

CALIFORNIA BUDGET PROJECT

Back to the Future:

The Social and Economic Context of the Governor's Proposed 2011-12 Budget

1107 9th Street,
Suite 310
Sacramento,
California 95814
(916) 444-0500
www.cbp.org
cbp@cbp.org

A PRESENTATION BY
THE CALIFORNIA BUDGET PROJECT
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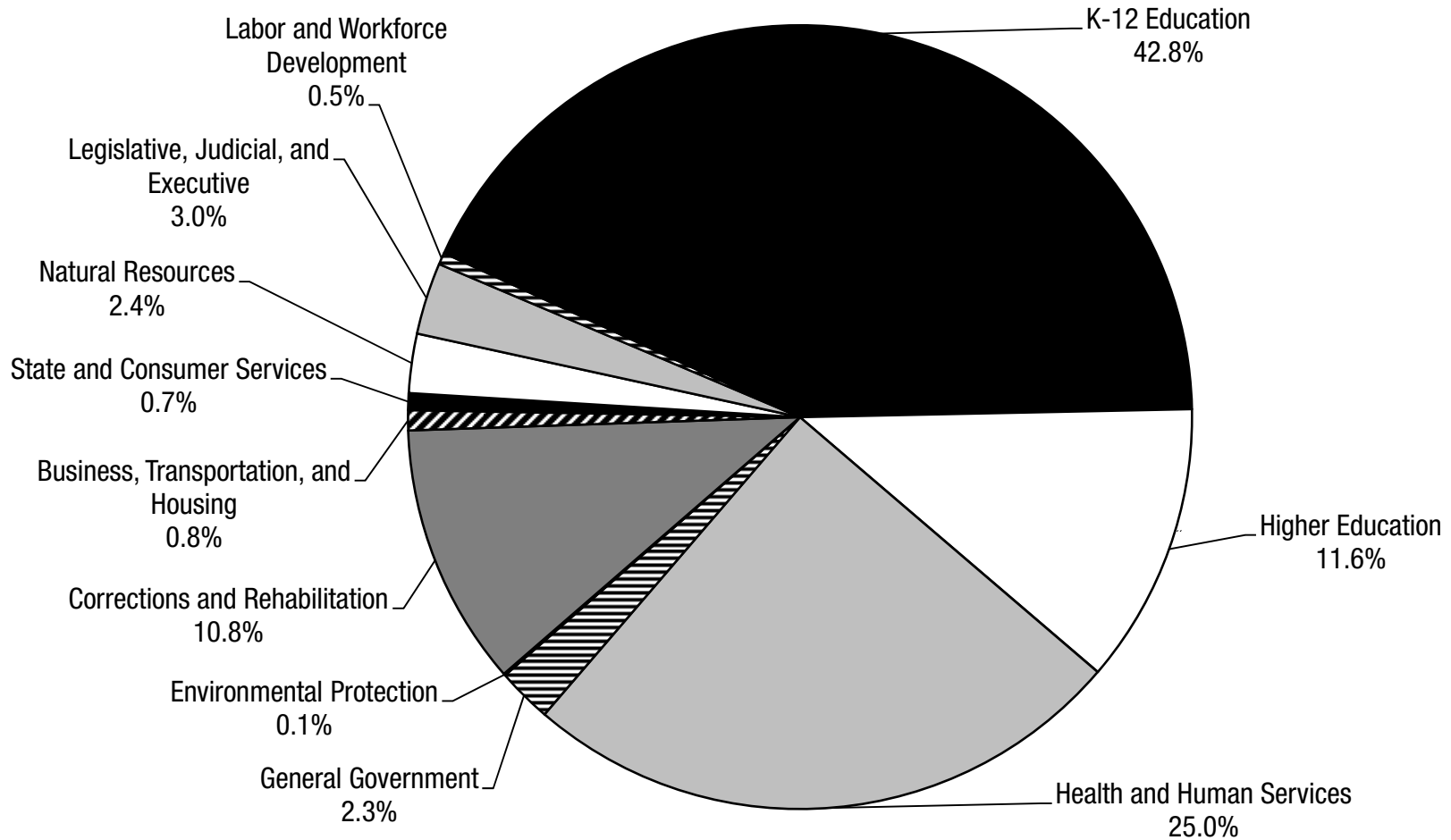
The Top Lines

- The Governor's Proposed 2011-12 Budget balances roughly equal levels of spending reductions and revenue increases and minimizes reliance on temporary measures, such as those used to address recent years' shortfalls.
- If enacted, the Governor's proposals would bring the state's budget into balance for the period of the temporary tax extensions. The state would, however, face significant shortfalls after the expiration of the temporary taxes.
- The Governor's proposed "realignment" of responsibility between the state and county governments is promising, however, the devil will be in the details.

The Information Gap

- A January 2011 poll by the Public Policy Institute of California found that:
 - Only 16 percent of adults and 22 percent of likely voters correctly identified K-12 education as accounting for the largest share of the state budget. Nearly half (45 percent) of adults and 41 percent of likely voters believe corrections represents the largest share of the budget.
 - Only 29 percent of adults and 33 percent of likely voters correctly identified the personal income tax as the largest state revenue source.
 - Just over one out of 20 adults (6 percent) and only 9 percent of likely voters answered both questions correctly.

Education Accounts for the Largest Share of Proposed 2011-12 Spending General Fund Spending by Agency

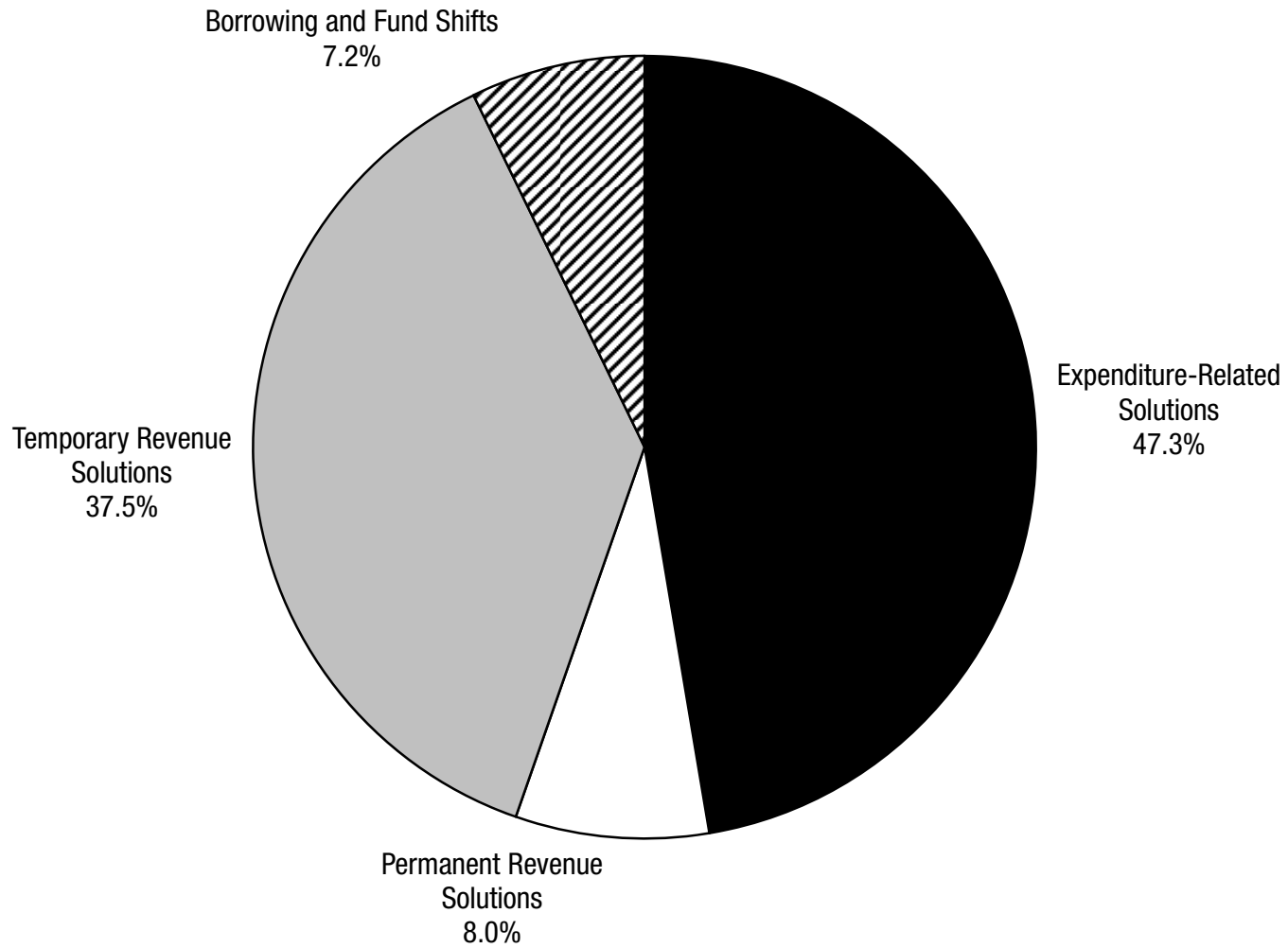


2011-12 Proposed General Fund Expenditures = \$84.6 Billion

How Is the Budget Balanced?

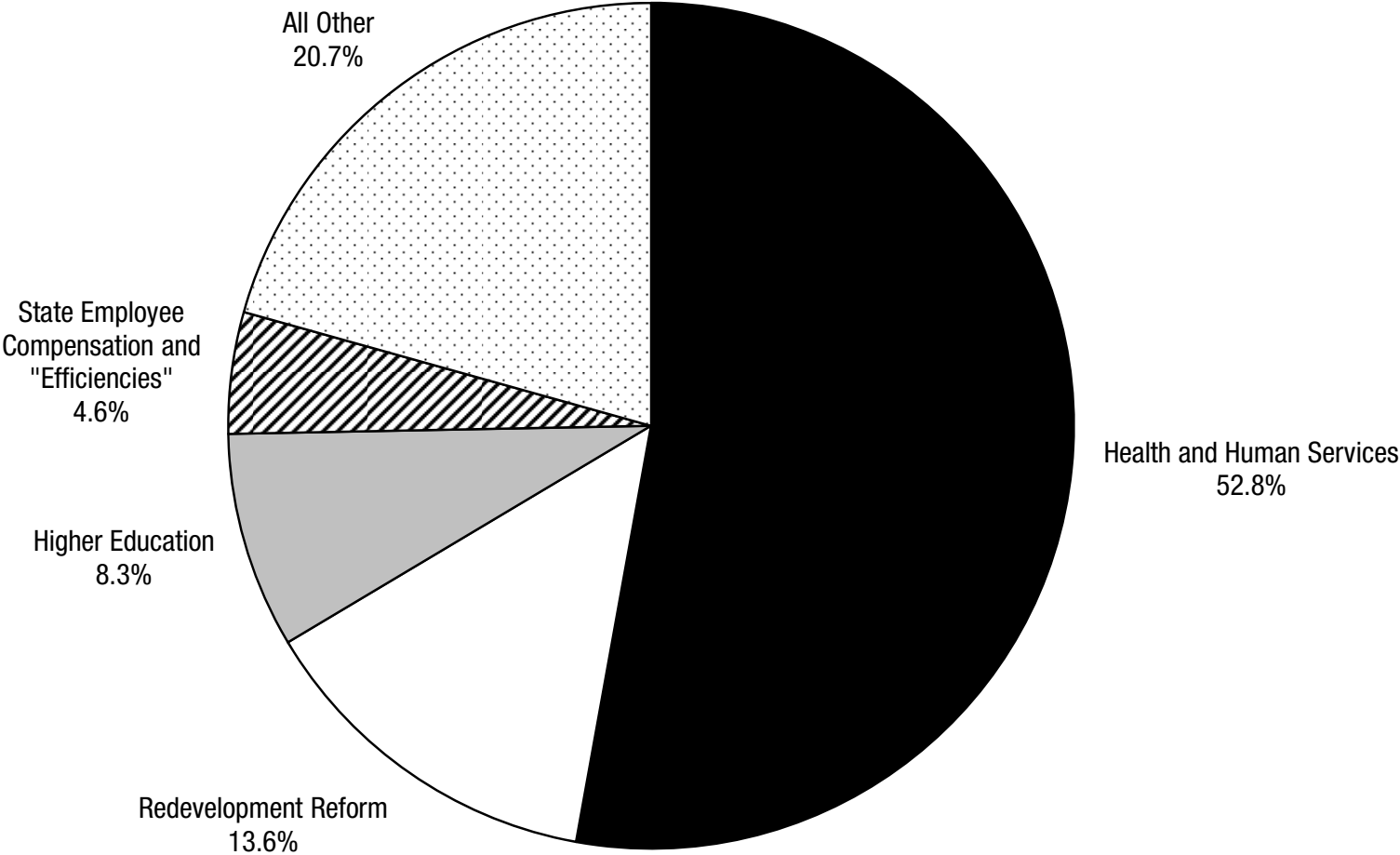
- \$12.5 billion in expenditure-related “solutions” including \$1.7 billion from the phase-out of redevelopment agencies, \$1.7 billion in Medi-Cal reductions, \$1.5 billion in cuts to the CalWORKs Program, \$1.0 billion in reductions to the University of California and California State University, and \$1.0 billion from the diversion of Proposition 10 funds.
- \$14.0 billion in “revenue solutions” including \$11.2 billion of temporary tax extensions (\$5.9 billion of which would support the proposed realignment), \$1.4 billion from modifying single sales factor apportionment, and \$0.9 billion from the elimination of Enterprise Zones. The Governor’s tax proposals would increase the state’s school spending guarantee by an estimated \$2.0 billion.
- \$1.9 billion in loans and transfers.

How Does the Governor Propose To Balance the Budget?



Total 2010-11 and 2011-12 Solutions = \$26.4 Billion

Half of Proposed Spending Reductions Target Health and Human Services Programs

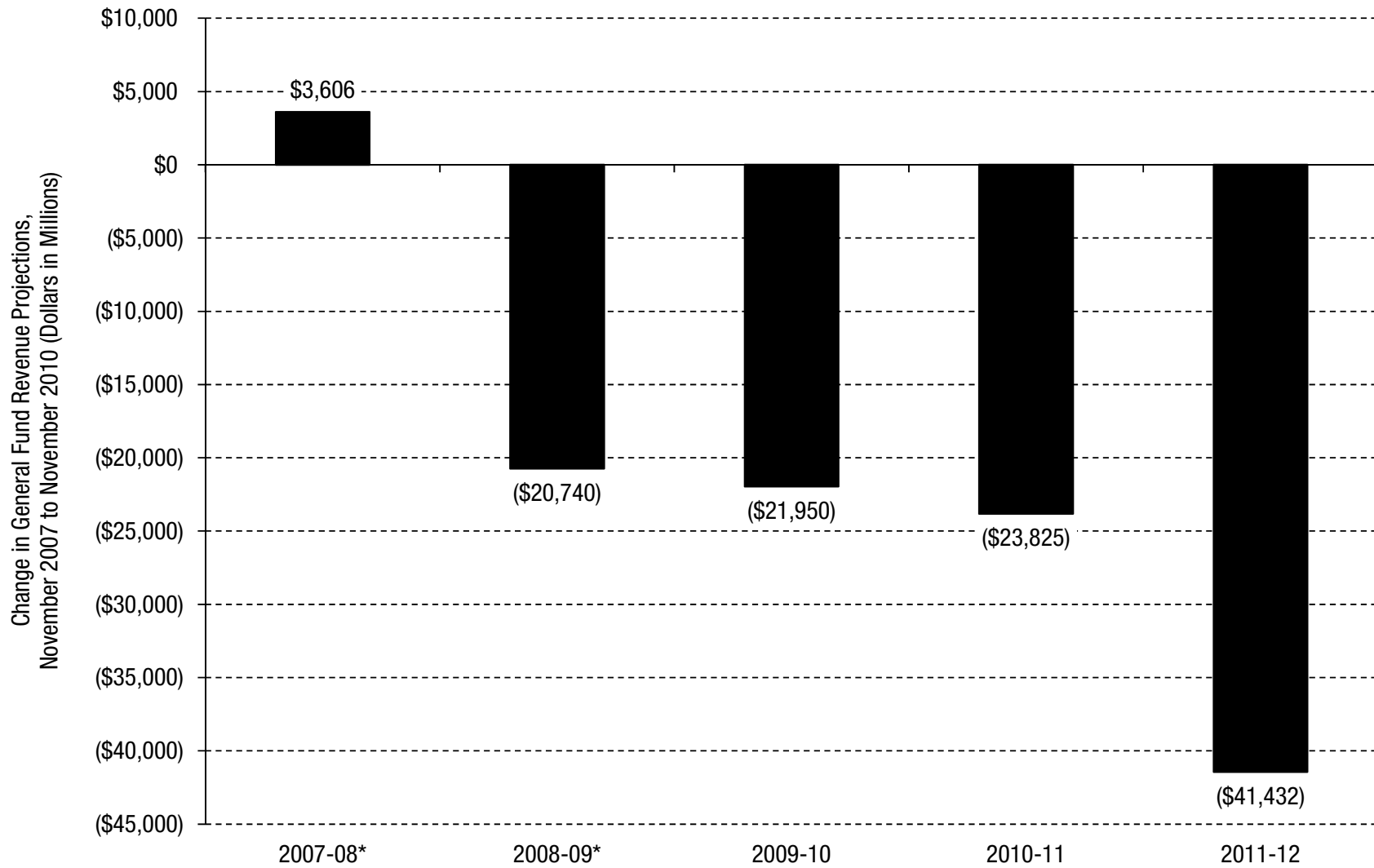


Combined 2010-11 and 2011-12 Spending Reductions = \$12.5 Billion

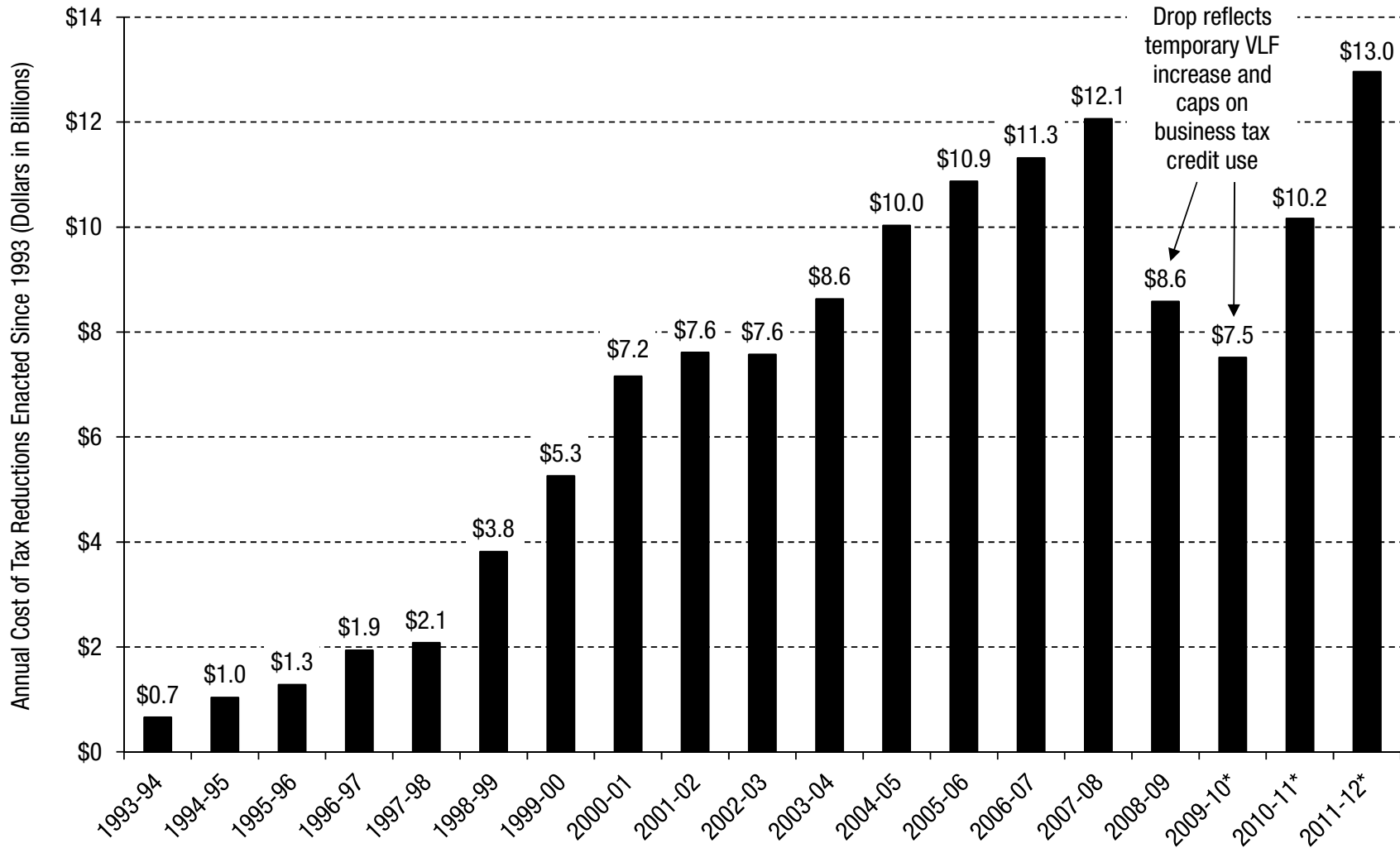
How Did We Get Here?

- **The economy.** Projected 2011-12 revenues are \$41.4 billion below the Legislative Analyst's 2007 forecast.
- **Tax cuts.** Tax cuts enacted since 1993 will cost the state more than \$13 billion in 2011-12. The Legislature continued to cut taxes through the worst of the state's budget crisis.
- **Demographic changes.** The state's population continues to grow and to age, placing demands on the budget.
- **Spending on corrections, debt service, and transportation has increased,** while spending on virtually all other parts of the budget has declined in recent years.
- **Temporary solutions.** A significant portion of recent years' budget gaps have been closed with temporary "solutions" and anticipated savings that didn't materialize.

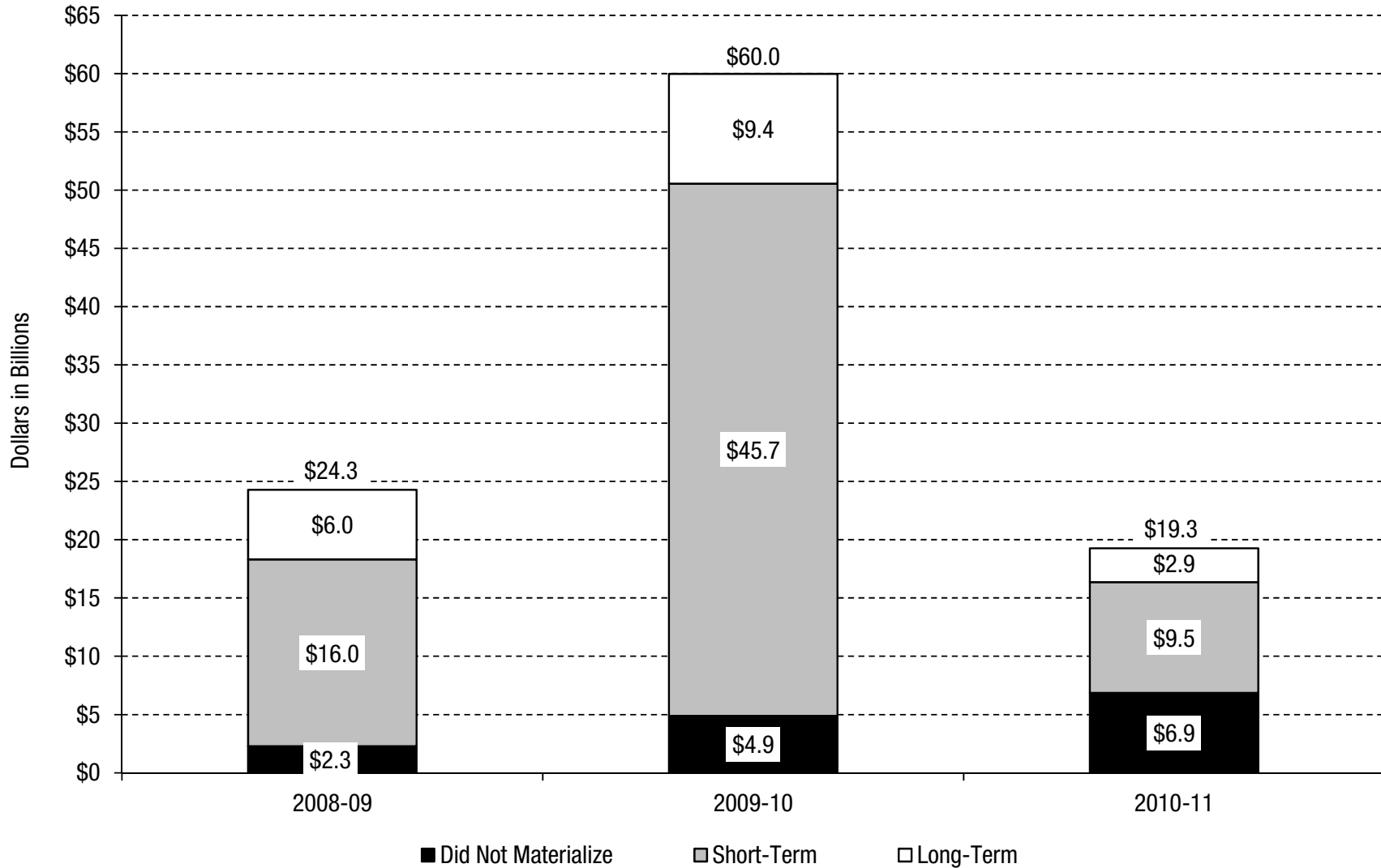
Recent General Fund Revenue Projections Are Far Below November 2007 Levels



Tax Cuts Enacted Since 1993 Will Cost an Estimated \$13.0 Billion in 2011-12



The Majority of Budget "Solutions" in Recent Years Were Temporary or Did Not Materialize



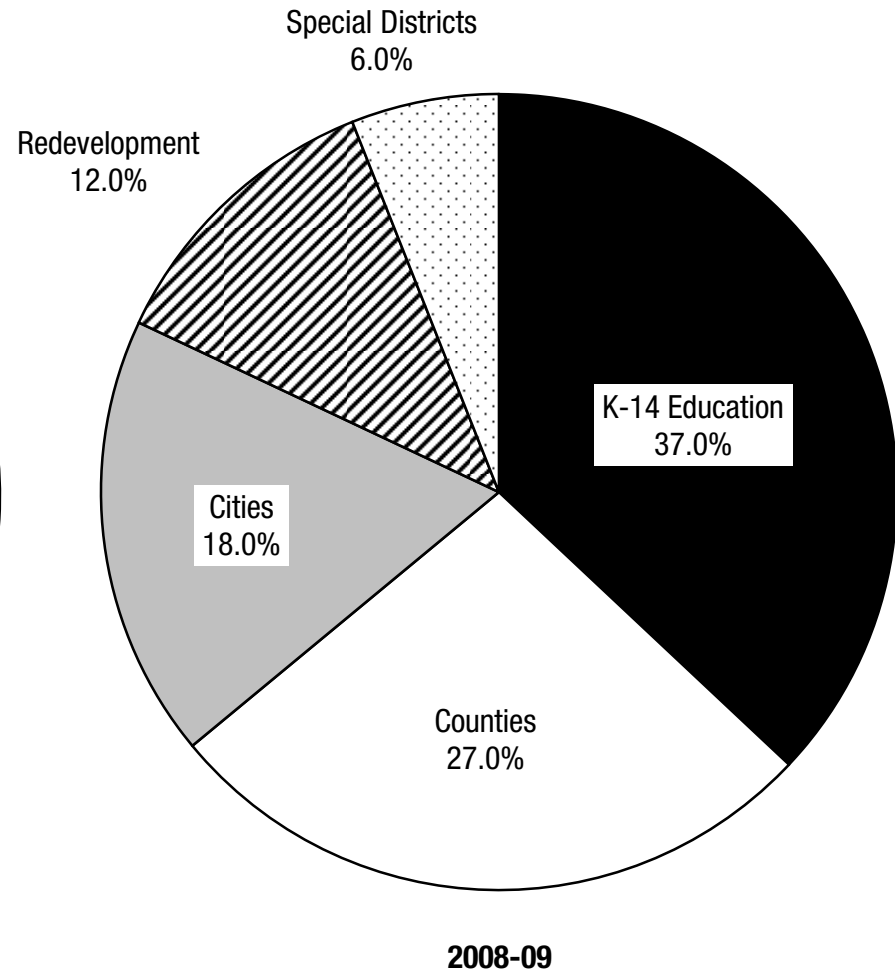
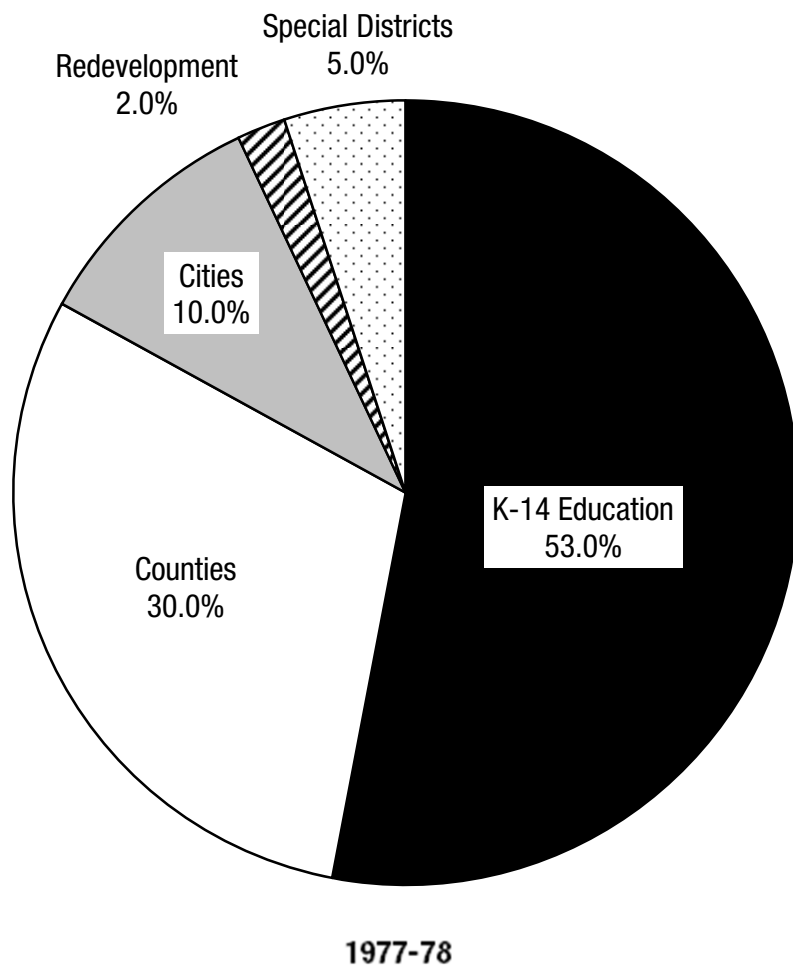
Realigning Responsibility

- The Governor proposes to shift responsibility for a set of criminal justice, mental health, human services, and other programs to counties along with a dedicated, but temporary, source of revenues.
- While there is broad conceptual support for shifting more responsibility to the local level, key questions remain:
 - Where will the money come from when the temporary tax extensions end?
 - Will growth in revenues match growth in program demands?
 - What is the appropriate balance between providing local flexibility and ensuring that statewide standards are met?

Eliminating State Subsidies for Local Economic Development

- The Governor proposes to end state support for two programs that subsidize local economic development activities by:
 - Eliminating redevelopment agencies and using \$5.2 billion in 2011-12 “tax increment” revenues to repay redevelopment agency debt (\$2.2 billion); provide pass-through payments to schools and local agencies (\$1.1 billion); offset state costs (\$1.7 billion); and make payments to local governments (\$210 million). In future years, property tax increment revenues would be allocated to schools and local governments and repay redevelopment agency debt.
 - Eliminating the state’s Enterprise Zone Program and related tax breaks for savings of \$924 million in 2010-11 and 2011-12 and more than \$600 million per year thereafter.

Redevelopment Agencies Received 12 Percent of Statewide Property Taxes in 2008-09, Compared to 2 Percent in 1977-78

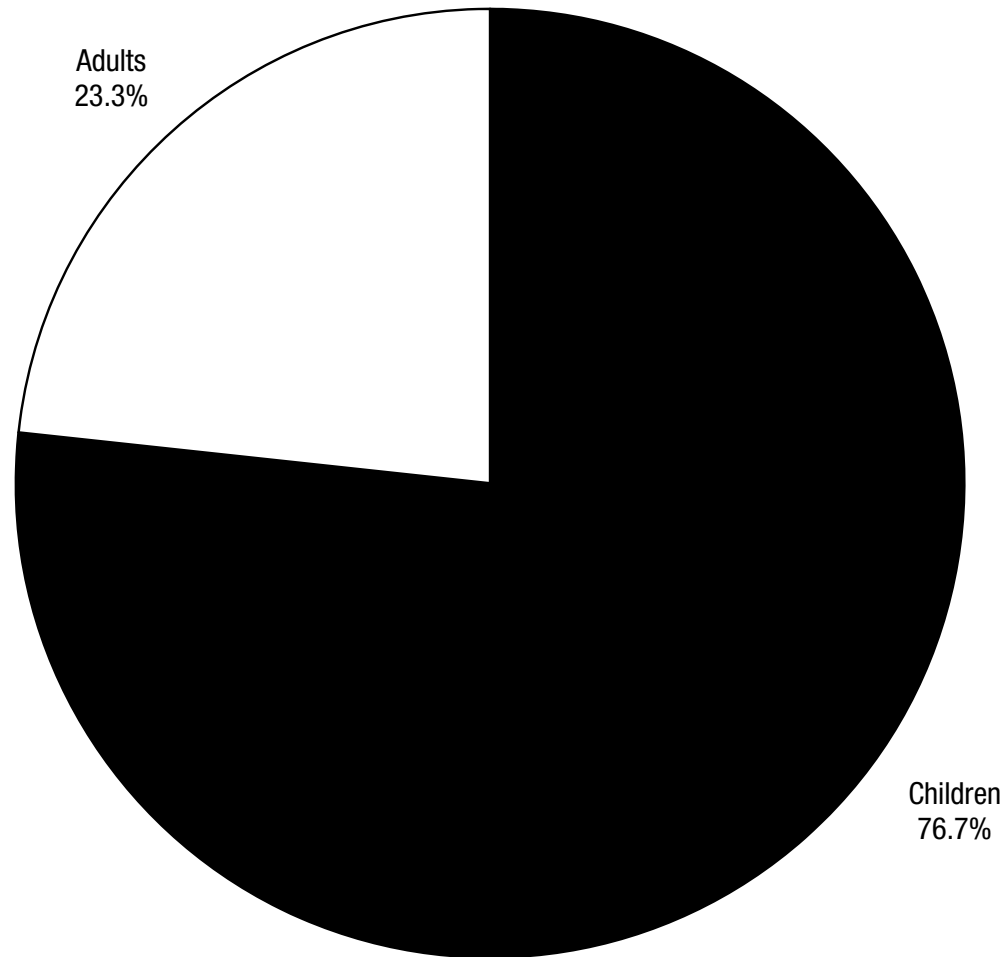


Note: Redevelopment agencies' share includes taxes ultimately passed through to local agencies.
 Source: Legislative Analyst's Office

The Governor Proposes Substantial Cuts to CalWORKs

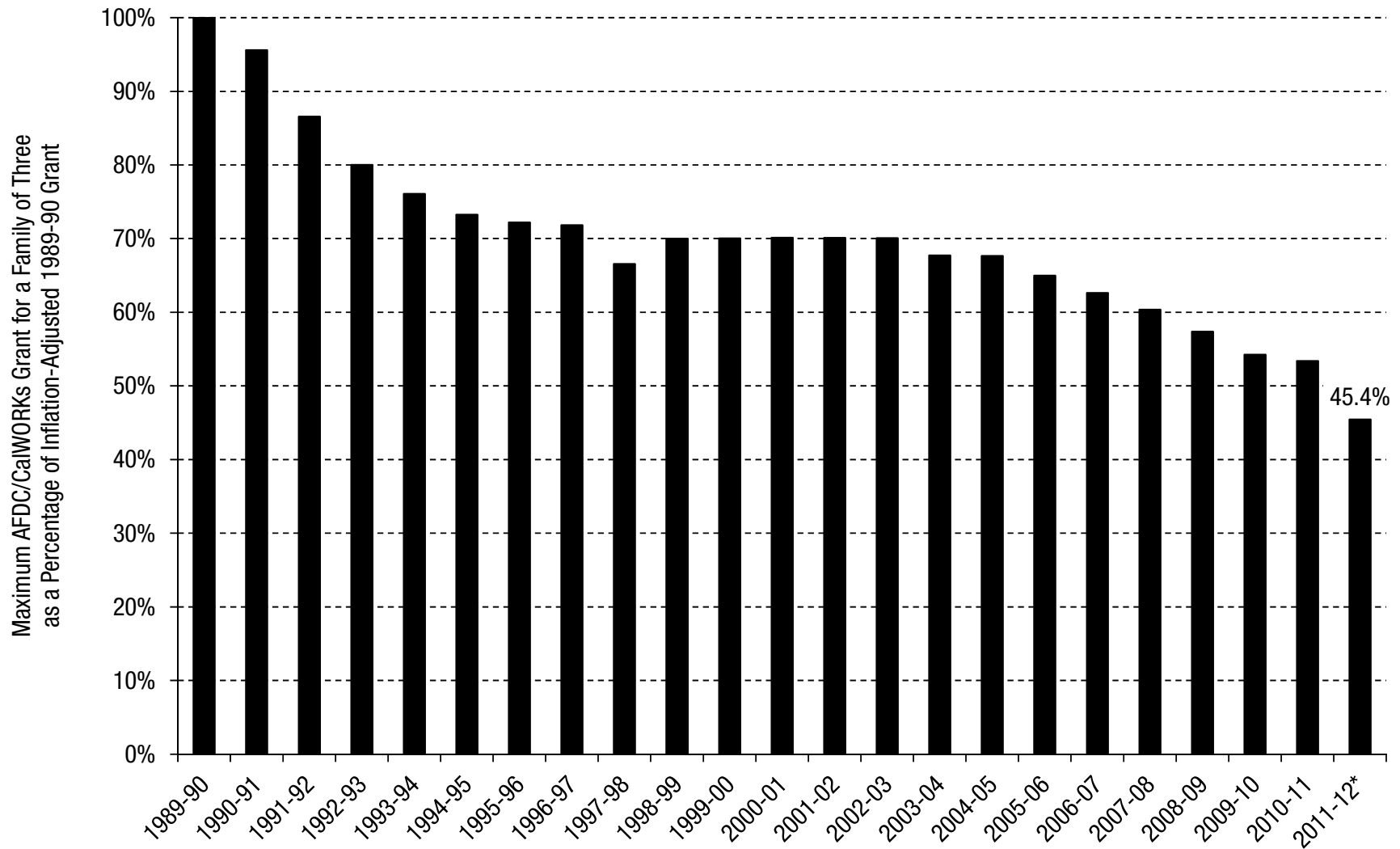
- The Governor proposes to:
 - Limit families to 48 months of cash assistance effective July 1, 2011 for savings of \$851.0 million in 2011-12. This cut would be applied retroactively. Approximately 115,000 families with 234,000 children would lose benefits. Some families could receive a child-only grant beyond 48 months.
 - Reduce grants by 13.0 percent effective June 1, 2011 for savings of \$14.3 million in 2010-11 and \$415.0 million in 2011-12.
 - Cut funding that counties use to provide services and child care by \$376.9 million in 2011-12.

More Than Three Out of Four CalWORKs Recipients Are Children



Number of Individuals Receiving CalWORKs Cash Assistance in September 2010 = 1.4 Million

Purchasing Power of CalWORKs Grants Would Drop Further Under the Governor's Proposed 2011-12 Budget



The Governor Proposes Cuts to Child Care Assistance

- The Governor proposes to:
 - Reduce the amount of funding for each child care slot by 35 percent for savings of \$577 million. This proposal assumes that costs would be shifted to families to make up for reduced state funding.
 - Reduce the income limit from 75 percent of the state median income (SMI) to 60 percent of the SMI for savings of \$79 million. The income limit for a family of three would decline from \$45,225 to \$36,180 per year – a 20.0 percent cut.
 - Eliminate child care assistance for 11- and 12-year-olds for savings of \$93 million. Approximately 14,000 children would lose child care.

The Governor Proposes Significant Cuts to Medi-Cal

- The Governor proposes \$1.7 billion in reductions to Medi-Cal in 2010-11 and 2011-12 combined. Specifically, the Governor proposes to:
 - Limit doctor visits and prescriptions, place caps on medical supplies and durable medical equipment, and require copayments from Medi-Cal patients for state savings of \$774.5 million.
 - Eliminate Medi-Cal coverage for Adult Day Health Care services and certain over-the-counter medications for two-year savings of \$195.5 million.
 - Reduce payments to health providers who treat Medi-Cal patients, for two-year savings of \$745.4 million.