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Governor Proposes Balanced Solutions to Close the Budget Gap

In a significant departure from his predecessor's approach to solving Budget shortfalls, Governor Jerry Brown unveiled a State Budget plan that relies on both cuts and revenues in roughly equal proportions to achieve a balanced Budget. While former Governor Arnold Schwarzenegger was guided by the view that the state had an expenditure problem, not a revenue problem, Governor Brown's Budget proposal calls for \$12 billion in revenues and \$12.5 billion in cuts, along with an estimated \$1.9 billion in "other solutions" to cover a \$25.4 billion shortfall and fund a \$1 billion reserve.

The state's 39th Governor is proposing that K-12 education be spared from any additional cuts. In his press conference on the Budget, the Governor said, "Schools have borne the brunt of spending reductions in recent years, so this budget maintains funding at the same level as the current year."

This proposal to keep K-12 education funding flat is dependent on voters approving a five-year extension to the temporary taxes enacted with the 2009-10 Budget (i.e., a 0.25% surcharge on the income tax, a 1¢ increase in the sales tax, a 0.5% increase in the vehicle license fee and a reduction in the dependent deduction). The Governor proposes that the electorate decide the fate of these taxes in a special election scheduled for this June. The Governor's Budget estimates but does not fund, an estimated 1.67% cost-of-living adjustment (COLA), which would add to the K-12 revenue limit deficit factor. In addition, the Governor proposes extending the flexibility measures (e.g., categorical flexibility, class-size reduction penalties, routine maintenance contributions, etc.) included in the revised 2008-09 Budget Act by another two years.

The Governor's Budget proposes General Fund spending of \$84.6 billion for 2011-12, roughly \$2 billion below the level of expenditures adopted by the Legislature for the current year. The Governor's Budget also estimates the 18-month budget gap to be \$25.4 billion, with \$8.2 billion occurring in 2010-11 and \$17.2 billion coming in 2011-12. This is slightly less than the \$28 billion shortfall identified by the Legislative Analyst's Office (LAO) in November 2010.

Governor Brown is proposing major cuts to the state's safety net programs, including a \$1.7 billion cut to Medi-Cal, a \$1.5 billion cut to California Work Opportunity and Responsibility to Kids (CalWORKs), and a \$750 million cut to the Department of Developmental Services. In addition, the Budget eliminates services and raises copays for the Healthy Families program, cuts funding for In-Home Support Services and eliminates transitional housing aid for young adults in foster care. These cuts would also include a major reduction in child care funding, including several programs administered by the California Department of Education.

Like prior Budget proposals, the Governor's Budget would redirect voter-approved funding for mental health services (Proposition 63) and the "First 5" commission (Proposition 10) to instead be used for General Fund purposes. This change presumably would require voter approval.

One of the highlights of the Governor's Budget, which he alluded to in his inaugural address, is his plan to realign services and revenues between the state and the local governments. He is calling for more decision making authority to be transferred closer to the people. As a result, his Budget calls for a shift of several state programs, including the custody and care of juvenile offenders and low-level adult felons, to county governments. The plan would redirect revenues from the extension of the higher vehicle license fee and sales tax to local governments to pay for these added responsibilities, provided the tax extension is approved by the voters. During his press conference, the Governor conceded that there is no backup plan at this point should the voters reject extension of the temporary taxes.

The Budget proposal would also free up local revenues for other purposes by eliminating hundreds of local redevelopment agencies and raise General Fund revenues by repealing tax breaks for enterprise zones and establishing a new methodology to determine tax liabilities for multistate corporations.

The Governor has laid out an aggressive and ambitious Budget plan and has challenged the Legislature to adopt the statutory changes within 60 days. This timeline is intended to allow the ballot measures to extend the temporary taxes to be placed before voters in a June special election and presumably make any necessary changes to the Budget should the tax extensions fail.

Stay tuned for further analysis that will be included in our *Special Fiscal Report* about the Budget and our upcoming Governor's Budget workshops.

-SSC Staff

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