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DOES THE SENATE REPUBLICAN BUDGET PROPOSAL "WORK"?

Revenue projections for the current and upcoming budget years are up significantly from the forecast used as the basis of 1999-00 state budget. Last month the Senate Republican Caucus issued a proposal for how to spend the growth in projected revenues. On the surface, the Republican proposal pays important consideration to education, public investment, and the safety net. Upon closer examination, it becomes clear that the proposals cost far more than the state is likely to have available, provide disproportionate benefits to higher income Californians, and make minimal progress toward meeting many of the state's most pressing needs.

The Senate Republicans propose over \$6.3 billion in new spending and tax cuts and, at the same time, call for maintaining a "prudent" reserve. An analysis based on the Legislative Analyst's November revenue and expenditure projections, which assume continuation of current policies, finds that the Senate Republican proposals would result in significant deficits in 2000-01 and beyond.

The Senate Republican (SR) budget proposals fail to take three significant factors into account. Specifically, the SR proposal does not consider:

- **The increase in estimated current year (1999-00) expenditures.** The Senate Republican proposal assumes that \$7.5 billion in additional revenues will be available in 2000-01. The growth includes \$687 million in additional revenues from last year (1998-99) that are assumed to be one-time in nature; \$1.868 billion in higher 1999-00 revenues that are assumed to be ongoing; and \$3.057 billion in revenue growth in 2000-01. The proposal uses the LAO's higher revenue forecast, but ignores the LAO's higher expenditure estimates for the current fiscal year. *The LAO estimates that the state will spend an additional \$723 million during 1999-00. Most of the increased expenditures are due to lower than anticipated federal support for the state's Medi-Cal program.*
- **Increases required to meet 2000-01 program demands under current law.** The Legislative Analyst's November budget projections are based on a "current services" budget. Specifically, the LAO's forecast takes into account constitutional and statutory funding requirements, federal maintenance of effort requirements, and projected caseloads. The Senate Republican proposal does not account for increased expenditures based on current laws and caseload trends, other than fulfillment of the Proposition 98 spending guarantee for K-14 education. *Based on the LAO's estimates, fulfilling the requirements of current laws for programs outside the Proposition 98 guarantee will increase General Fund spending by \$1.303 billion between 1999-00 and 2000-01.*
- **Costs related to the refund of smog impact fees.** Last November, an appellate court ruled that a \$300 fee imposed on out-of-state motorists was unconstitutional. Governor Davis has announced that the state will not appeal the decision and that he intends to refund amounts previously paid by motorists. *The smog fund refund will cost the state an estimated \$500 to \$800*

million on a one-time basis, as well as at least \$30 million in lost revenues on an ongoing basis.

Basic Assumptions

The Senate Republican (SR) proposal uses the LAO's November *Fiscal Outlook* forecast as a starting point.¹ The proposal compares the LAO's revenue forecast for 1999-00 and 2000-01 to the revenue forecast used as the basis of the 1999-00 budget and classifies the growth into one-time and ongoing moneys (Table 1).²

In brief, the SR budget proposal includes:

- \$543 million in additional ongoing spending for Higher Education. The largest component is a 50 percent reduction in California State University and University of California fees.
- \$25 million in one-time and \$2.021 billion in ongoing K-12 education spending.
- \$449 million in one-time and \$400 million in ongoing aid to local government.
- \$20 million in one-time and \$482 million in ongoing health and welfare spending. The largest component is a \$275 million increase in Medi-Cal provider rate reimbursements.
- \$391 million in one-time and \$1.048 billion in ongoing spending on infrastructure. The largest single increase is a \$760 million ongoing augmentation for local roads and streets.
- \$600 million in one-time and \$417 million in ongoing tax reductions. The largest components include an acceleration of the VLF reduction scheduled to take effect in 2001-02 (\$600 million) and a \$300 million increase in the dependent tax credit.
- A reserve equal to three percent of 1999-00 revenues (\$1.95 billion). The reserve provided in the SR proposal is equivalent to 2.8 percent of proposed 2000-01 expenditures.

Table 1: LAO Revenue Forecast As Assumed In Senate Republican Forecast (Dollars in Millions)		
	One-Time	Ongoing
1998-99	\$687	
1999-00	\$1,868	\$1,868
2000-01		\$3,057
TOTAL	\$2,555	\$4,925

The Bottom Line

The Senate Republican proposal spends significantly more than current budget forecasts suggest will be available in 2000-01. CBP estimates that the proposal spends:³

- \$1.573 billion more than available resources, assuming that the Senate Republican proposal *overfunds* the Proposition 98 guarantee (i.e., that all of the SR K-12 education proposals are in addition to 1999-00 budgeted spending for education, an increase of \$747 million over the LAO's projected Proposition 98 guarantee).
- \$826 million more than current budget forecasts suggest will be available in 2000-01, assuming that the entire SR K-12 education proposal is funded within the LAO's estimate of the 2000-01 Proposition 98 guarantee.

¹ Legislative Analyst's Office, *California's Fiscal Outlook* (November 1999).

² One-time revenues are those that are not considered part of the base for future years, while ongoing revenues are those that are expected to become part of the base that is available in subsequent budget years.

³ CBP estimates that half the cost of the SR's "charitable choice" proposal can be accommodated within the maintenance of effort

Who Are The Biggest “Winners” Under The Senate Republican Proposals?

The benefits of two of the largest proposals put forward by the Senate Republicans would disproportionately go to higher income families:

- Student fee reduction.** Most of the benefits of the proposed 50 percent reduction in student fees would go to higher income families and the federal government. The reduction would not help students whose fees are paid by financial aid (the SR proposal includes \$125 million for increased student aid, less than a third of the cost of the proposed fee reduction). In 1994, the median family income for University of California students who did not receive financial aid was \$87,436 as compared to a median income for California households overall of \$35,331 in 1994. Moreover, a significant fraction of the benefit would accrue to the federal government since Californians would receive less of a benefit from the federal Hope Scholarship and Lifetime Learning tax credit programs.
- Dependent tax credit.** California’s tax threshold, the point at which families begin to owe personal income taxes, is the highest in the nation. The state’s tax threshold for a family of four with two children, approximately \$39,150 in 1999, is almost equal to the median household income for the state (\$40,623 in 1997-98). Families with incomes below the state’s tax threshold receive no benefit from an increase in the dependent credit. Estimates of the impact of the last increase in the dependent credit in 1998 showed that the 31 percent of taxpayers with incomes below \$40,000 claiming dependent credits received just 17 percent of the total benefits of the last credit increase.

Table 2: How Do The Senate Republican Budget Proposals Add Up? (Dollars in Millions)

If all SR K-12 proposals are in addition to 1999-00 K-12 spending levels

LAO 2000-01 General Fund Revenue Forecast	\$67,906
2000-01 General Fund Expenditures Under SR Proposal	\$70,120
Subtotal	\$(2,214)
Add Prior Year Fund Balance	\$3,071
Subtract Other 2000-01 Obligations	\$480
Subtotal	\$377
Reserve as Stated In SR Proposal	\$1,950
GAP IN SR BUDGET PROPOSAL	\$1,573

If entire SR K-12 spending proposal is included within the LAO's projected Proposition 98 Guarantee

LAO 2000-01 General Fund Revenue Forecast	\$67,906
2000-01 General Fund Expenditures Under SR Proposal	\$69,373
Subtotal	\$(1,467)
Add Prior Year Fund Balance	\$3,071
Subtract Other 2000-01 Obligations	\$480
Subtotal	\$1,124
Reserve as Stated In SR Proposal	\$1,950
GAP IN SR BUDGET PROPOSAL	\$826

The California Budget Project (CBP) is a nonpartisan, nonprofit organization whose goal is to promote a better understanding of state fiscal issues affecting low and moderate income Californians in order to develop quality public services based on a fair and equitable tax structure. Foundation grants and individual donations and subscriptions provide general operating support for the California Budget Project.

requirement for the federal TANF block grant and will not require additional General Fund expenditures.