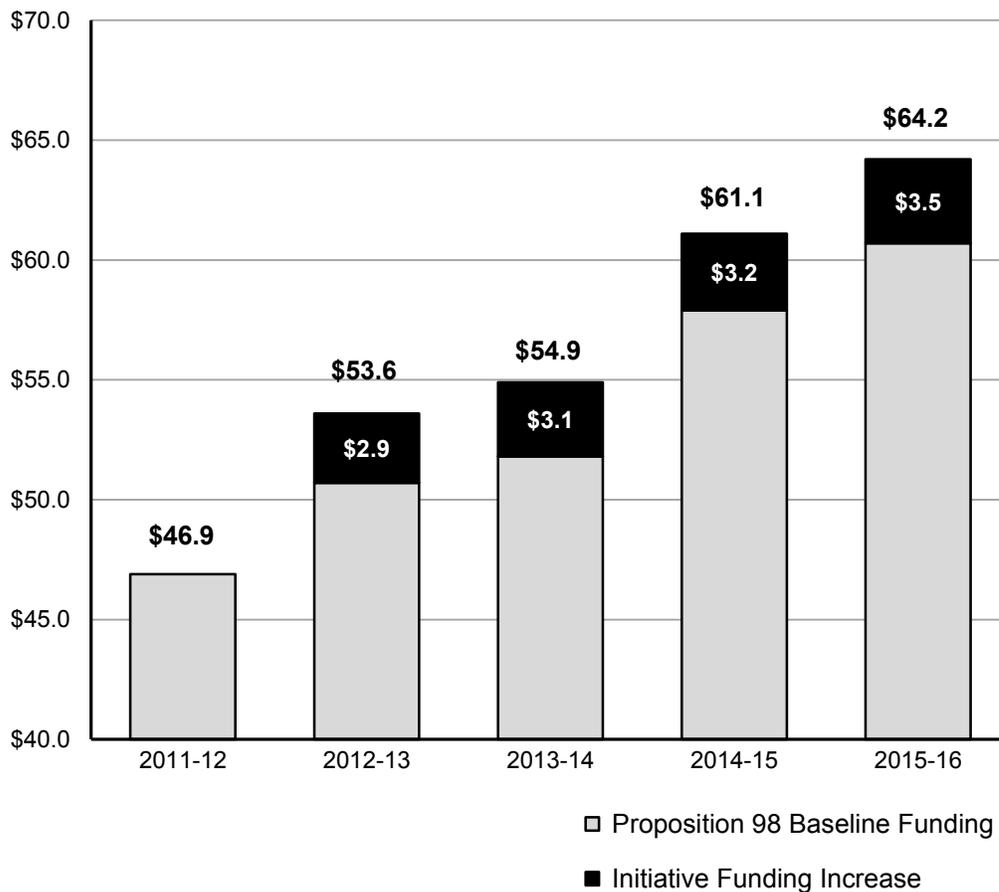
TEMPORARY TAXES TO PROTECT EDUCATION AND PUBLIC SAFETY

The Budget assumes the passage of The Schools and Local Public Safety Protection Act at the November election. The measure temporarily increases the personal income tax on the state's wealthiest taxpayers for seven years and increases the sales tax by one-quarter percent for four years. The measure guarantees these new revenues to schools. The measure will generate an estimated \$8.5 billion through 2012-13. These revenues will enable the state to meet its existing Proposition 98 obligation and to increase funding for schools and community colleges by an additional \$2.9 billion. The measure will provide a net benefit to the General Fund of \$5.6 billion. In addition, the measure constitutionally guarantees the 2011 Realignment funds for local

public safety. The measure will prevent deeper cuts to schools, protect local public safety funding, and assist in balancing the Budget.

The Budget reverses years of cuts in funding for schools and community colleges. As shown in Figure INT-03, K-14 education funding would increase by \$17.2 billion, or 37 percent, and per pupil funding would increase by over \$2,500 in the next four years. The measure will enable the state to reduce the payments to schools that are deferred each year from \$10.4 billion to \$8.2 billion.

Figure INT-03
K-14 Funding Increases by \$17 Billion Over 4 Years
 (Dollars in billions)



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The budget plan dedicates \$250 million in future funding to hold tuition at the state's universities level. Contingent upon the passage of the Governor's tax initiative, an adopted 9 percent tuition hike at the California State University would be rolled back and tuition at the University of California would remain flat for the upcoming academic year.

ALTERNATIVE TO REVENUES IS DEEPER CUTS

The California Constitution requires that the annual state budget be balanced. To pay the state's bills on time, the Budget must be credible and financeable. After more than a decade of putting off dealing with its budget problems, the state must restore a long-term balance between its revenues and spending. Consequently, the Budget includes a backup plan—trigger cuts—if the ballot measure is not approved.

To balance the Budget in an ongoing manner, the deep reductions enacted over the past two years must be maintained. Without additional revenues, deeper cuts will be required. As education spending accounts for more than 50 percent of General Fund spending and the Budget substantially increases K-14 spending and protects the University of California and California State University from deeper cuts, schools and universities would be most affected if the tax initiative fails in November.

The ballot trigger cuts totaling \$6 billion, as summarized in Figure INT-04, would go into effect on January 1, 2013 if The Schools and Local Public Safety Protection Act is not approved by voters in November:

Figure INT-04
Ballot Trigger Reductions
(Dollars in Millions)

Expenditure Reductions	2012-13
Proposition 98	\$5,353.8
University of California ^{1/}	250.0
California State University ^{1/}	250.0
Developmental Services	50.0
City Police Departments: Grants	20.0
Department of Forestry and Fire Protection	10.0
Flood Control	6.6
Local Water Safety Patrol	5.0
Fish and Game: Non-Warden Programs	2.5
Park Lifeguards	1.4
Fish and Game: Wardens	1.0
Department of Justice	1.0
Park Rangers	0.1
Total	<u>\$5,951.4</u>

^{1/} This level of savings may be offset by Cal Grant increases if the universities raise tuition.

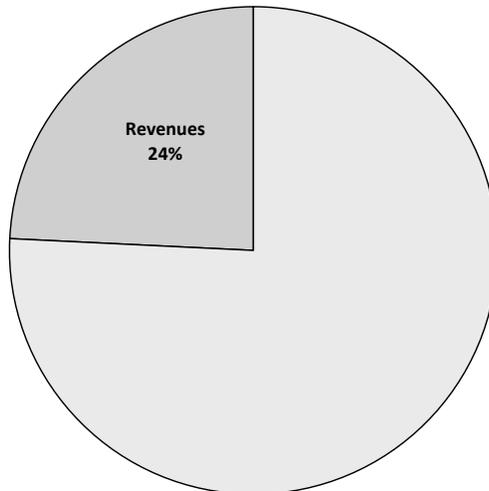
- Funding for schools and community colleges would be reduced by \$5.4 billion. A reduction of this magnitude would result in a funding decrease equivalent to the cost of three weeks of instruction. The cut would also continue to provide 20 percent of program funds a year in arrears.
- The University of California and California State University would each be reduced by \$250 million.

If the ballot measure is not approved, the state would reduce funding for a variety of public safety programs. Grants to local law enforcement for water safety patrol would be reduced, and grants for city police would be eliminated. The Department of Forestry and Fire Protection's firefighting capabilities would be reduced. The number of the state's public safety officers in the departments of Parks and Recreation (park rangers) and Fish and Game (wardens) would be reduced, and the state would no longer staff its beaches with lifeguards. Flood control programs in the Department of Water Resources would be cut, which would reduce channel and levee maintenance and floodplain mapping. The Department of Justice's law enforcement programs would be reduced. Services to individuals with developmental disabilities would be reduced.

RESTORING AND MAINTAINING FISCAL STABILITY

Over a year ago, the state faced estimated annual gaps between spending and revenues of roughly \$20 billion. The state's fiscal challenges were exacerbated by unprecedented levels of debts, deferrals, and budgetary obligations accumulated over the prior decade. The 2011 and 2012 budgets have rejected the past approach of over-relying on one-time solutions. As shown in Figure INT-05, the last two budgets addressed this deficit through three dollars of ongoing spending reductions for every dollar of tax increases. Specifically, 76 percent of the structural deficit has been addressed through spending cuts in health and human services, corrections, education, and other areas. Under current projections, and assuming voter approval of The Schools and Local Public Safety Protection Act, the Budget will be balanced in an ongoing manner. This represents the first time in over a decade that future spending is expected to stay within available revenues.

Figure INT-05
2011 and 2012 Actions Balance Budget on an Ongoing Basis



The two budgets reflect the following:

- Realigning public safety programs to bring government closer to the people. The 2012 Budget implements a permanent allocation structure for future realignment revenues.
- Implementing a downsizing plan for the California Department of Corrections and Rehabilitation. The plan is intended to satisfy the U.S. Supreme Court’s order requiring reduced crowding and end federal court oversight in health care and other areas. It will reverse the trend of prison spending consuming a growing percentage of the General Fund budget. Over time, spending will decline from 11 percent to 7.5 percent of the General Fund.
- Eliminating redevelopment agencies to increase funding for schools, police, fire, and other core local services.
- Refocusing the state’s welfare program on getting people back to work. The total number of months an adult can receive a monthly cash benefit has been reduced from 60 months to 48 months. Furthermore, the benefit is only provided to the adult for up to 24 months unless the individual is meeting federal work requirements.
- Making tough cuts across state government. Grants to low-income seniors and persons with disabilities (State Supplementary Payment) have been reduced

to 1983 levels. CalWORKs grants have been reduced to below 1987 levels. General Fund support for the state's universities was cut by nearly 25 percent. The Williamson Act subventions, the child care and dependent tax credit, and the Healthy Families Program were eliminated.

The Administration has focused on shrinking state government and making it more efficient. These changes will help the state keep its budget balanced for the long term. Progress includes:

- Reducing the state workforce by more than 30,000 positions on a permanent basis. The state workforce is at its lowest level as a share of the state's population in almost a decade. California already had the nation's fifth lowest level of government employment in 2010.
- Eliminating over 50 boards, commissions, task forces, offices, and departments.
- Reorganizing state government to improve the management and coordination of government activities, facilitate further efficiencies and reduce costs. The Administration's reorganization plan is scheduled to go into effect in July. The plan cuts the number of state agencies from 12 to 10 and consolidates and aligns related programs and departments.
- Reducing the wall of debt of budgetary deferrals and borrowing from \$35 billion a year ago to less than \$9 billion by the end of 2015-16 under the budget plan.
- Overall General Fund spending is down from its peak of \$103 billion in 2007-08 to \$91.3 billion, a decrease of \$11.6 billion, or 11.3 percent. As a share of the economy, General Fund spending is at its lowest level since 1972-73.
- Overall, as a share of the economy, total state spending is at the same level as in the mid-1990s. However, since 2007-08, spending has increased by \$4.4 billion, or 3.2 percent due to four programs—the imposition of the hospital fee, the payoff of borrowing from local governments authorized in 2009, the start of cap and trade revenue collections, and the expected construction of high speed rail. All other spending is down by nearly 5 percent over the period.

Even with this plan, risks to the budget remain. Potential cost increases associated with actions to reduce the federal deficit, federal government and court decisions, the pace of the economic recovery, an aging population, and rising health care costs all threaten the ability of the state to achieve and maintain a balanced budget over the long term. In addition, the exact level of capital gains and income growth for top earners remains uncertain. The scope of these risks and uncertainties underscores how important it is to hold the line on spending, both now and into the future.

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