



CALIFORNIA BUDGET PROJECT

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

Measuring Up:

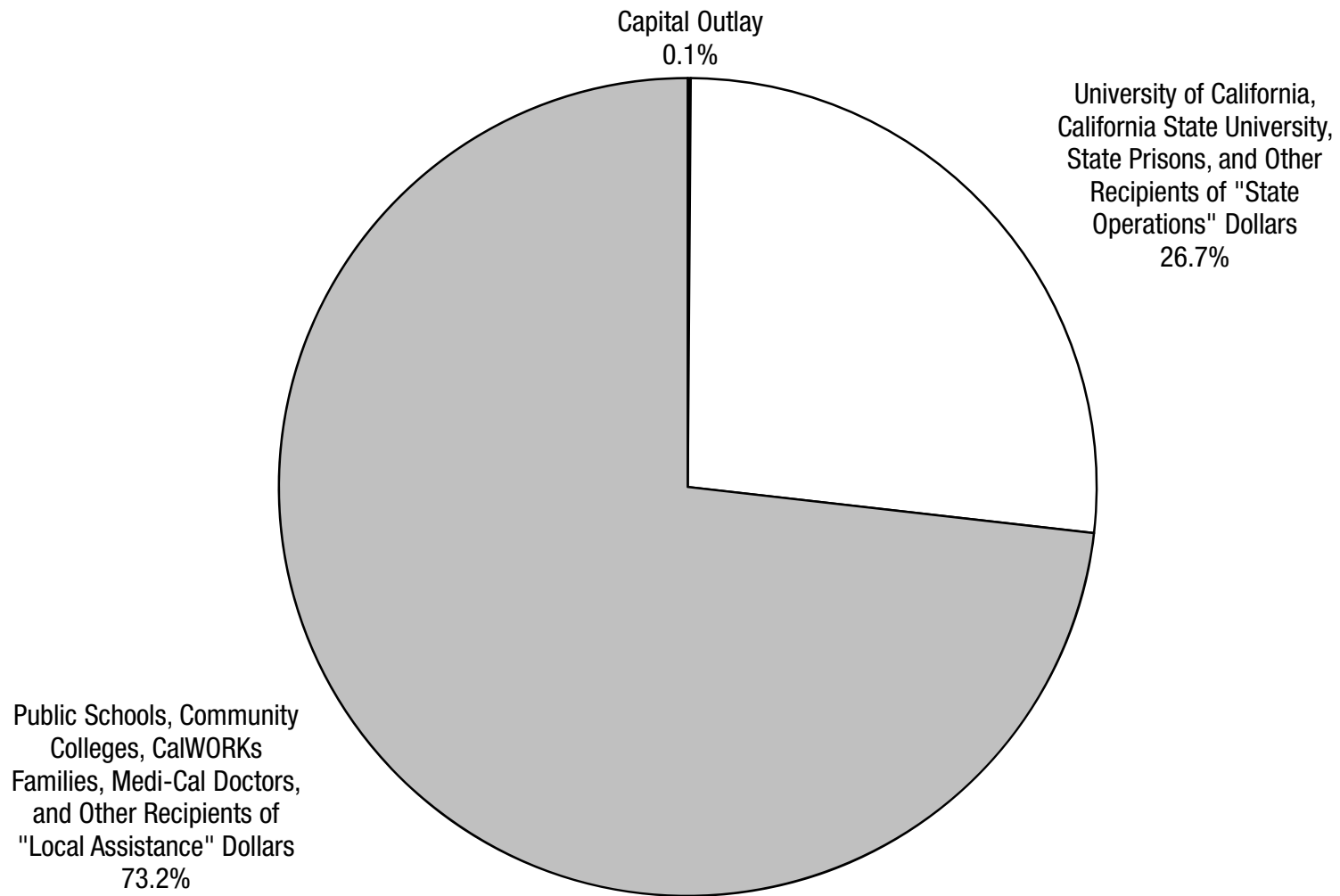
The Social and Economic Context of the Governor's Proposed 2012-13 Budget

A PRESENTATION BY
THE CALIFORNIA BUDGET PROJECT
February 2012

Why Do We Care?

Nearly three out of every four dollars spent through the state's General Fund go directly to local communities, individuals, and doctors, hospitals, and nursing homes.

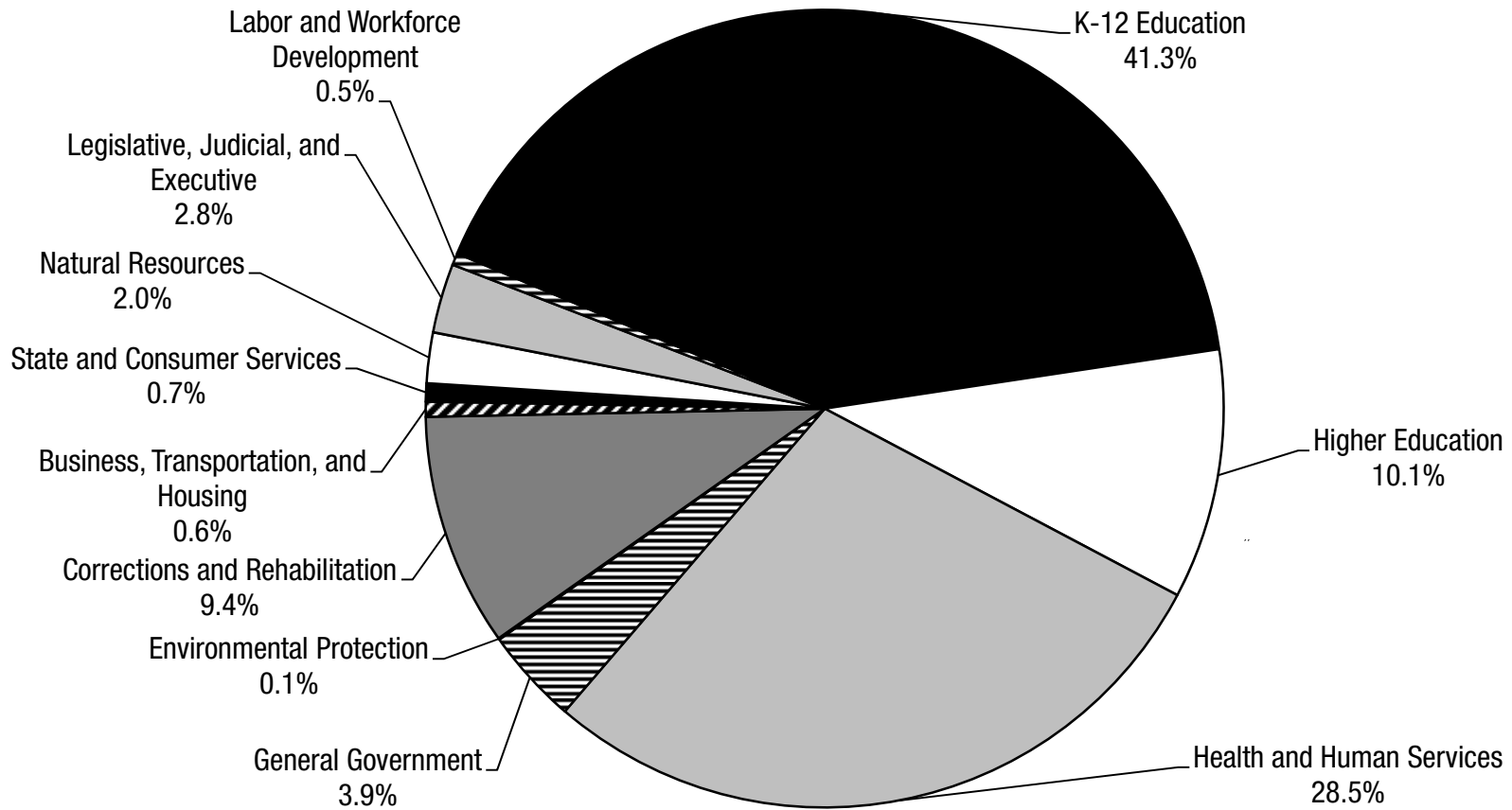
Most State Dollars Go to Local Communities and Individuals 2012-13 Proposed General Fund Spending



Californians Still Lack Basic Knowledge About the Budget

- Over half (54 percent) of adults surveyed by the PPIC in January 2012 think they know “some” or “a lot” about how the state and local governments raise and spend money.
- However, only 16 percent of those surveyed correctly identified K-12 education as the largest area of state spending. Nearly half (47 percent) answered “prisons and corrections,” yet prisons account for about 10 cents of every state dollar spent.
- Fewer than one-third (29 percent) of adults surveyed correctly identified the personal income tax as the state’s largest revenue source, and just 7 percent correctly identified both the largest spending area and revenue source.

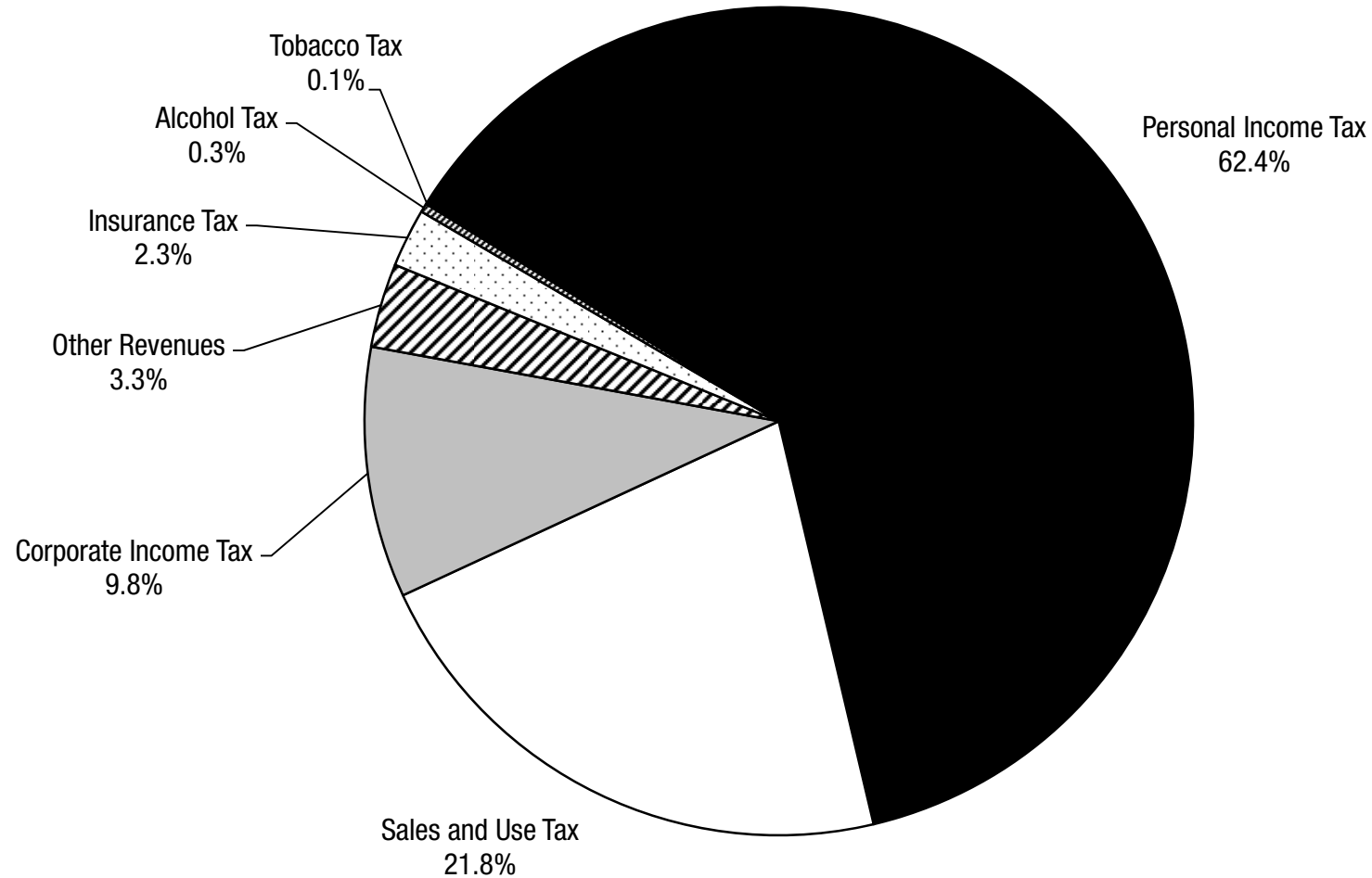
Education Accounts for the Largest Share of Proposed 2012-13 Spending General Fund Spending by Agency



2012-13 Proposed General Fund Expenditures = \$92.6 Billion

Note: Percentages do not sum due to rounding.
Source: Department of Finance

The Personal Income Tax Provides the Largest Share of General Fund Revenues

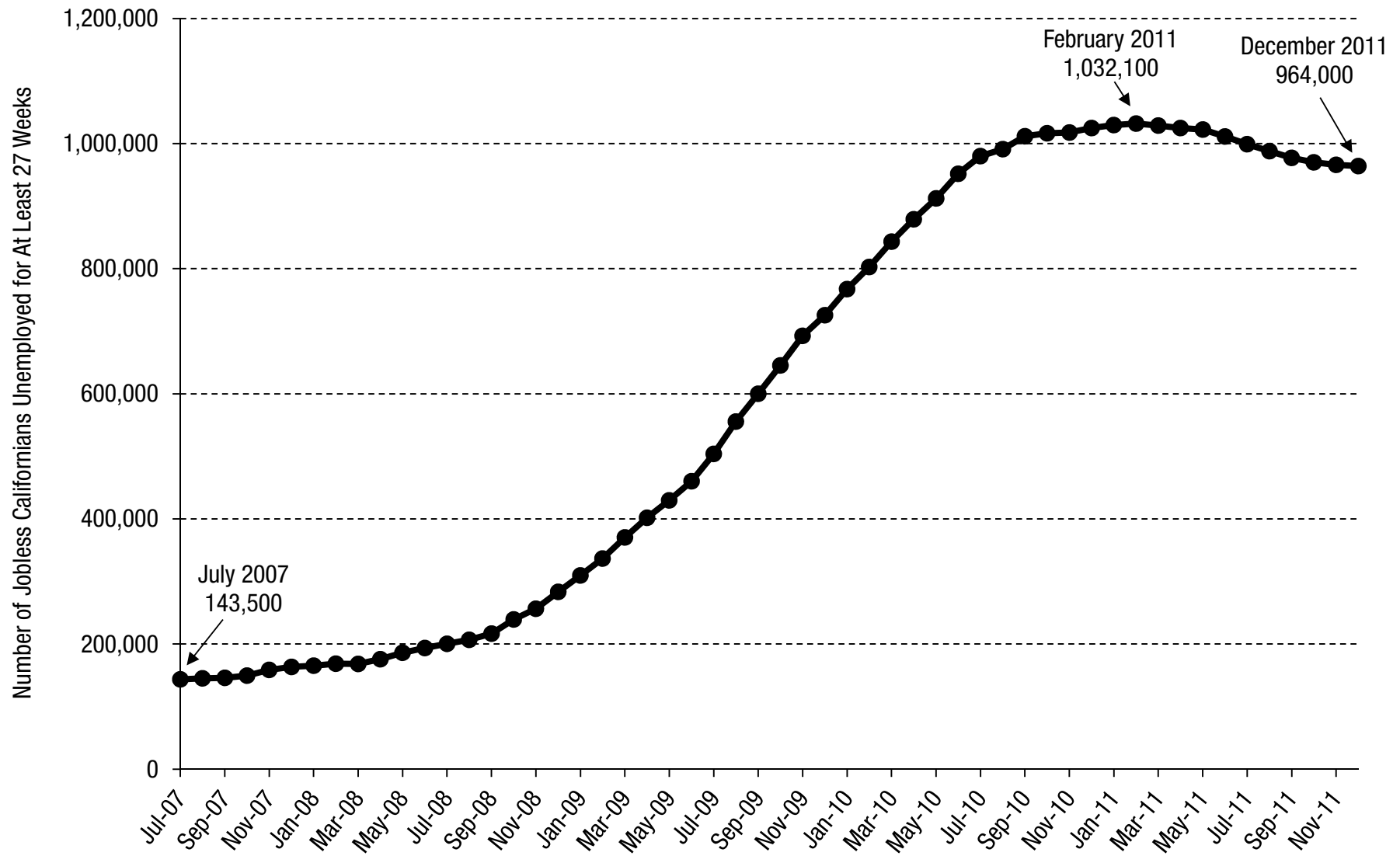


Proposed 2012-13 General Fund Revenues and Transfers = \$95.4 Billion

The Problem: State Revenues Fell Sharply During the Great Recession

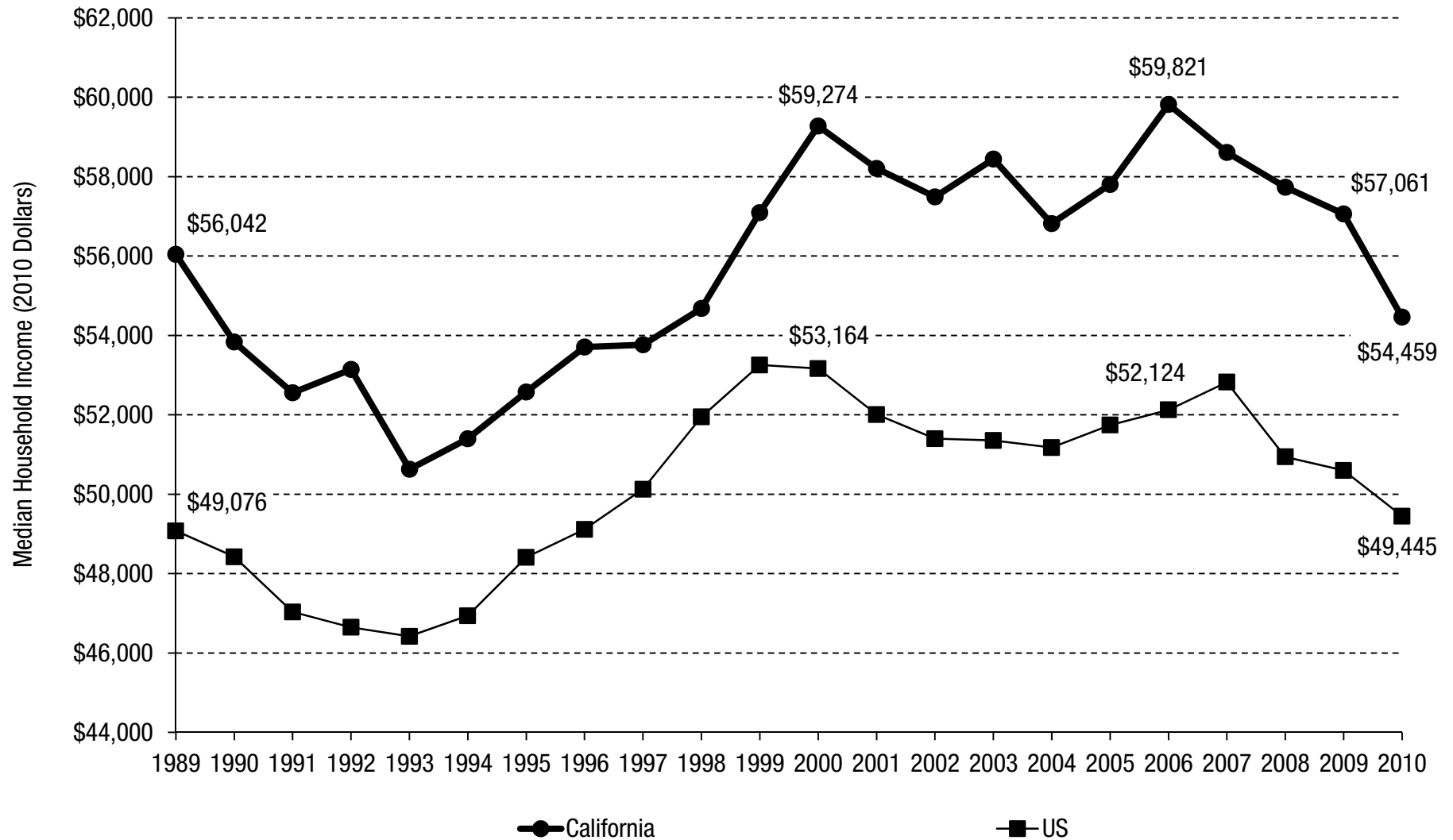
- State revenues were hard hit by the Great Recession, as Californians lost jobs, saw their incomes stagnate, and consumer spending dropped. 2012-13 “baseline” revenues – the amount anticipated in the absence of a tax increase – are projected to be \$46.8 billion below the level forecast in 2007, approximately equal to proposed 2012-13 spending for health and human services, corrections, higher education, resources, and environmental protection ***combined***.
- As a result of years of budget cutting, state spending is also substantially – \$39.8 billion – below the 2007 baseline level, approximately equal to proposed 2012-13 spending for K-12 education.

The Number of Long-Term Jobless Is Still Nearly Seven Times Higher Than It Was Before the Recession Began



Note: Data reflect 12-month averages ending in the month displayed.
Source: Employment Development Department

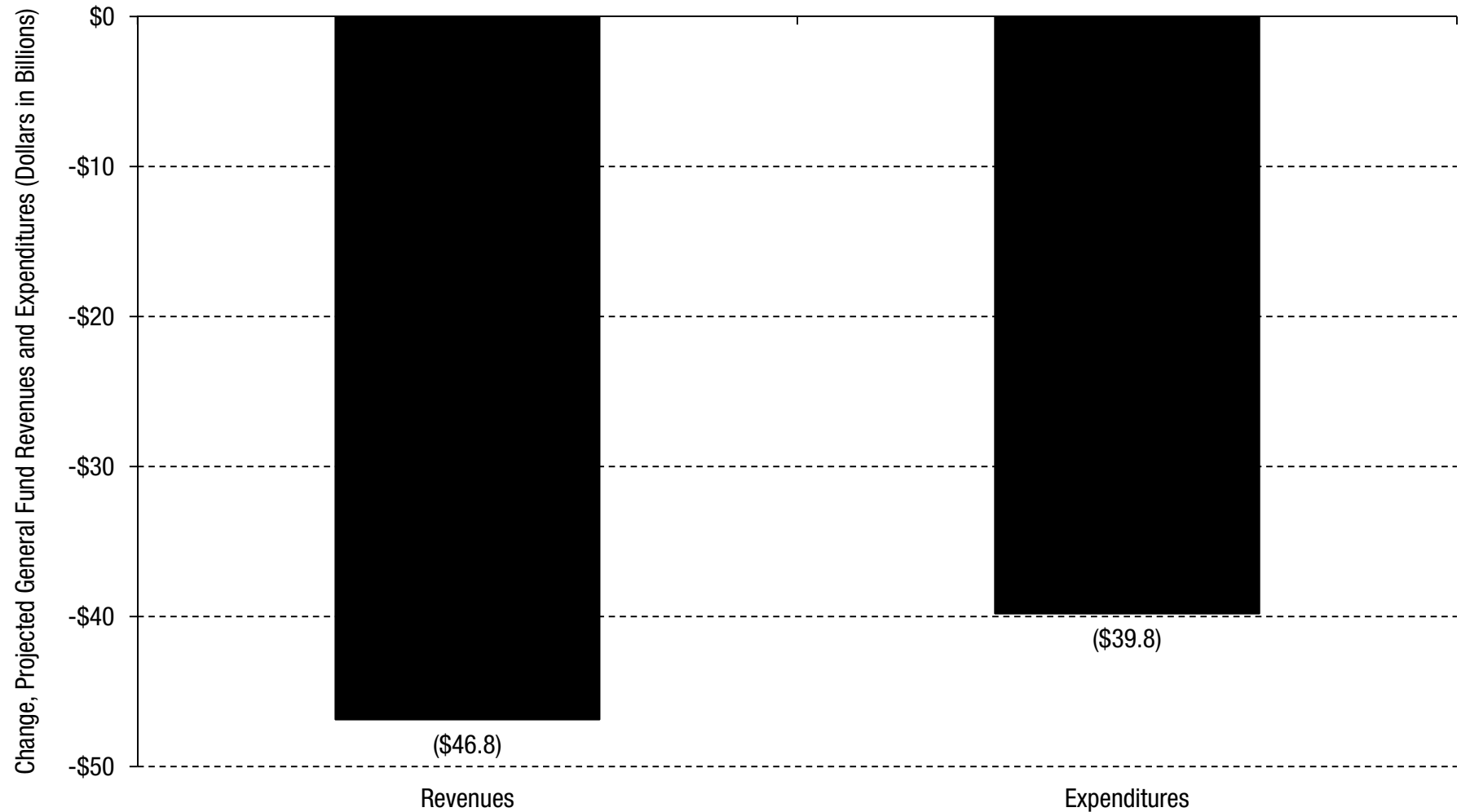
The Inflation-Adjusted Income of the Typical California Household Dropped by \$2,602 Between 2009 and 2010, the Largest Single-Year Decline on Record



General Fund Revenues and Spending Are Significantly Below Projected Levels

2012-13 General Fund Revenues and Expenditures as Projected in November 2011

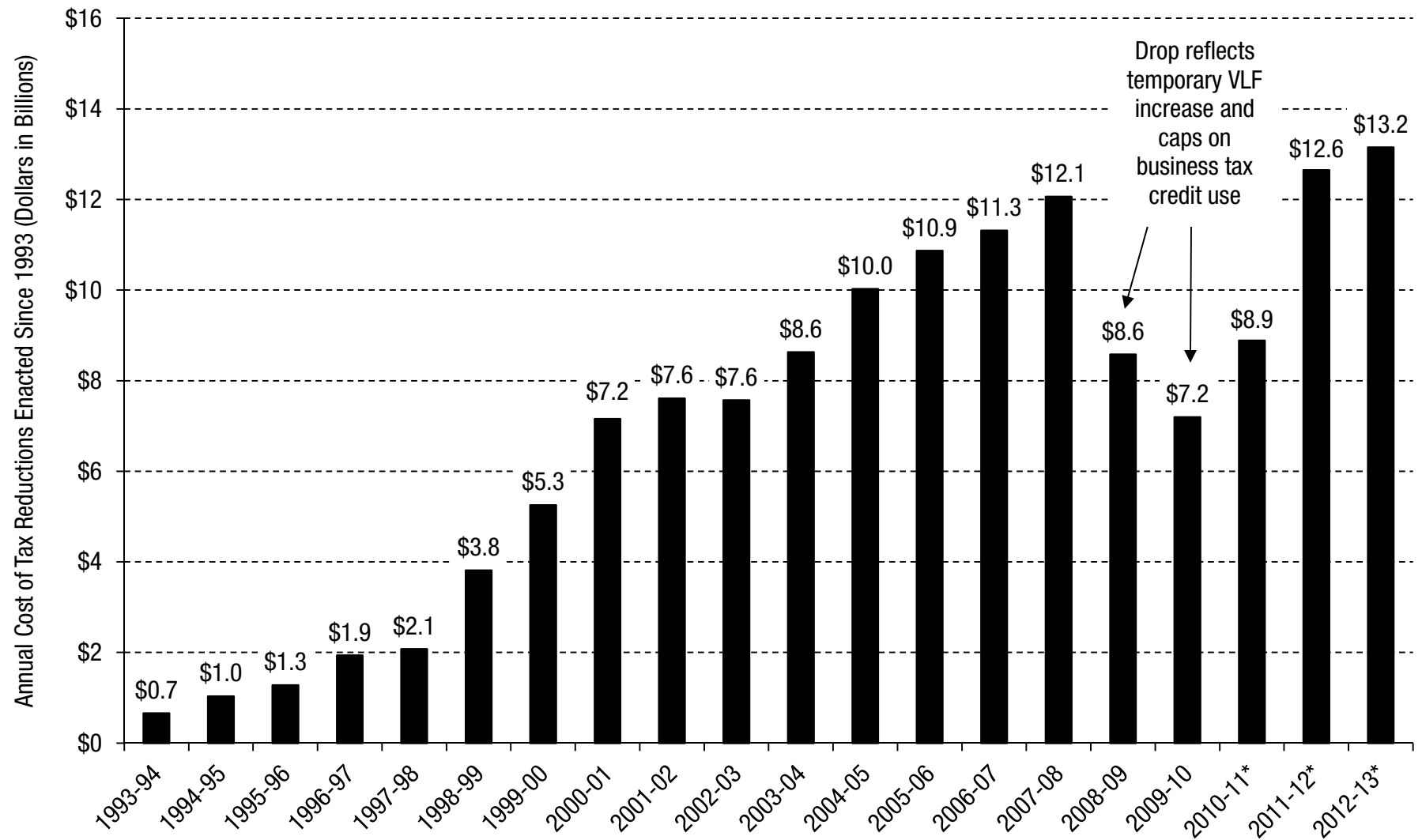
Compared to 2012-13 as Projected in November 2007



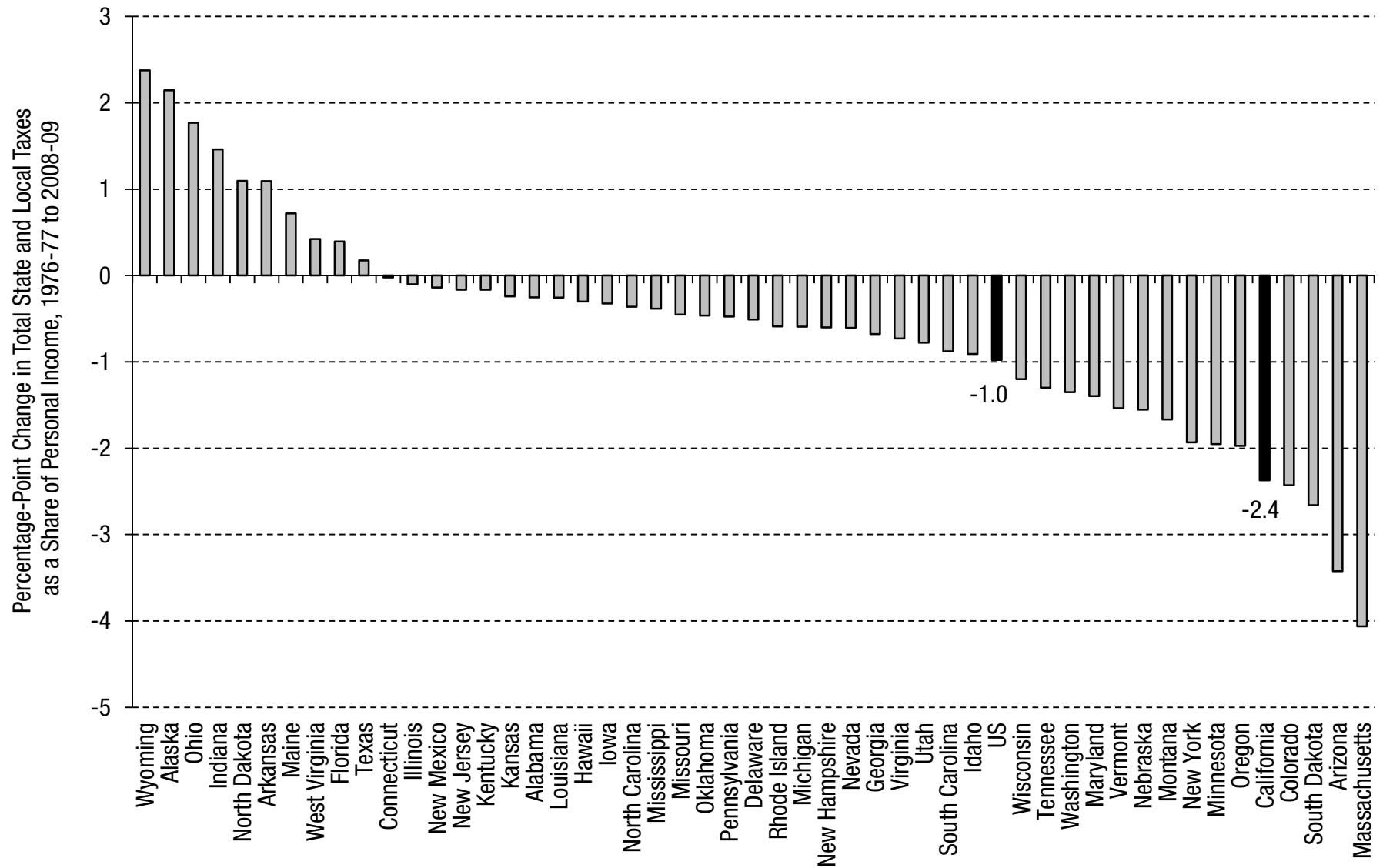
Tax Cuts and a Growing and Aging Population Have Contributed to the State's Budget Problems

- Lawmakers continued to cut taxes even at the depths of the Great Recession, granting massive corporate tax breaks in 2008 and 2009. Tax cuts approved since 1993 will cost the state in excess of \$13 billion in 2012-13.
- On the spending side of the ledger, the state's population has continued to grow, adding an average of 307,000 new Californians per year since 2002, equivalent to adding a new city the size of Riverside annually.
- The fastest growing share of the population is the oldest, with the 65 and above population expected to grow at nearly three times the rate of the population as a whole.

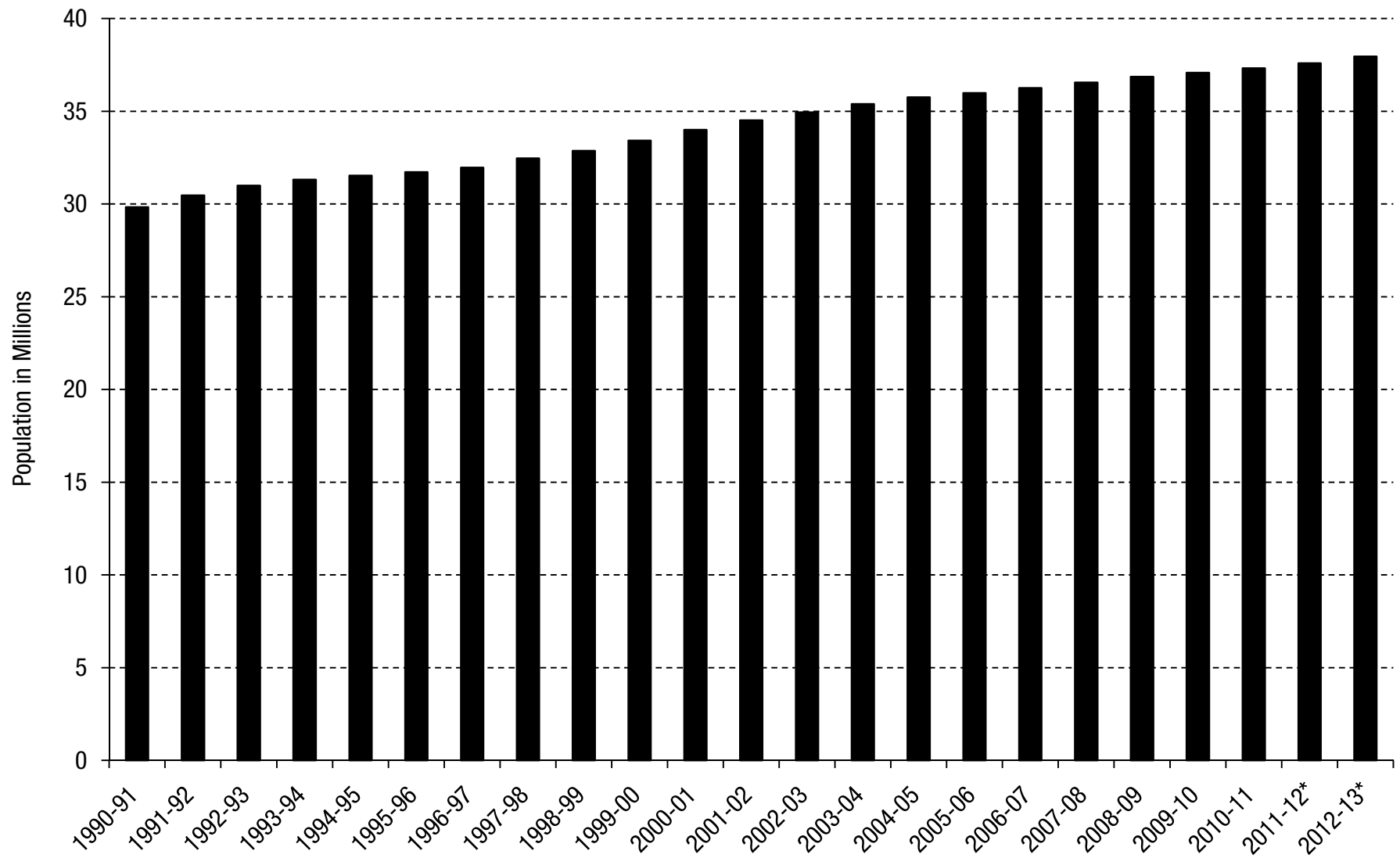
Tax Cuts Enacted Since 1993 Will Cost an Estimated \$13.2 Billion in 2012-13



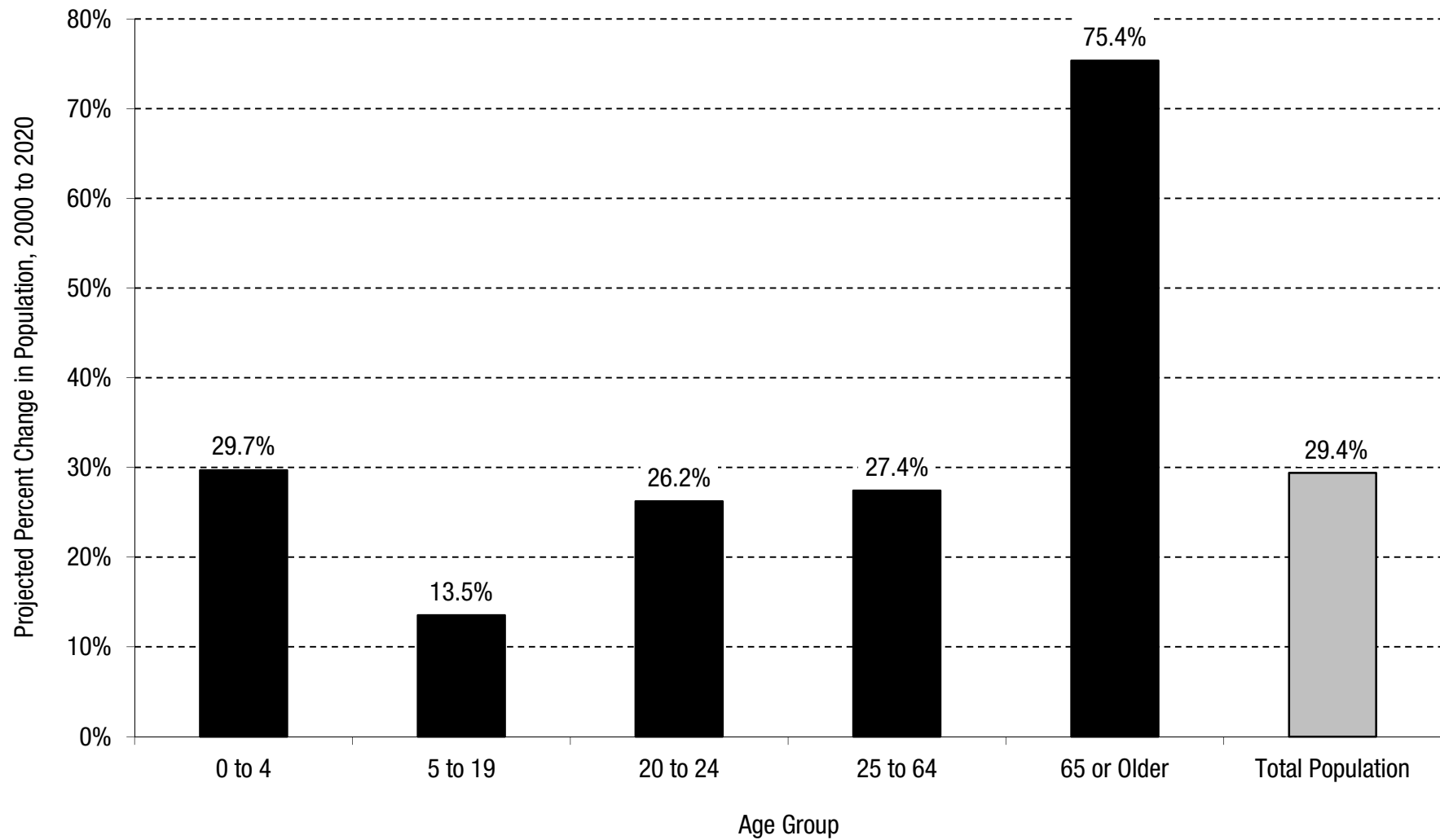
California's Taxes as a Share of Personal Income Have Declined More Than That of Most States



California's Population Continues To Rise



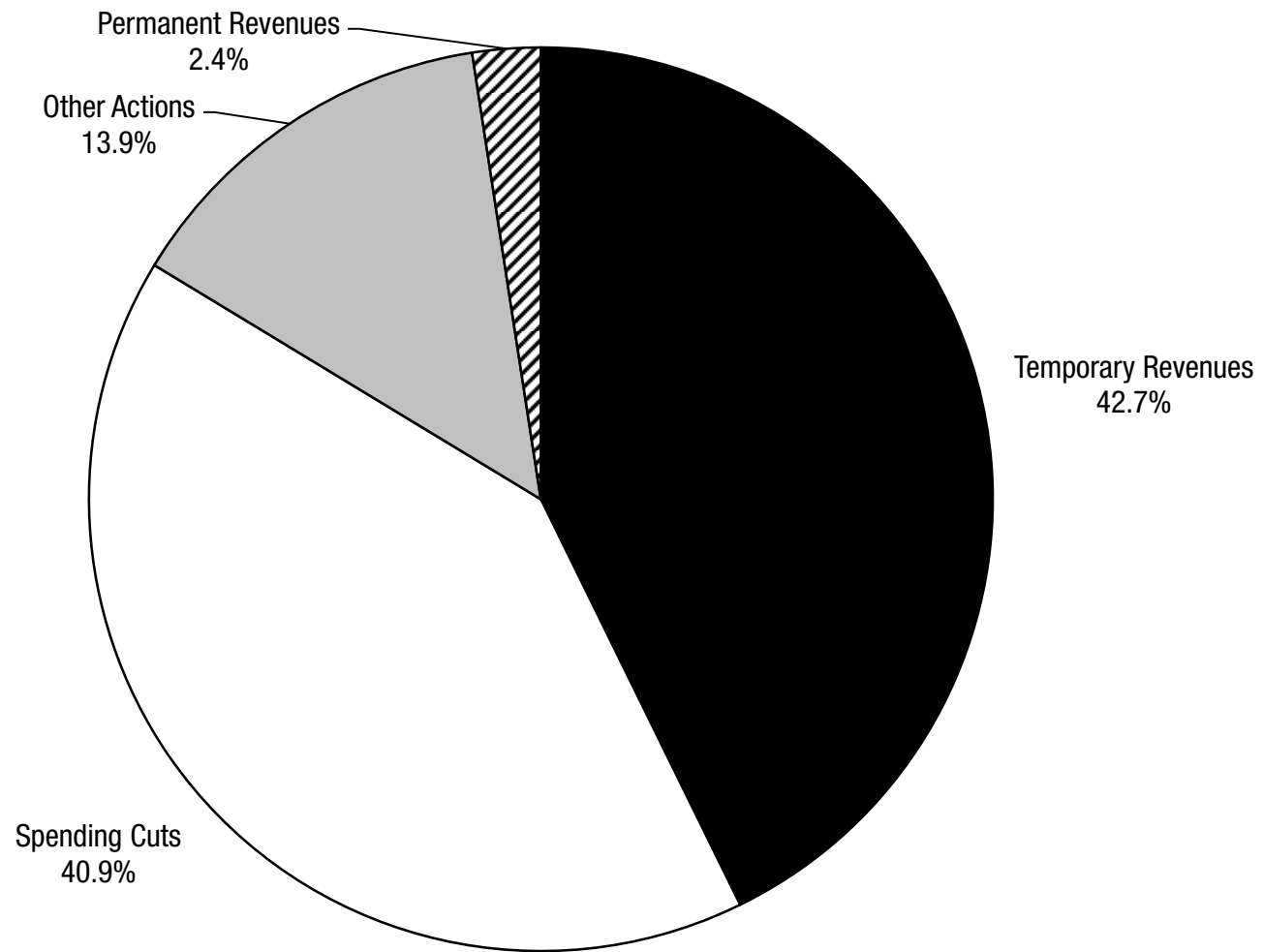
Californians Age 65 or Older Are Projected To Be the Fastest-Growing Age Group Between 2000 and 2020



The Top Lines: How Is the Budget Balanced?

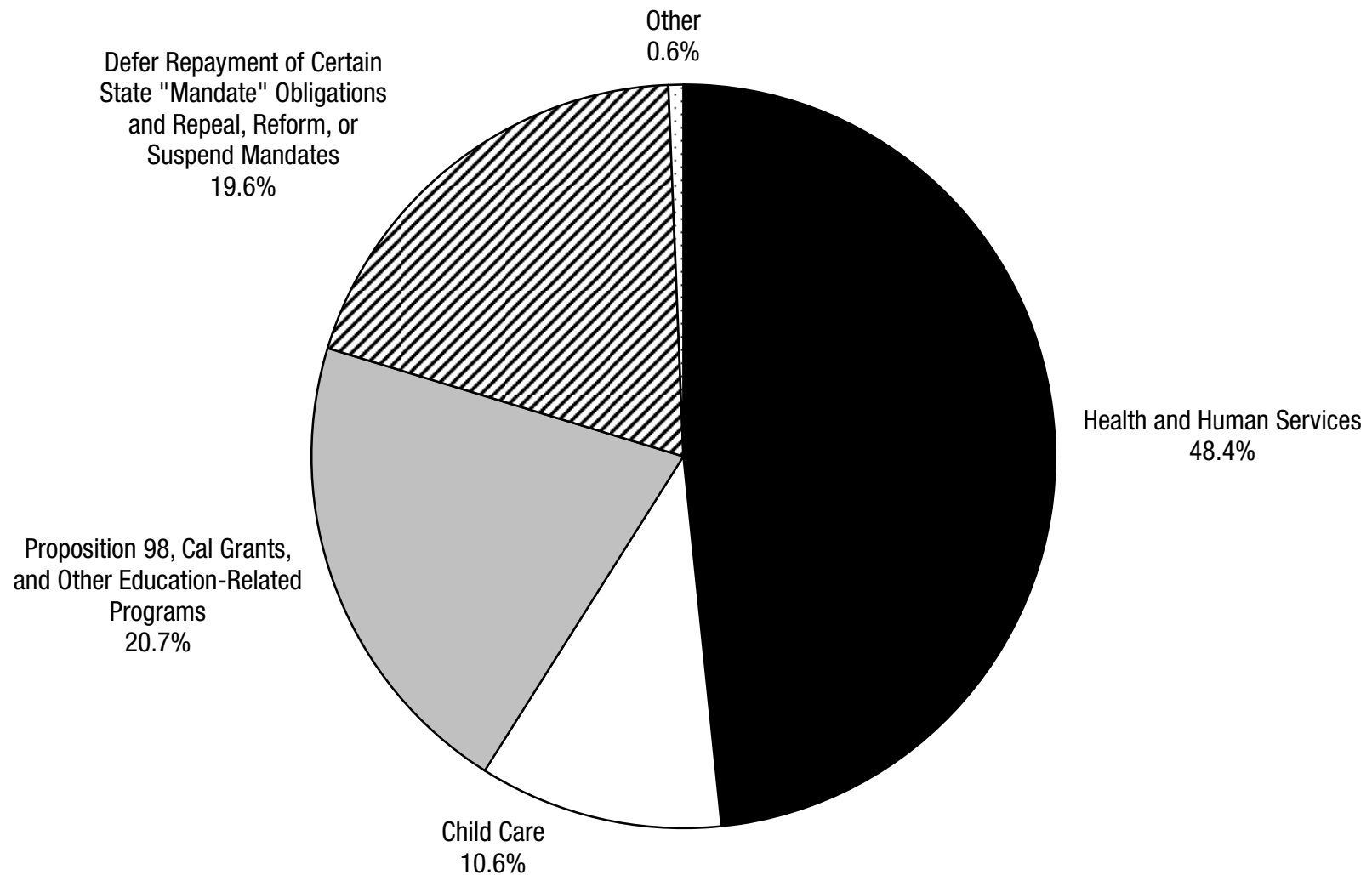
- The Governor identifies a \$9.2 billion budget gap over the next 18 months and proposes \$10.3 billion in “solutions” to balance the budget and provide a modest reserve.
- Roughly equal shares of the “solutions” come from spending reductions – including very deep cuts to CalWORKs and child care – and revenues from the Governor’s proposed temporary tax increase.
- As proposed, the Governor’s Budget would pay down the state’s “Wall of Debt” and would bring the budget into balance in 2012-13 through 2015-16.

How Does the Governor Propose To Balance the Budget?



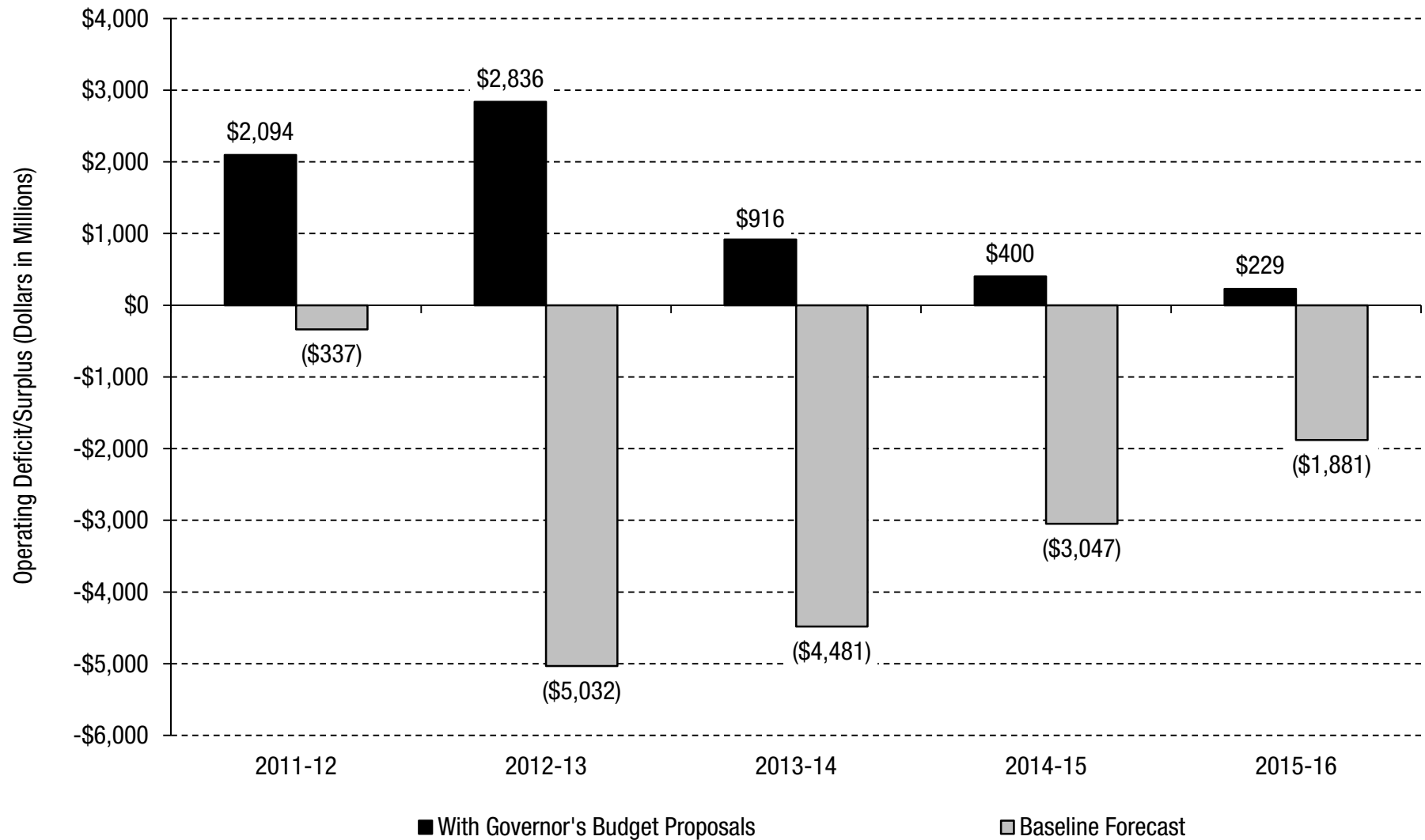
Total 2011-12 and 2012-13 "Solutions" = \$10.3 Billion

Nearly Half of Proposed Spending Reductions Target Health and Human Services

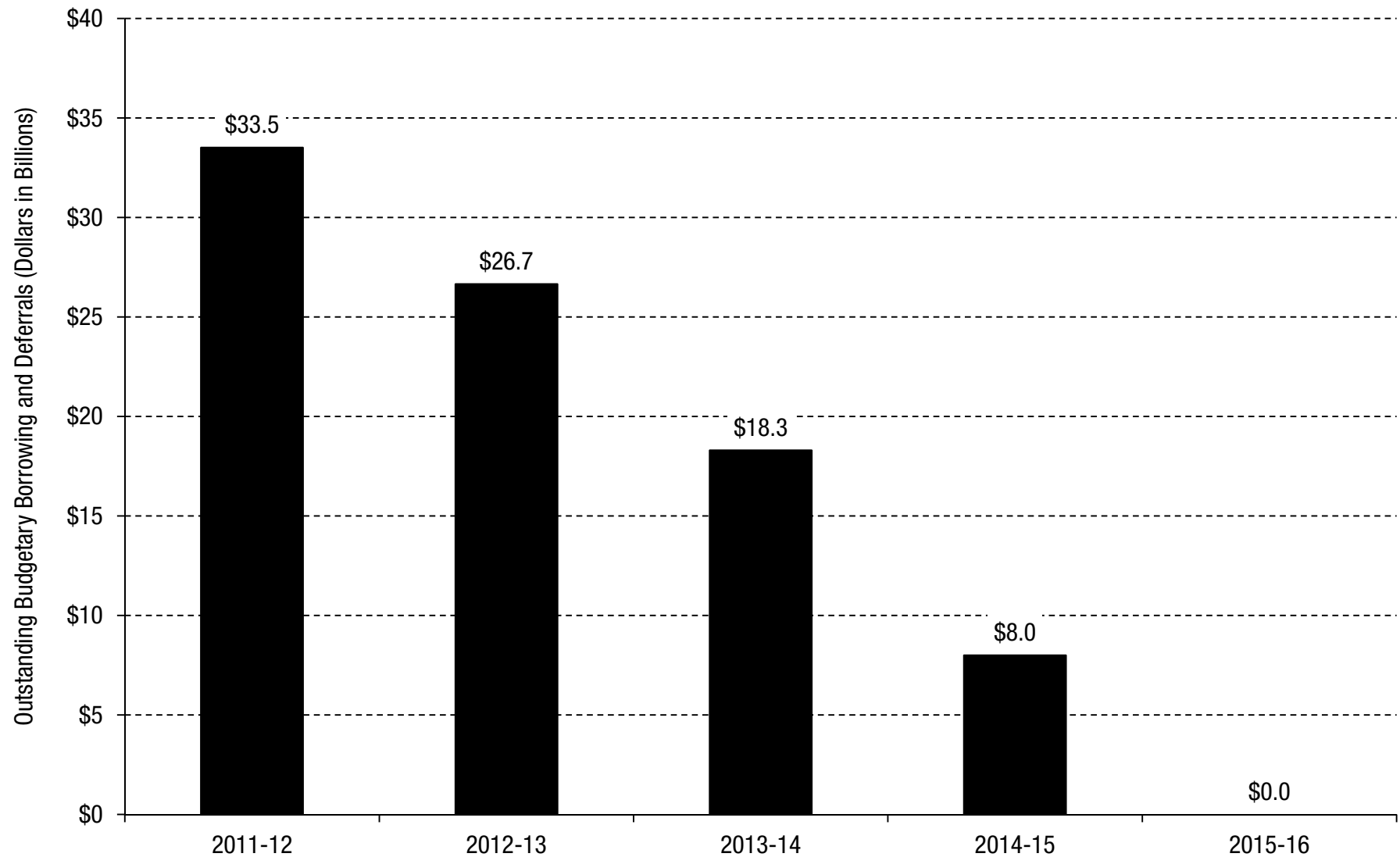


Total 2011-12 and 2012-13 Spending Reductions = \$4.2 Billion

If Fully Implemented, the Governor's Proposals Would Eliminate Projected Operating Shortfalls Through 2015-16



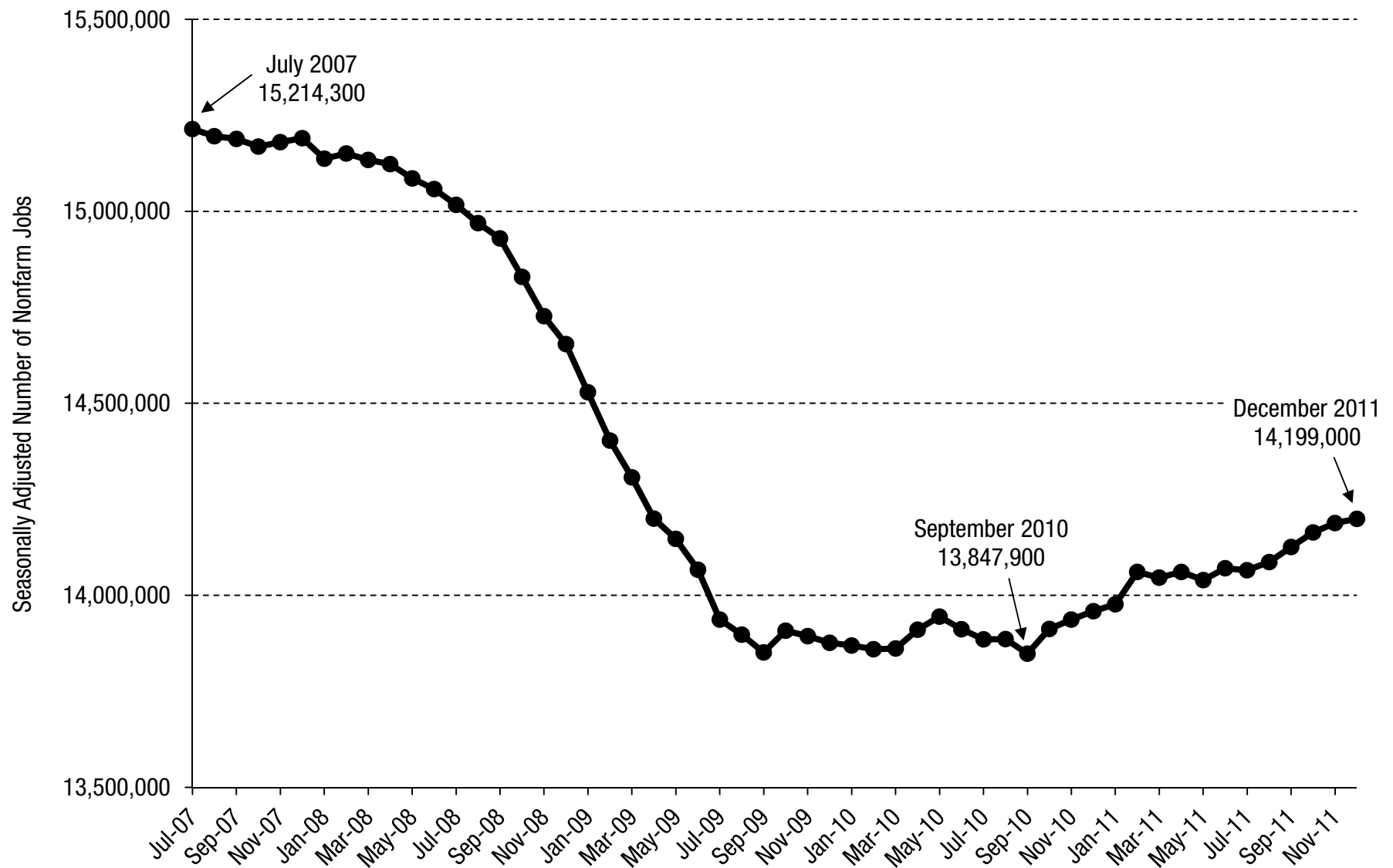
The Governor's Proposal Prioritizes Paying Down the "Wall of Debt"



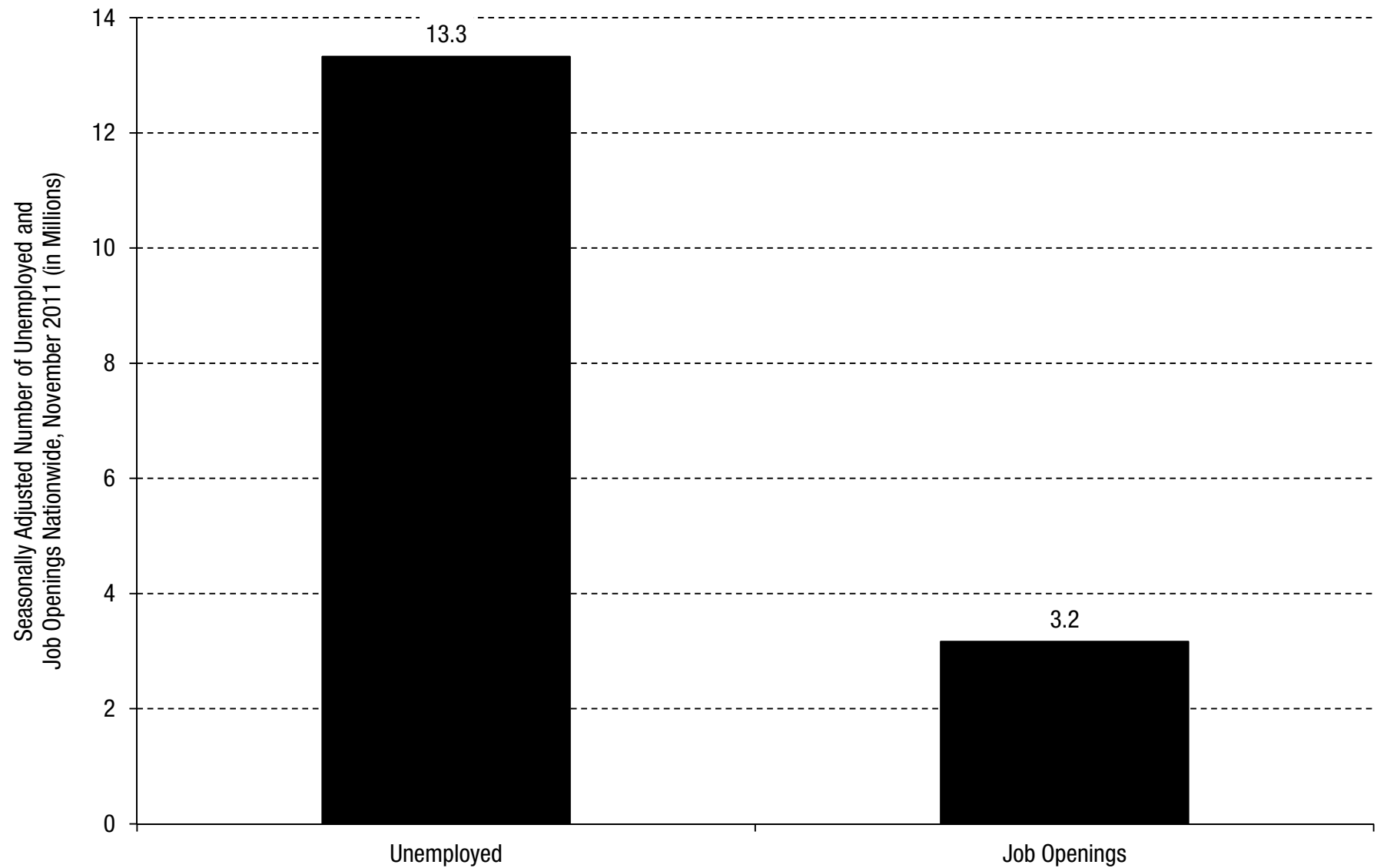
California Is Finally on the Mend From the Great Recession, But Full Recovery Remains a Long Way Off

- The pace of recovery in California's job market has been slower than anticipated. As of December 2011, the state had gained back just one-quarter of the jobs it lost during the downturn.
- Approximately 2 million Californians are unemployed – more than one-third of whom have been looking for jobs for over one year. Nationally, businesses only have enough job openings to employ less than one-quarter of the unemployed.
- Recent projections show the state's unemployment rate above 10 percent through 2014. In other words, even two years from now, California's jobless rate could be higher than it was during **any** recession in recent history, including during the deep downturns of the early 1980s and early 1990s.

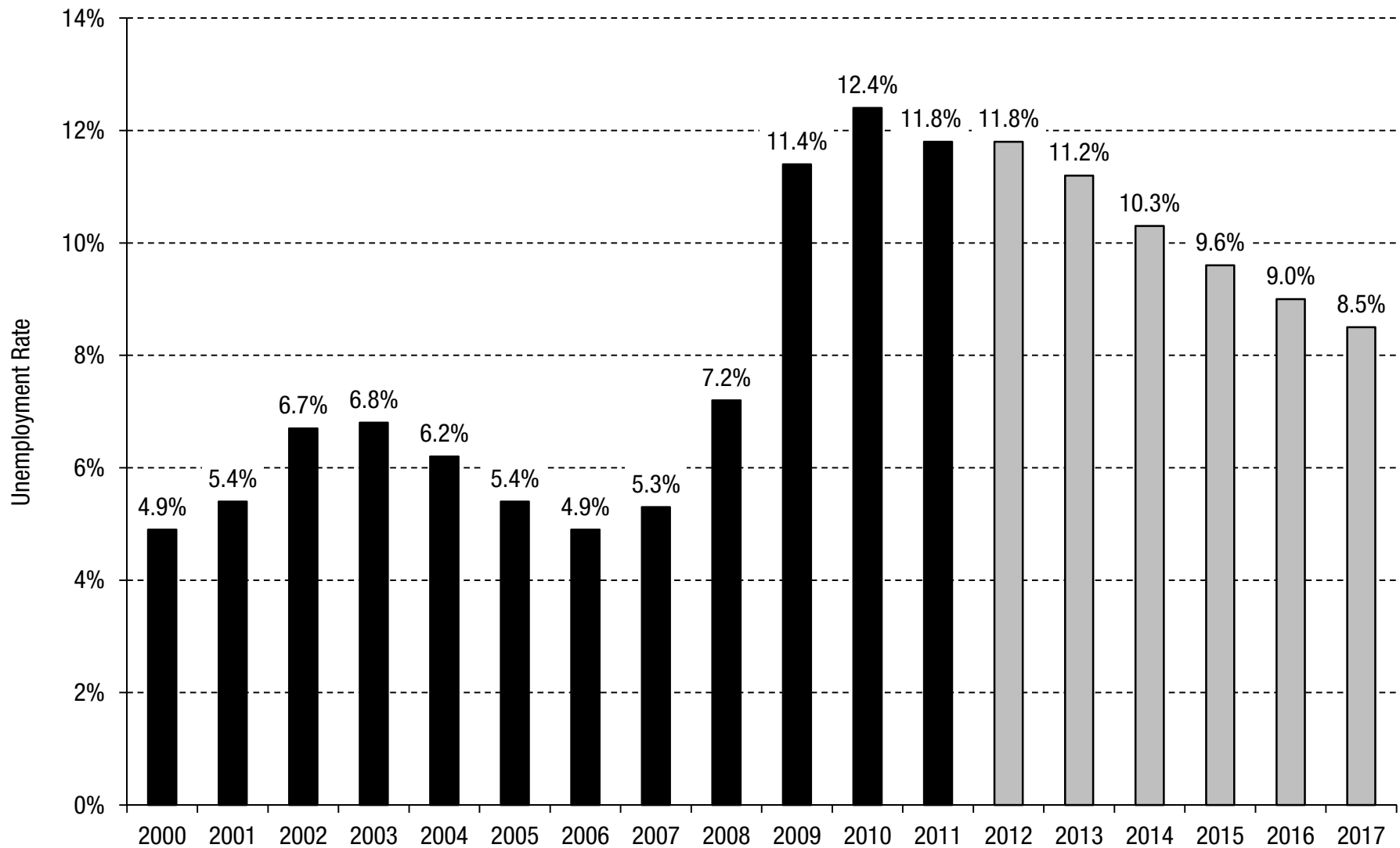
California Is Finally on the Mend From the Great Recession, But a Deep Hole in the Job Market Remains



The Number of People Looking for Work Nationwide Exceeds Available Jobs by More Than Four to One



California's Annual Jobless Rate Is Projected To Remain Above 10 Percent Through 2014

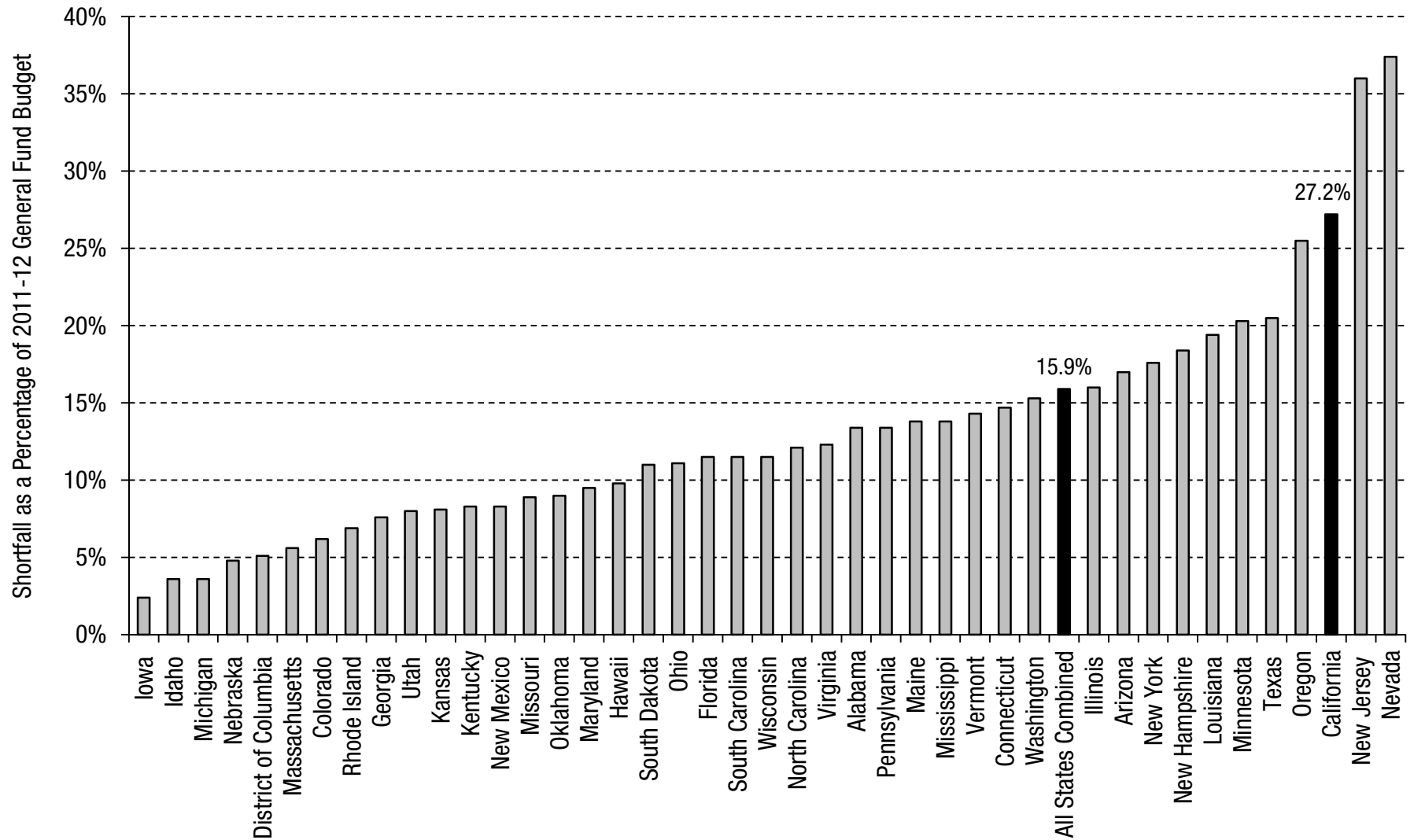


Note: 2012 through 2017 are projected.
Source: Legislative Analyst's Office and US Bureau of Labor Statistics

California's Budget Crisis Has Been Longer and Deeper Than Those of Other States

- Because the recession hit California harder, and the state has been slower to recover, California's budget problems have been worse than those of other states. Nearly all states, however, have experienced sizeable deficits.
- California's problems have also been exacerbated by tax cuts, one-time "solutions," overly optimistic assumptions, and the fact that the two-thirds vote requirement for the Legislature to approve any tax measures has blocked adoption of a balanced approach to bridging the budget gap.

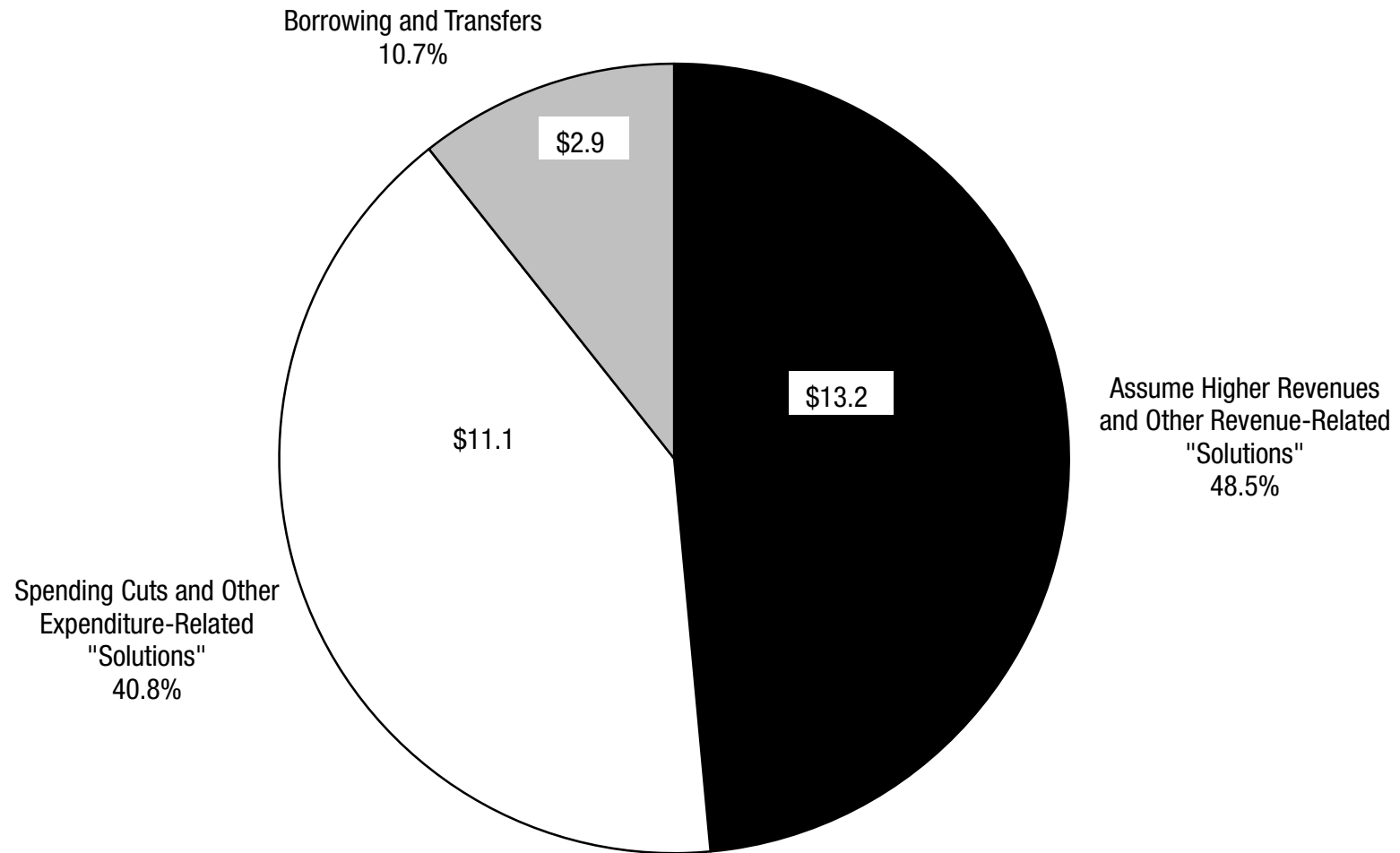
California's 2011-12 Budget Gap Was Larger Than the Gaps in Most Other States



Note: Includes states that reported the amount of a projected shortfall for their 2011-12 fiscal year. As of early January 2012, at least seven states, including California, faced midyear budget shortfalls.

Source: Center on Budget and Policy Priorities

How Was the 2011-12 Budget Balanced? (Dollars in Billions)

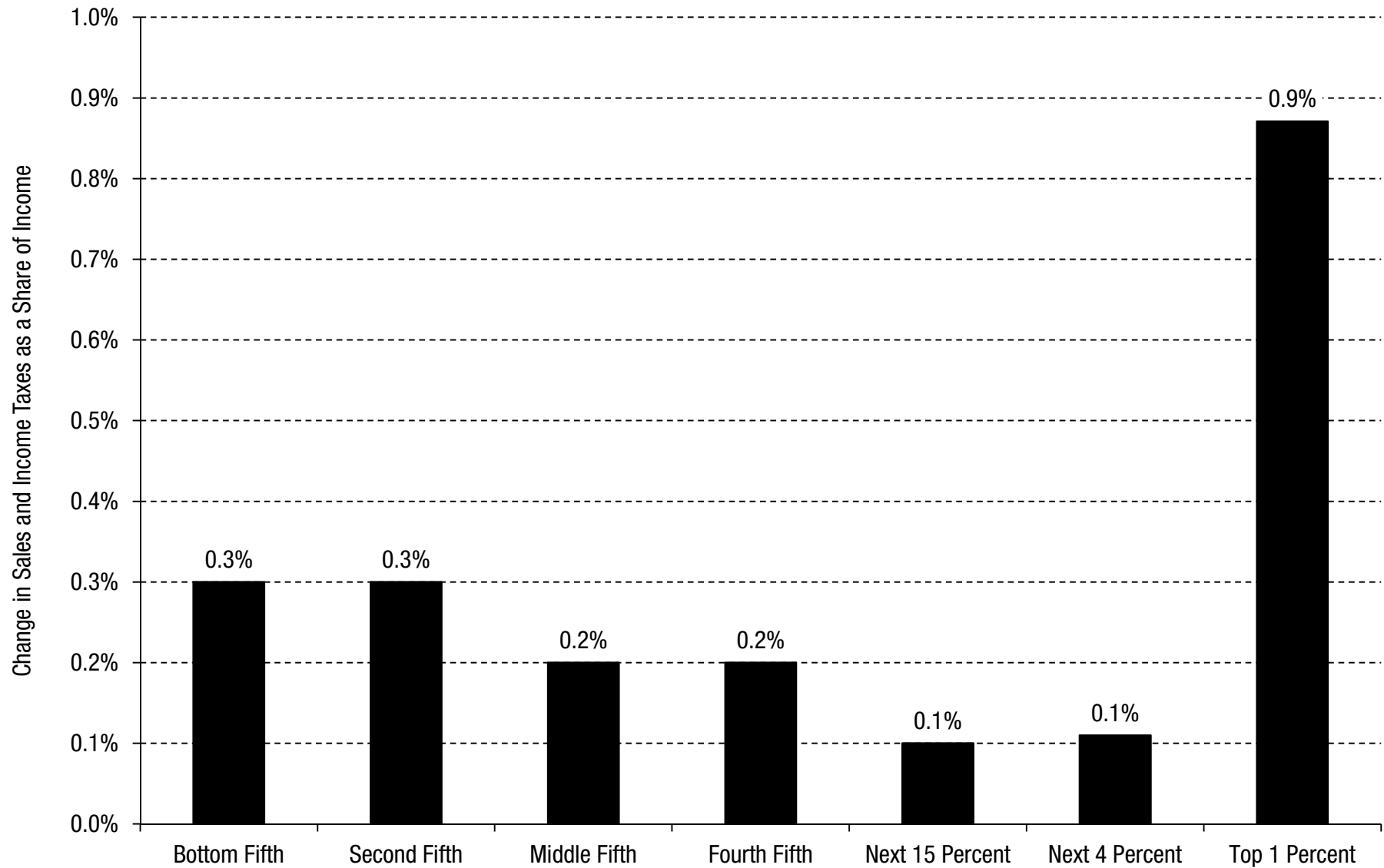


Total 2010-11 and 2011-12 "Solutions" = \$27.2 Billion

The Governor Proposes a Temporary Tax Increase

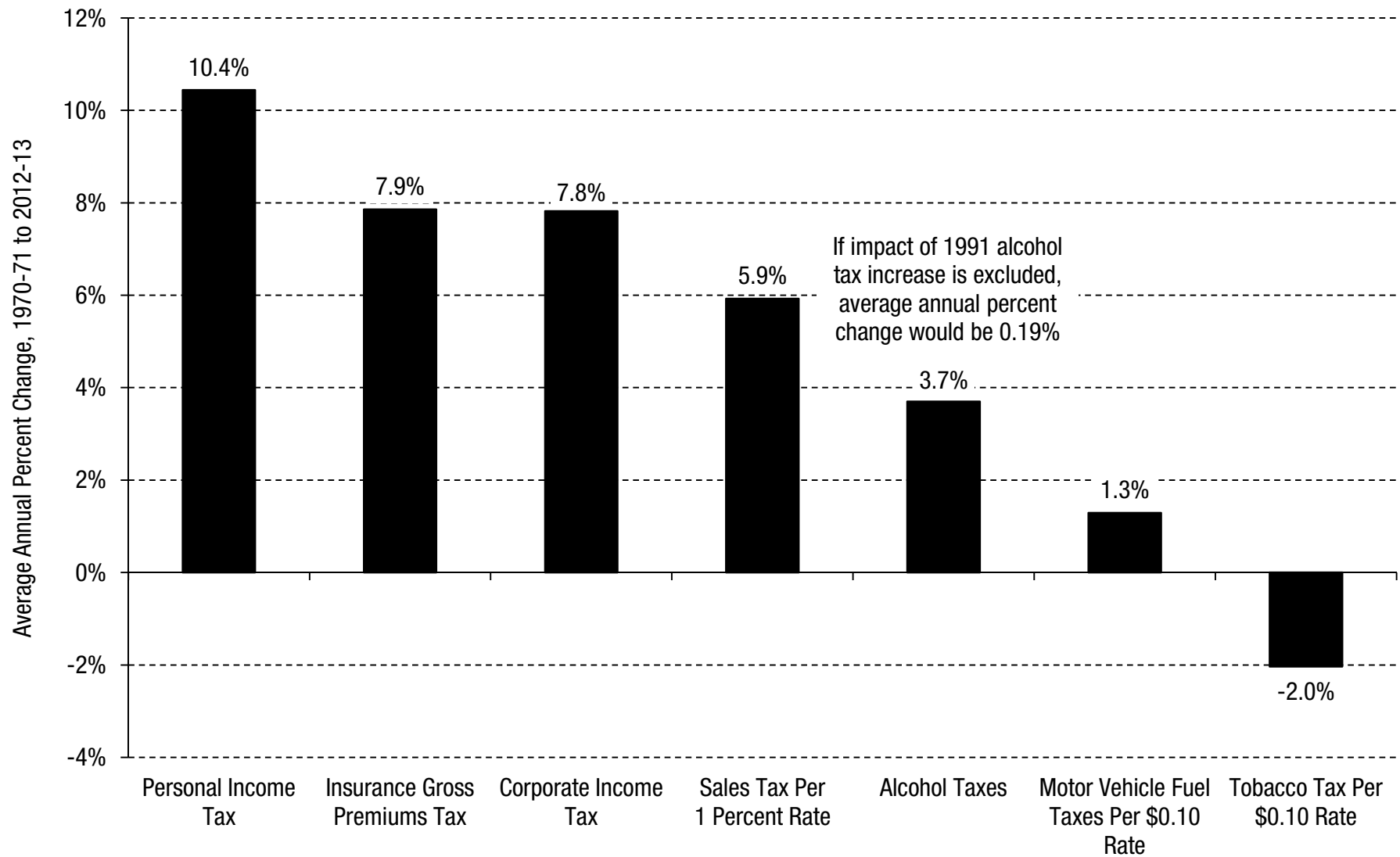
- The Governor's Proposed Budget asks voters to impose three new personal income tax rates on the highest-income Californians – married taxpayers with incomes of \$500,000 and above – and a ½ cent sales tax rate increase. The proposed taxes would raise an estimated \$6.9 billion toward the 2012-13 budget, with \$5.76 billion from the tax rates on high-income individuals and \$1.17 billion from the higher sales tax rate.
- Of this amount, \$2.5 billion would go toward an increase in the Proposition 98 school funding guarantee and \$4.4 billion would be used to help close the budget gap.

The Governor's Proposed Tax Increases Would Have Largest Impact on the Top 1 Percent

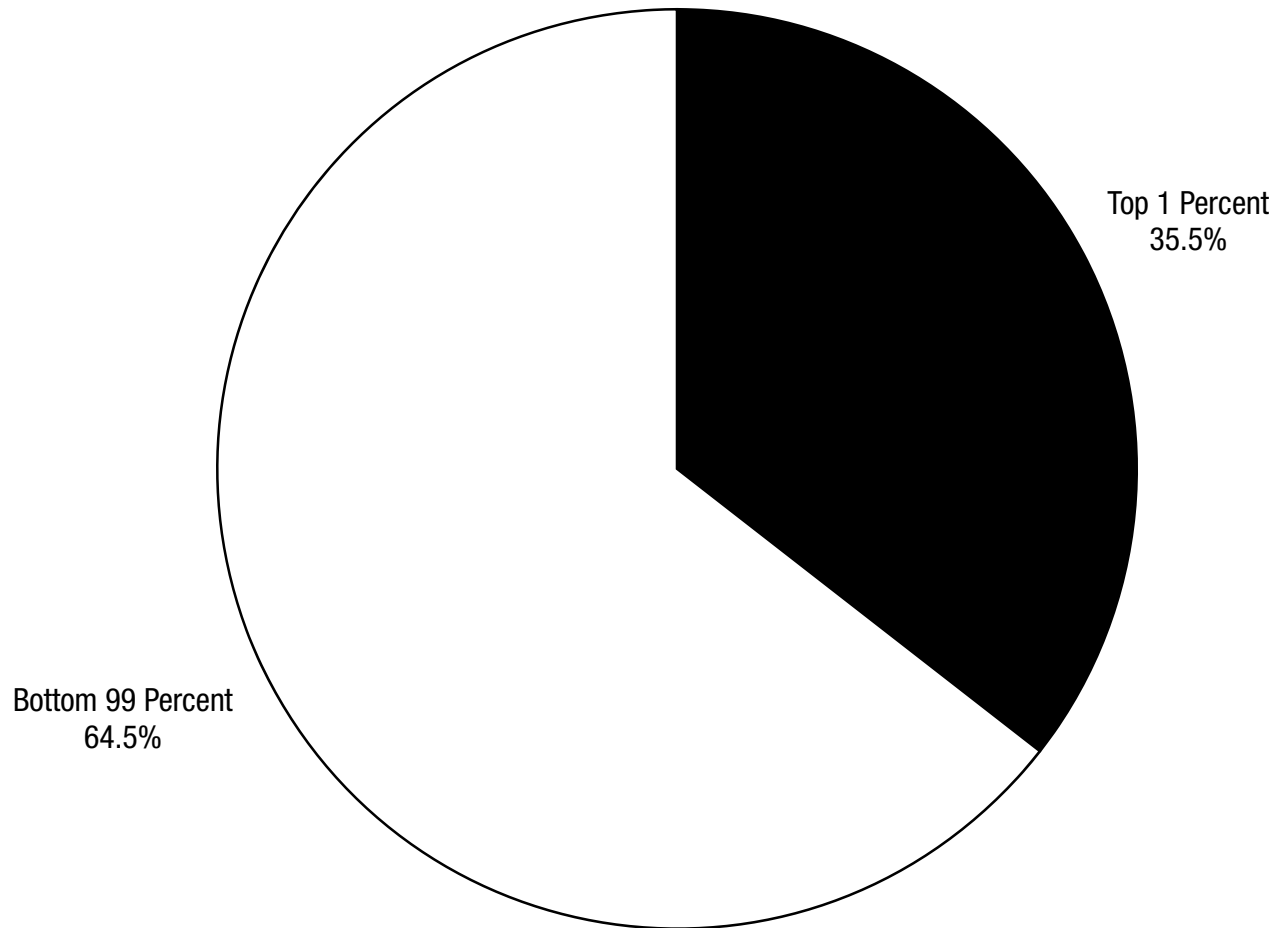


According to Nobel Prize-winning economist Joseph Stiglitz, when the economy is weak: “Economic theory and evidence gives a clear and unambiguous answer: It is economically preferable to raise taxes on those with high incomes than to cut state expenditures.”

Personal Income Tax Posts the Highest Average Annual Growth Over Time

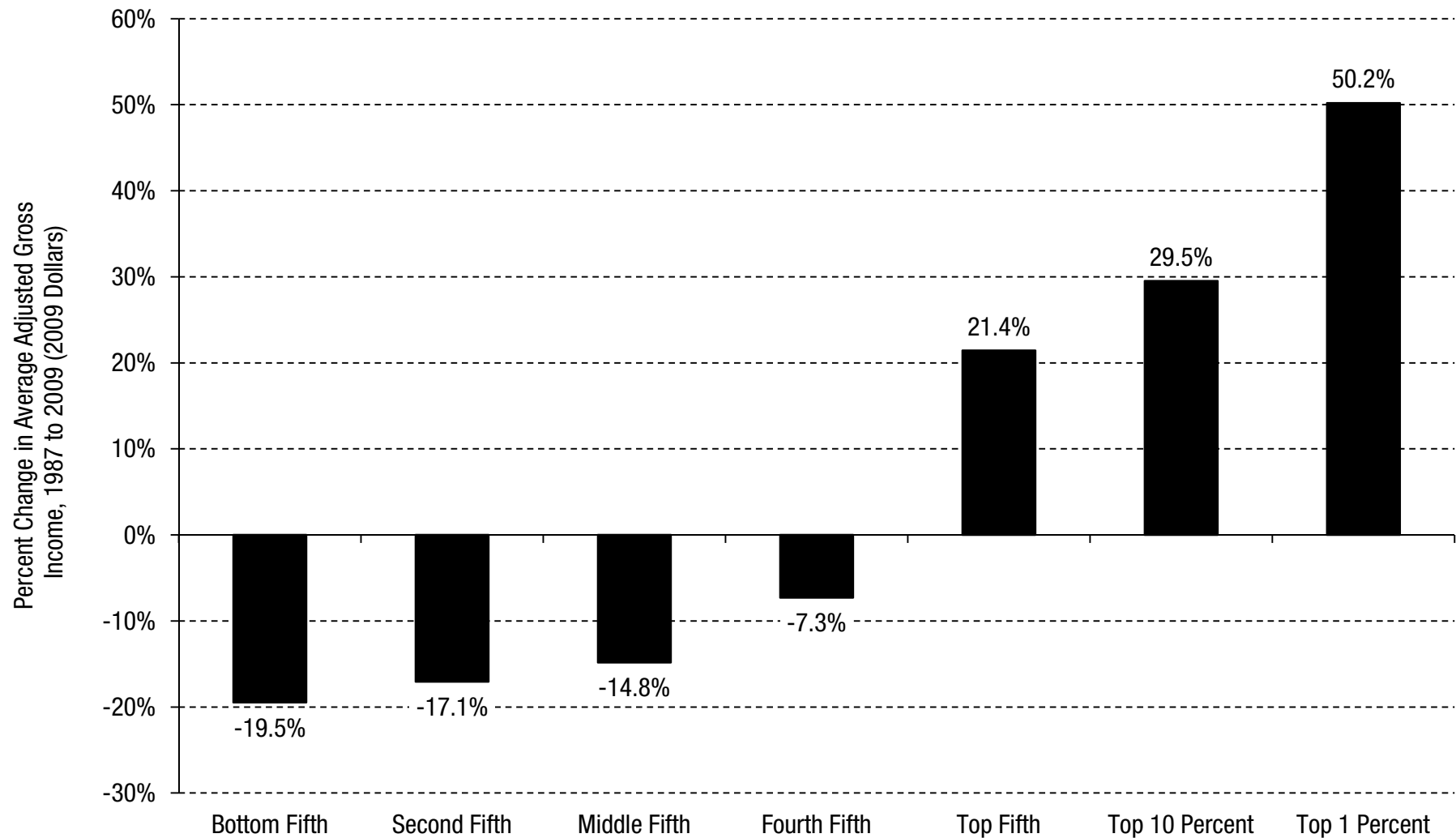


More Than One-Third of Total Income Gains Between
1987 and 2009 Went to the Top 1 Percent of California Taxpayers



Total Adjusted Gross Income Increased by \$219.4 Billion, 1987 to 2009 (2009 Dollars)

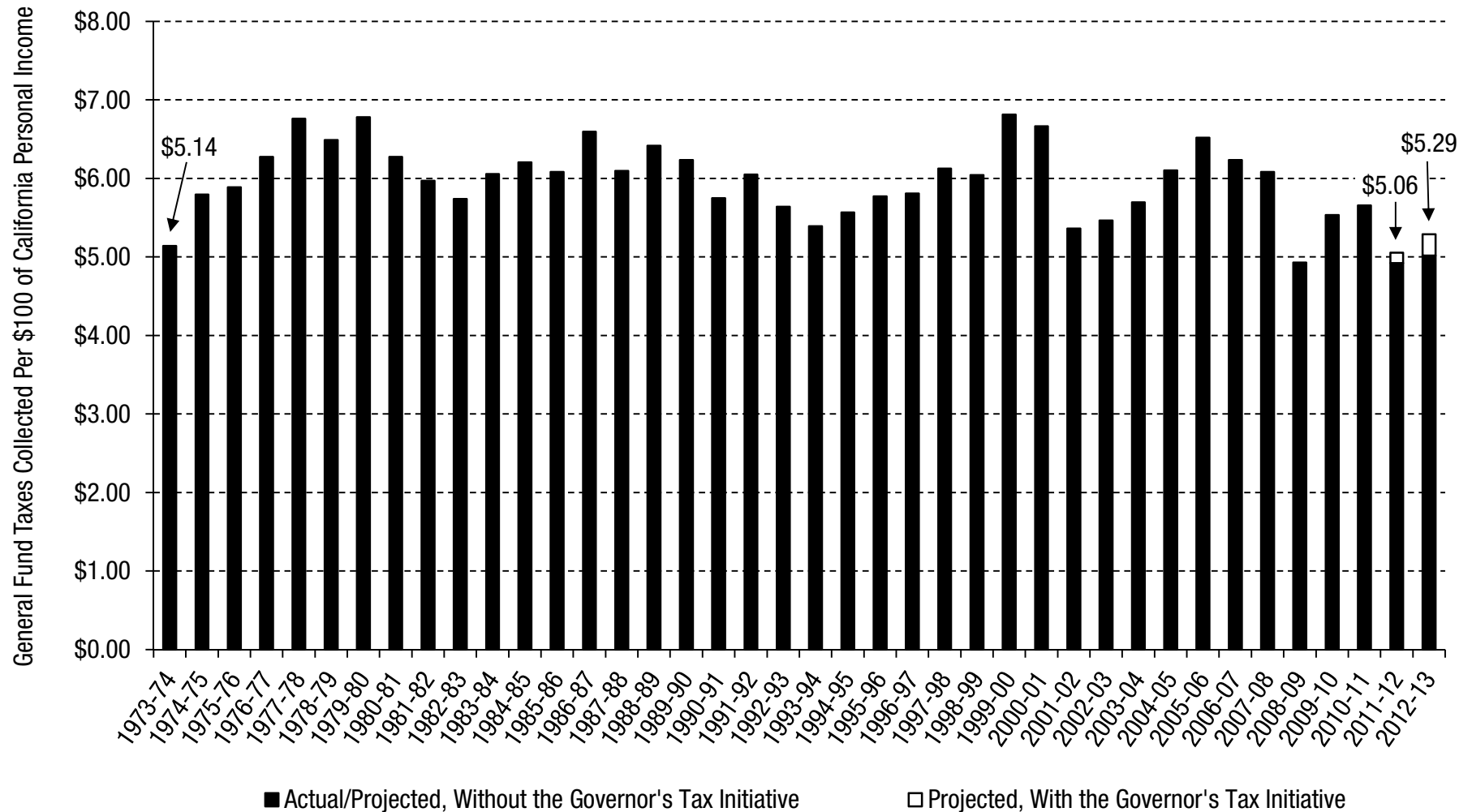
The Incomes of the Wealthy Increased Significantly Over the Past Two Decades, While Those of All Other Californians Declined



California Will Remain a Moderate-Tax State Even With the Additional Revenues

- If voters approve the Governor's proposed ballot measure, state General Fund tax collections will remain lower than in all but four of the past 40 years.
- In 2008-09, the most recent year for which data are available, California ranked 20th among the 50 states with respect to combined state and local "own source" revenues – the broadest measure of public revenues.
- California's tax system is modestly regressive, with lower-income households paying a larger share of their incomes in state and local taxes than do higher-income households.

Even if Voters Approve the Governor's Proposed Tax Initiative in November, State Tax Collections as a Share of Personal Income Are Projected To Remain Below Mid-1970s Levels



Note: 2011-12 and 2012-13 exclude revenues transferred to counties as part of the 2011 "realignment" of program responsibility.
 Source: CBP analysis of Department of Finance data

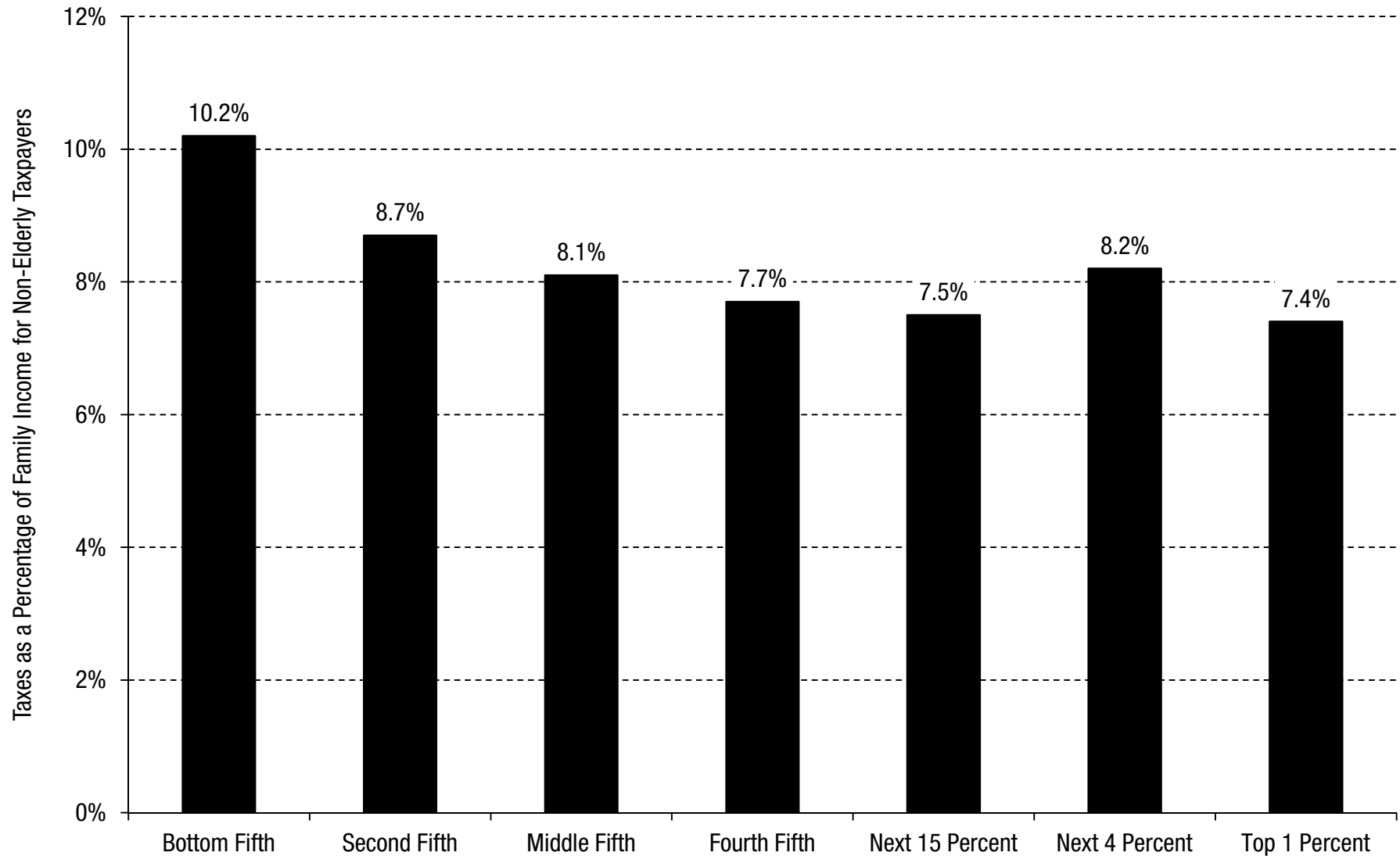
How Does California Compare?

Revenues as a Percentage of Personal Income

	California Rank	California	US
Total State and Local Own Source (2008-09)	20	15.99%	15.43%
Total State and Local Taxes (2008-09)	13	10.81%	10.45%
State Taxes (2009-10)	15	6.78%	5.84%
Local Taxes (2008-09)	19	4.37%	4.57%
State Individual Income Tax (2009-10)	5	2.95%	1.96%
State Corporate Income Tax (2009-10)	4	0.59%	0.31%
State and Local General Sales Taxes (2008-09)	27	2.38%	2.39%
State General Sales Tax (2009-10)	18	2.02%	1.86%
State and Local Property Tax (2008-09)	21	3.43%	3.49%
State Motor Fuels Taxes (2009-10)	44	0.20%	0.30%
State Tobacco Tax (2009-10)	45	0.06%	0.14%
State Alcoholic Beverage Sales Taxes (2009-10)	41	0.02%	0.05%

Source: US Bureau of Economic Analysis and US Census Bureau

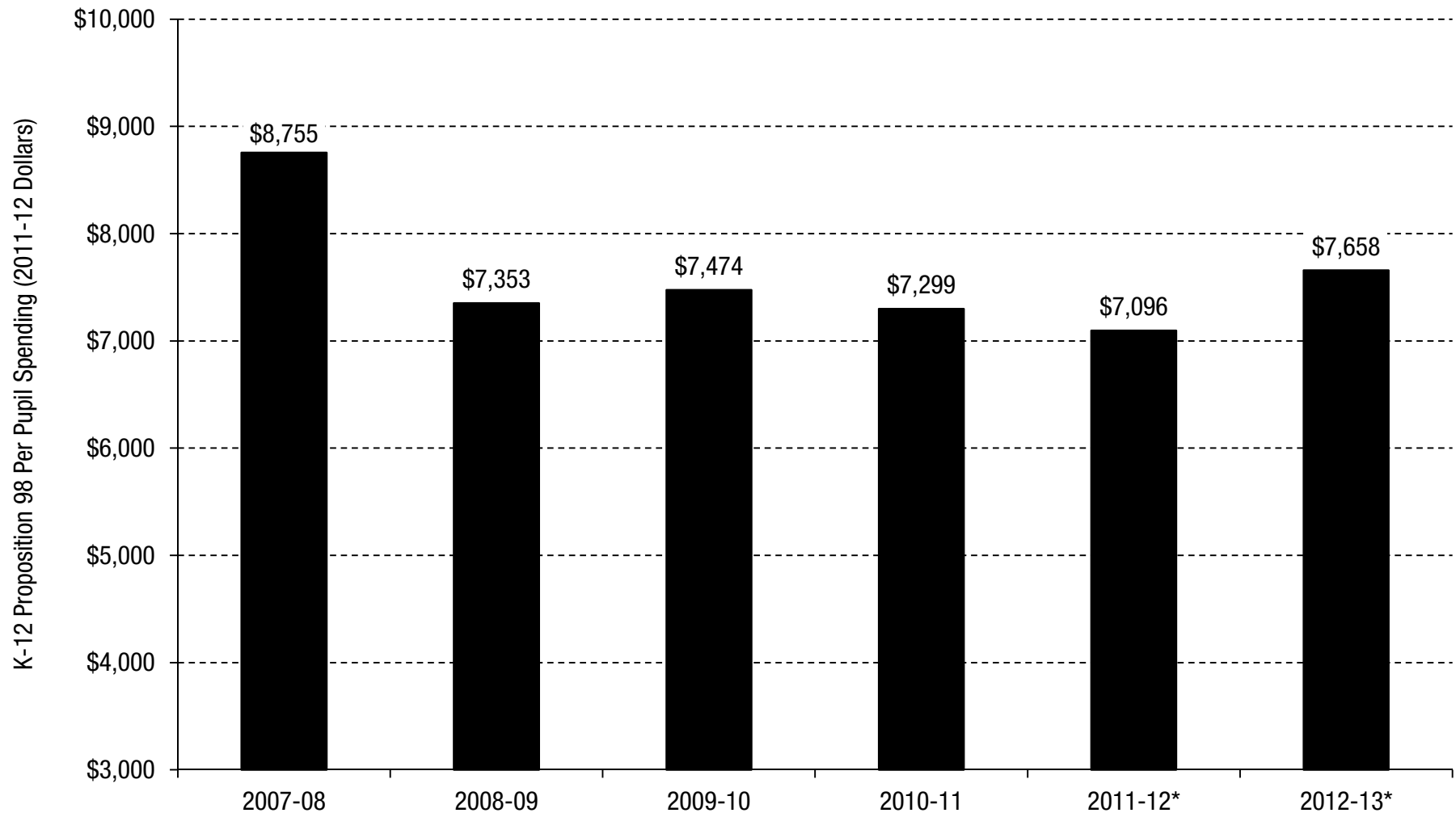
The Lowest-Income Families Pay the Largest Share of Their Incomes in State and Local Taxes



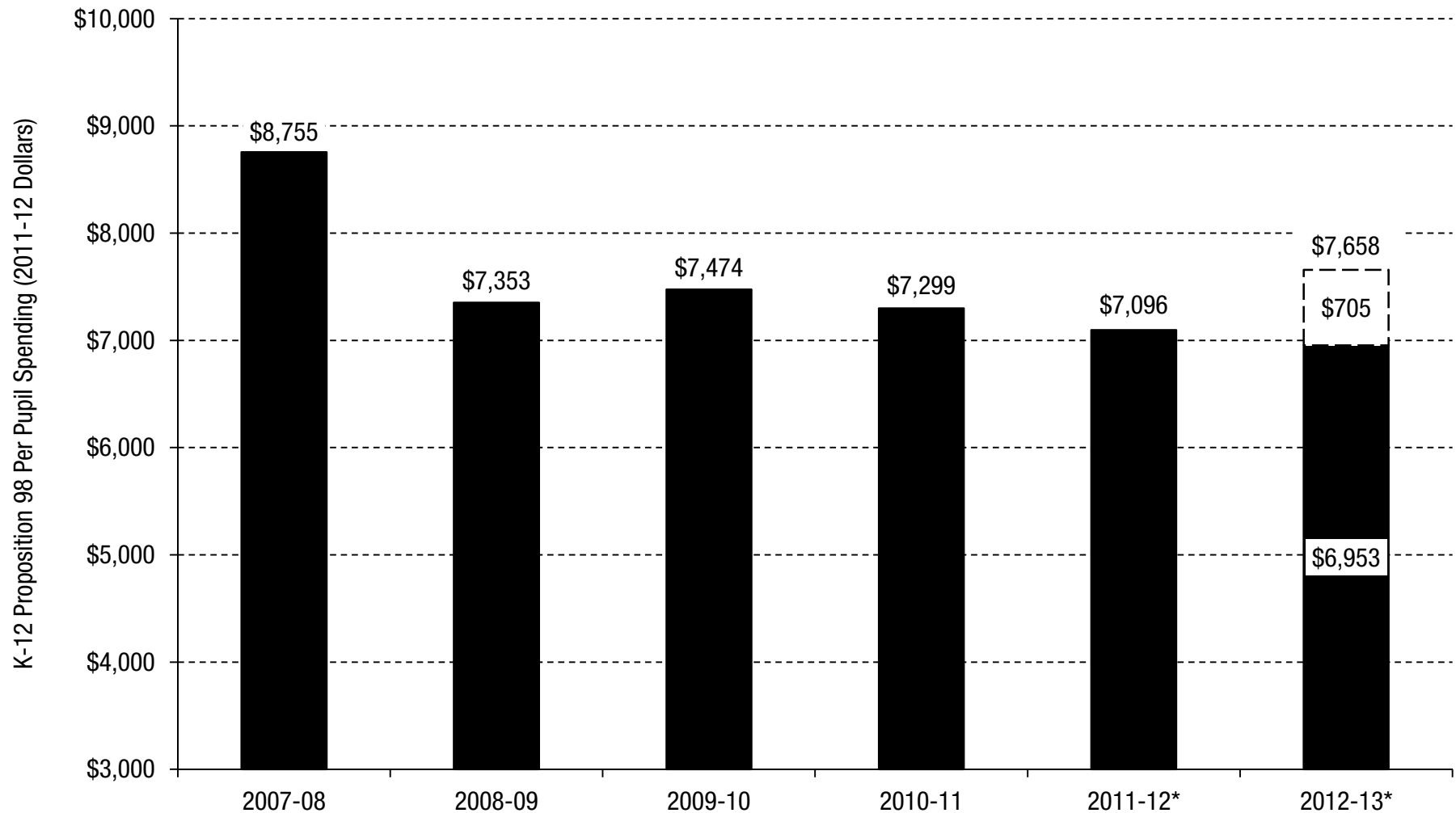
The Governor's Budget Would Stabilize School Spending

- Per pupil spending would stabilize under the Governor's Proposed Budget, but would remain more than \$1,000 below where it was in 2007-08, after adjusting for inflation.
- If voters reject the tax measure, the Governor proposes \$5.4 billion of "trigger cuts" that would reduce spending on schools, higher education, courts, resources programs, and public safety.
- The proposed trigger cuts would reduce school spending to \$705 per student below the Governor's proposed spending level, potentially causing the state to fall even further behind the rest of the nation.

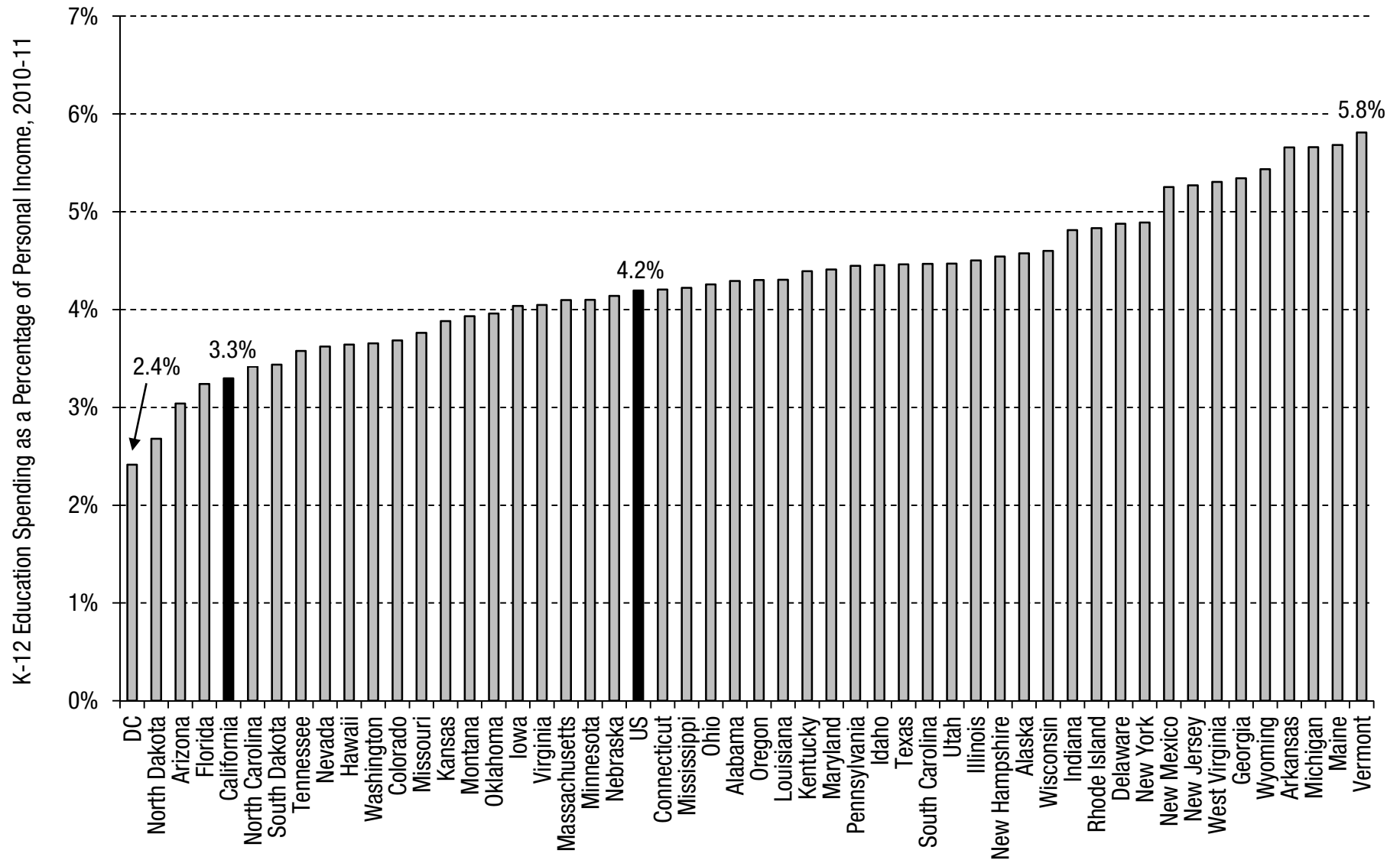
Spending Per Student Would Stabilize in 2012-13 Under the Governor's Proposal,
But Remain More Than \$1,000 Lower Than in 2007-08, After Adjusting for Inflation



Spending Per Student Would Drop by Approximately \$700 in 2012-13 Under the Governor's Proposal if Voters Reject a Tax Increase



California Ranks 47th in K-12 Education Spending as a Percentage of Personal Income



How Do California's Schools Compare?

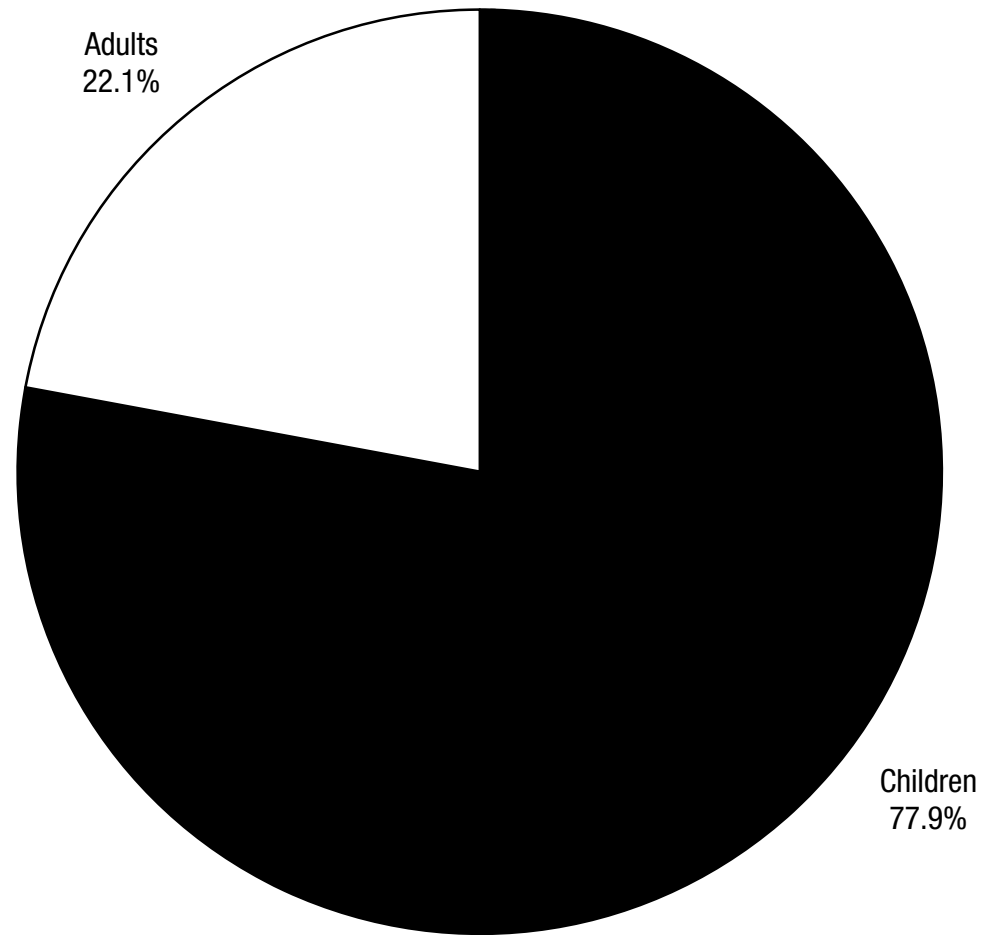
	California Rank	California	US
K-12 Per Pupil Spending (2010-11)	47	\$8,908	\$11,397
K-12 Spending as a Percentage of Personal Income (2010-11)	47	3.3%	4.2%
Number of K-12 Students Per Teacher (2010-11)	51	20.5	14.4
K-12 Per Pupil Spending, Adjusted for Regional Cost Differences (2008-09)	47	\$8,667	\$11,665
Percentage of K-12 Students in Districts With Adjusted Per Pupil Spending at or Above the US Average (2008-09)	25	25.5%	40.5%
Percentage of High School Students Who Graduate With a Diploma (2007-08)	24	73.0%	71.7%

Source: Education Week, National Education Association, and US Bureau of Economic Analysis

The Governor Proposes Deep Cuts to CalWORKs

- The Governor proposes to restructure the CalWORKs Program, reducing spending by \$946.2 million. Specifically, the Governor proposes to:
 - Transfer approximately 260,000 families in which adults are not eligible for cash assistance to a new Child Maintenance Program (CMP) effective October 1, 2012. The maximum CMP grant for a family of three with two children in high-cost counties would drop to \$375 per month, less than one-quarter of the federal poverty line.
 - Create a “CalWORKs Basic” program for families who do not meet federal work participation requirements through unsubsidized employment. Adults who are not working sufficient hours after 24 months on aid would lose eligibility, and the family would be transferred to the CMP. This new time limit would be applied retroactively, shifting an estimated 109,000 families to the CMP as of April 1, 2013.

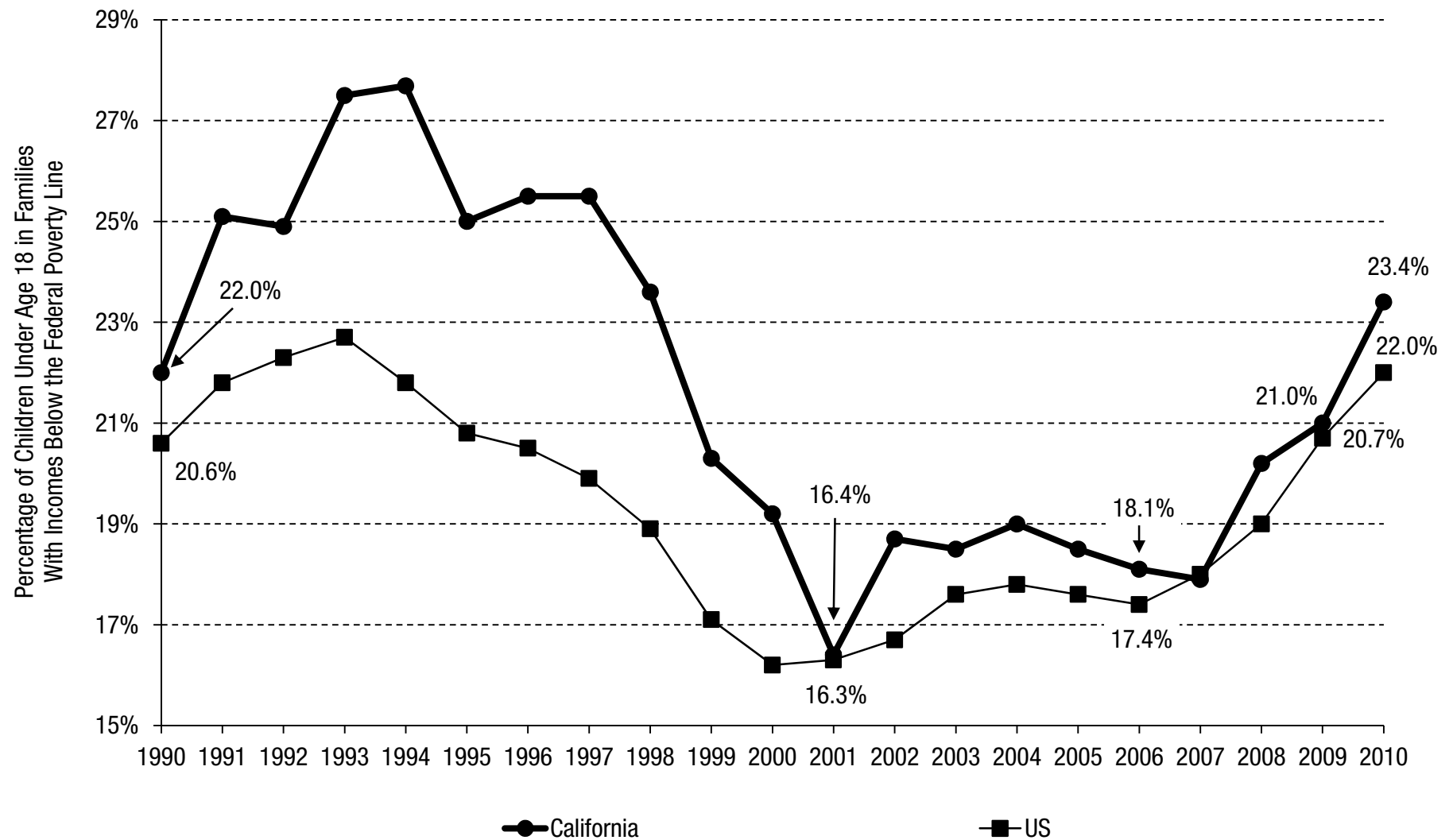
More Than Three Out of Four CalWORKs Recipients Are Children



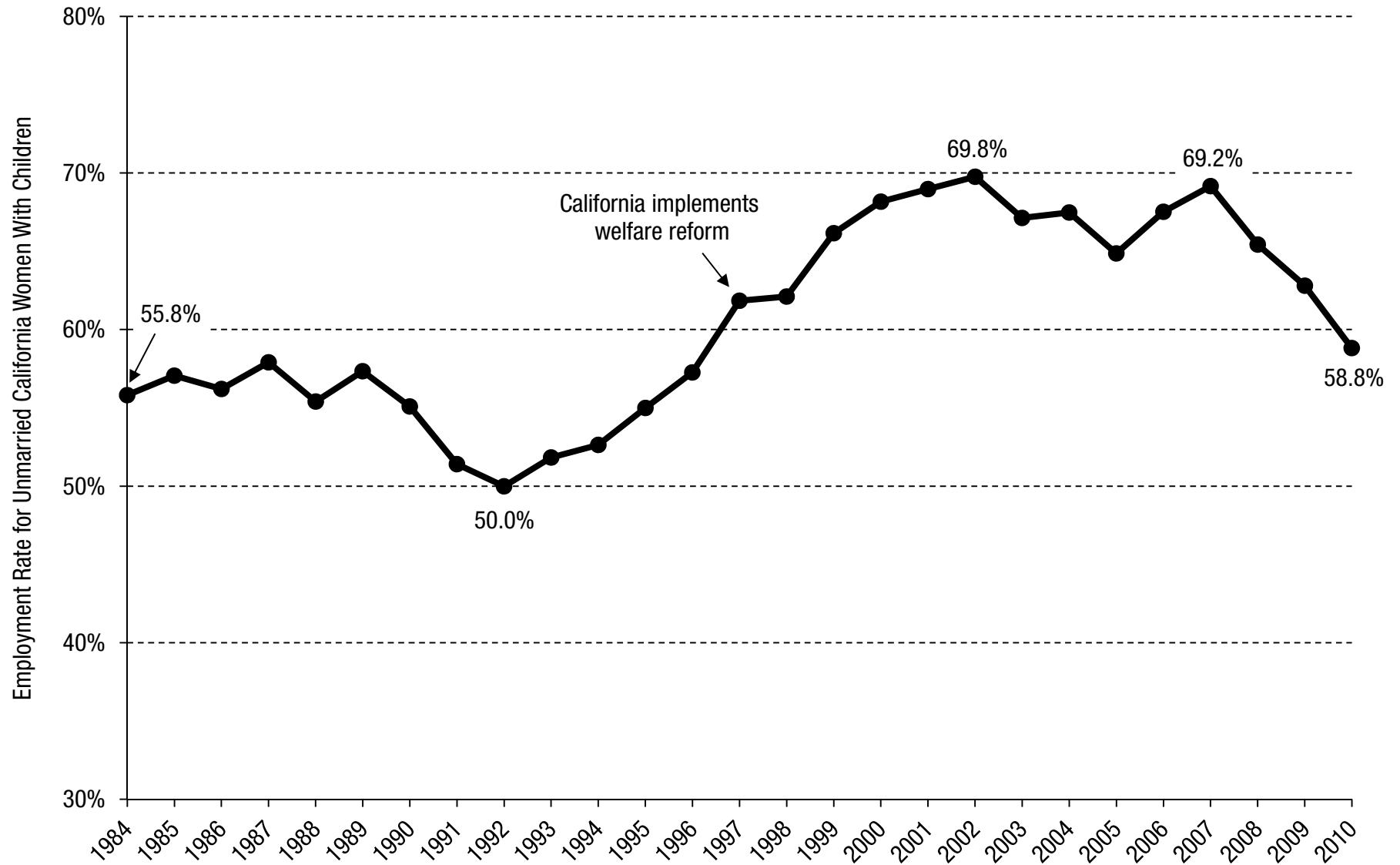
Number of Individuals Receiving CalWORKs Cash Assistance in September 2011 = 1,414,597

California's Child Poverty Rate Increased Significantly Between 2009 and 2010

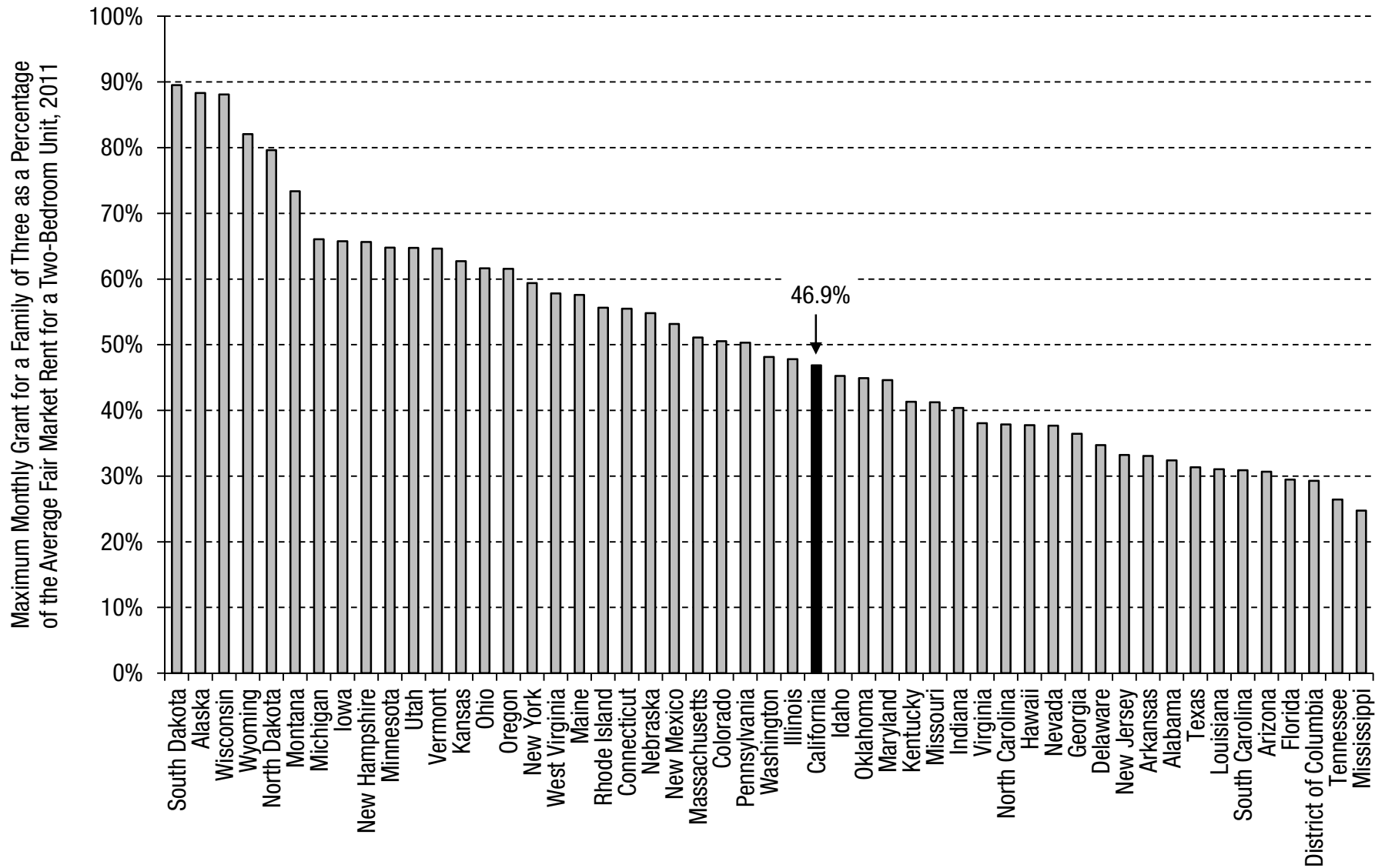
Nearly One Out of Four California Children Lived in Families With Incomes Below the Poverty Line in 2010



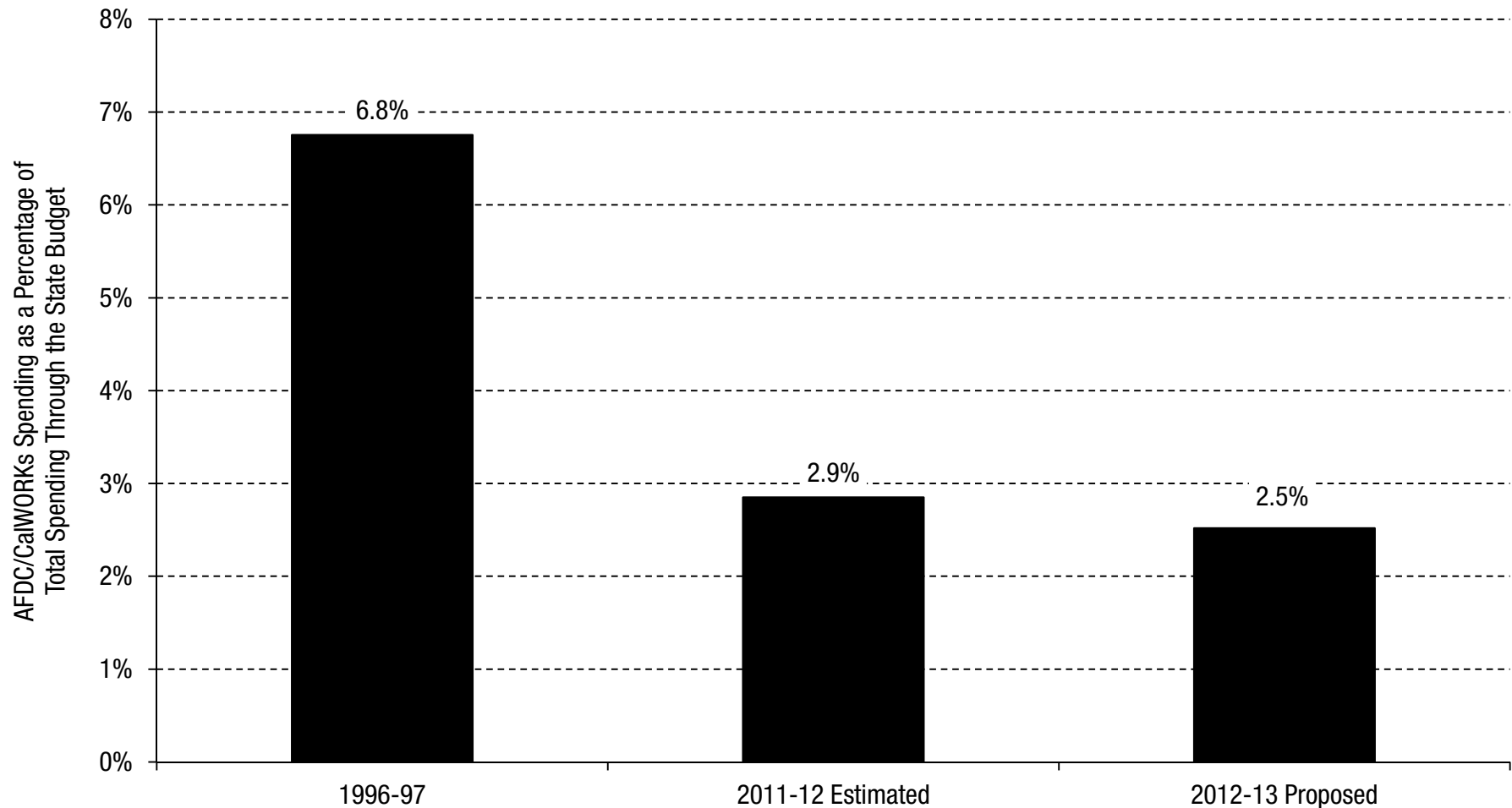
In Just Three Years, the Share of Single Mothers With Jobs Fell by More Than 10 Percentage Points



The CalWORKs Grant Level Is Lower Than TANF Grants in 27 States, After Adjusting for Housing Costs



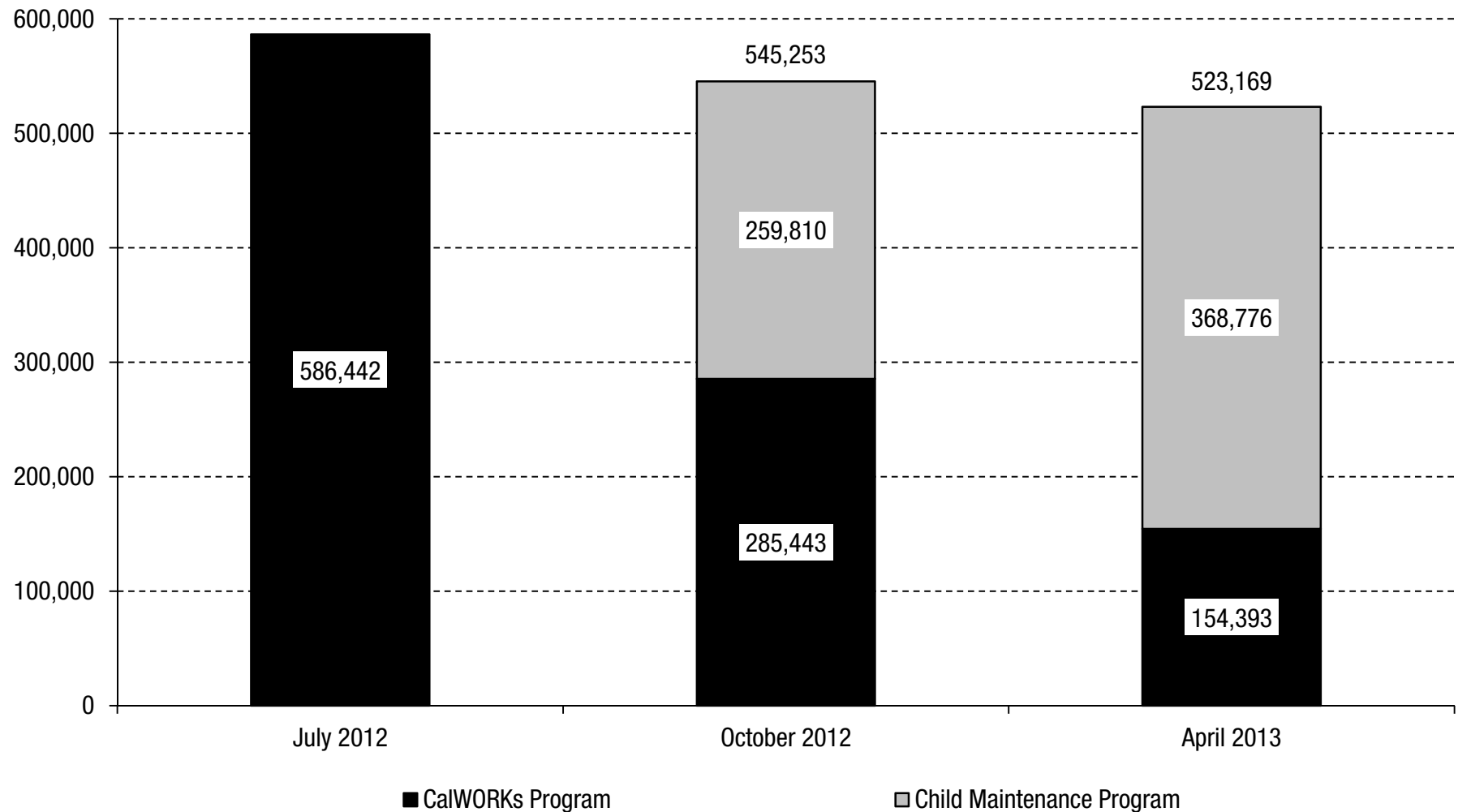
Welfare Spending as a Share of Total State Spending Has Dropped by More Than Half Since 1996-97 and Would Drop Further in 2012-13 Under the Governor's CalWORKs Restructuring Proposal



Note: 2012-13 includes the Governor's proposed Child Maintenance Program, which would provide reduced support to families in which only the children qualify for cash assistance. AFDC/CalWORKs spending includes federal, state, and county dollars. Total spending includes federal dollars and state General Fund, special fund, and bond fund dollars.

Source: Department of Finance and Department of Social Services

Nearly 370,000 CalWORKs Families Would Shift to a New Child Maintenance Program
by April 2013 Under the Governor's Proposed 2012-13 Budget



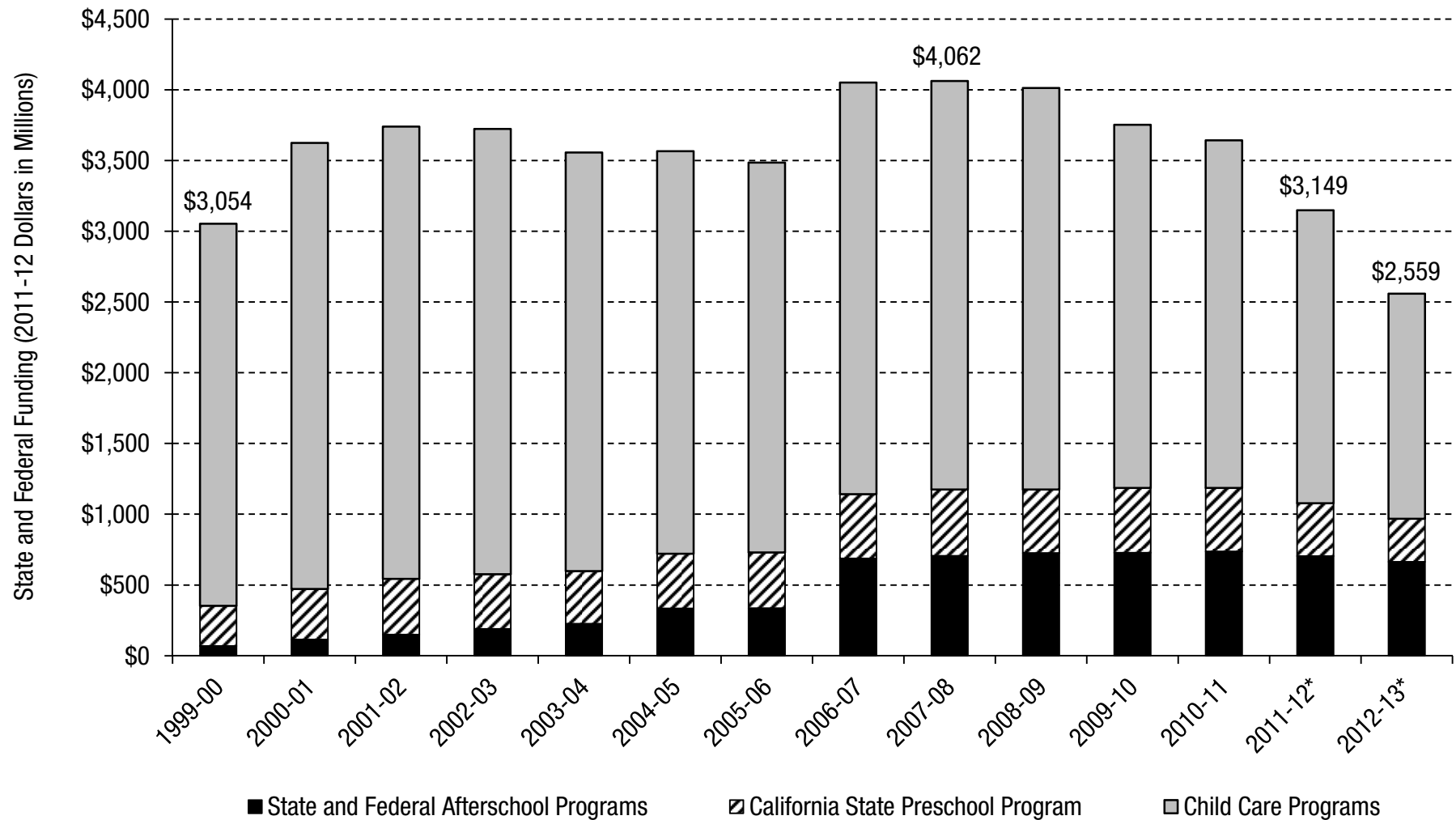
Note: The Governor's proposed Child Maintenance Program would provide reduced support to families in which only the children qualify for cash assistance.
Source: Department of Social Services

The Governor Proposes Deep Cuts to Child Care

- The Governor proposes cuts that would eliminate 62,000 child care slots in 2012-13 and reduce spending by \$516.8 million. The Governor proposes to:
 - Require families to meet federal work participation requirements applicable to CalWORKs to receive child care assistance.
 - Reduce the income eligibility limit for child care and state preschool from 70 percent of the state median income (SMI) to 200 percent of the federal poverty line. For a family of three, this change would lower the income limit from \$42,216 to \$37,060.
 - Make several changes to payment formulas, including a 10 percent cut to “Title 5” child care and preschool providers.

Total Funding for Child Care and Development Programs Would Drop Significantly in 2012-13

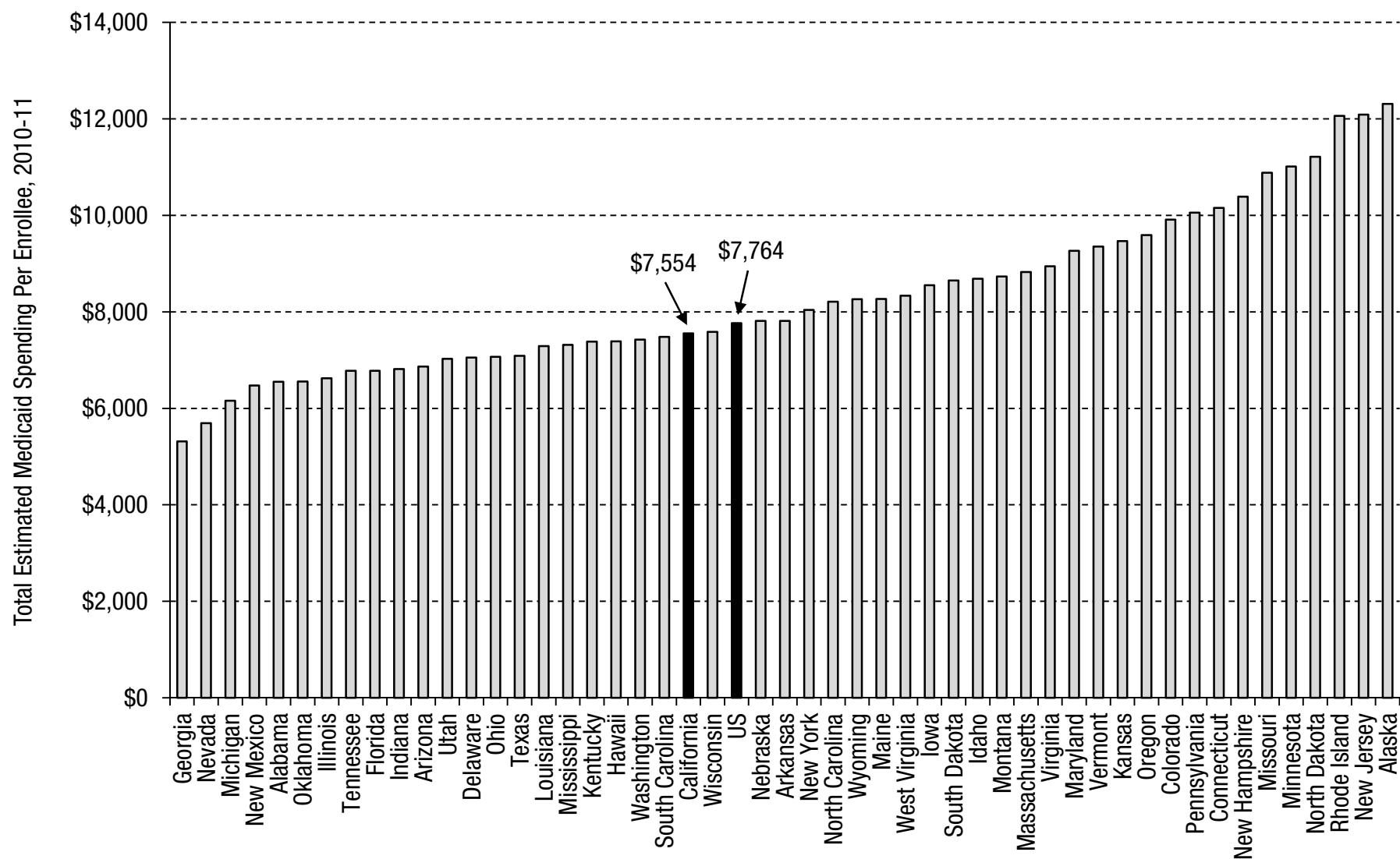
Afterschool Funding Has Increased From \$69 Million in 1999-00 to a Projected \$665 Million in 2012-13, After Adjusting for Inflation



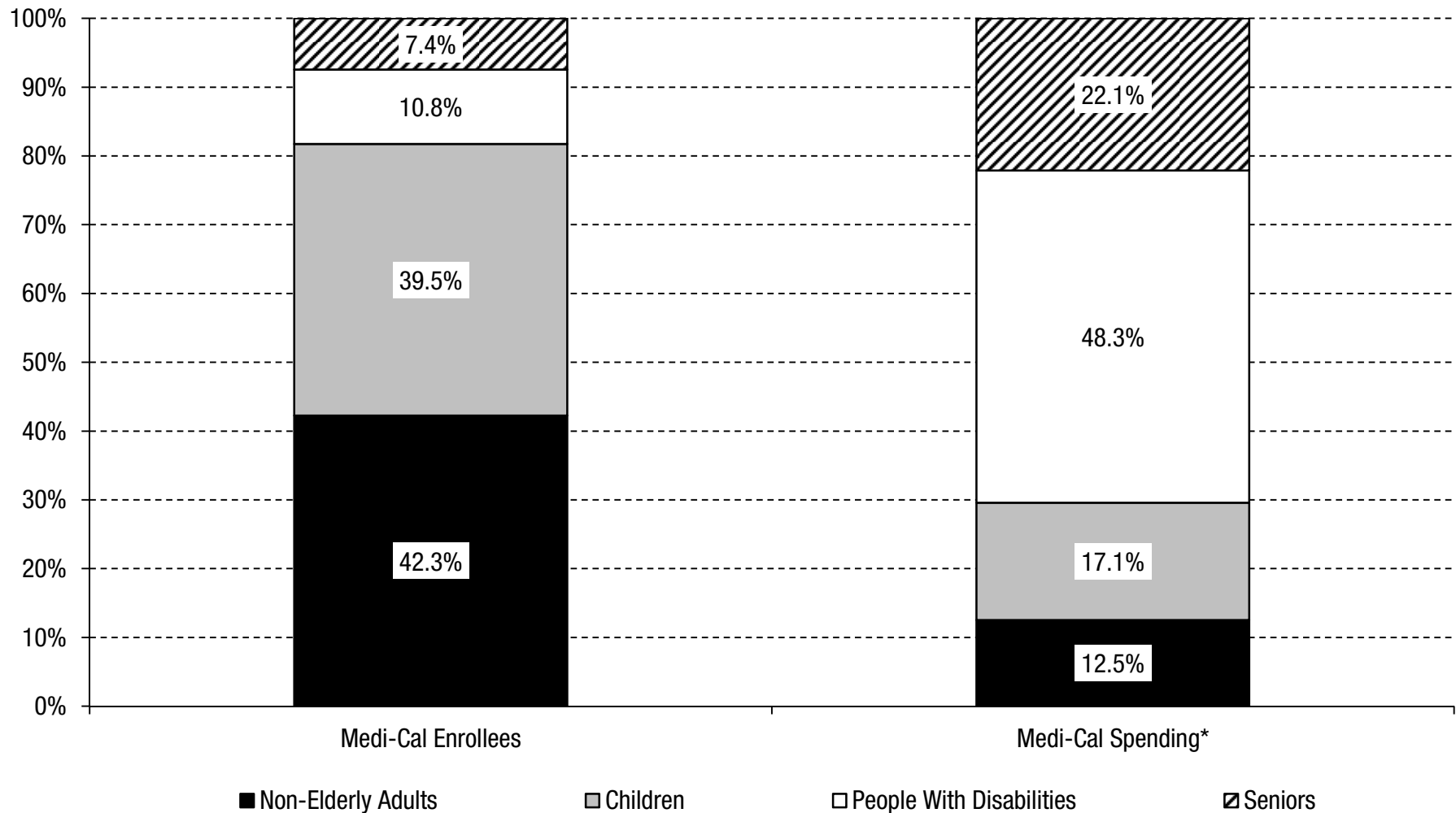
The Governor Proposes Deep Cuts to Medi-Cal and Healthy Families

- The Governor proposes to:
 - Shift more than 1 million seniors and people with disabilities who currently qualify for both Medi-Cal and Medicare from fee-for-service Medi-Cal to managed care beginning on January 1, 2013.
 - Shift all children enrolled in Healthy Families – approximately 878,000 – to Medi-Cal between October 2012 and June 2013.
 - Expand managed care into rural counties that offer Medi-Cal only on a fee-for-service basis beginning in June 2012.
 - Increase “flexibility” in Medi-Cal to allow more rapid changes to “benefits, services, rate methodologies, and payment policies.”

Spending Per Medi-Cal Enrollee Is Below the National Level



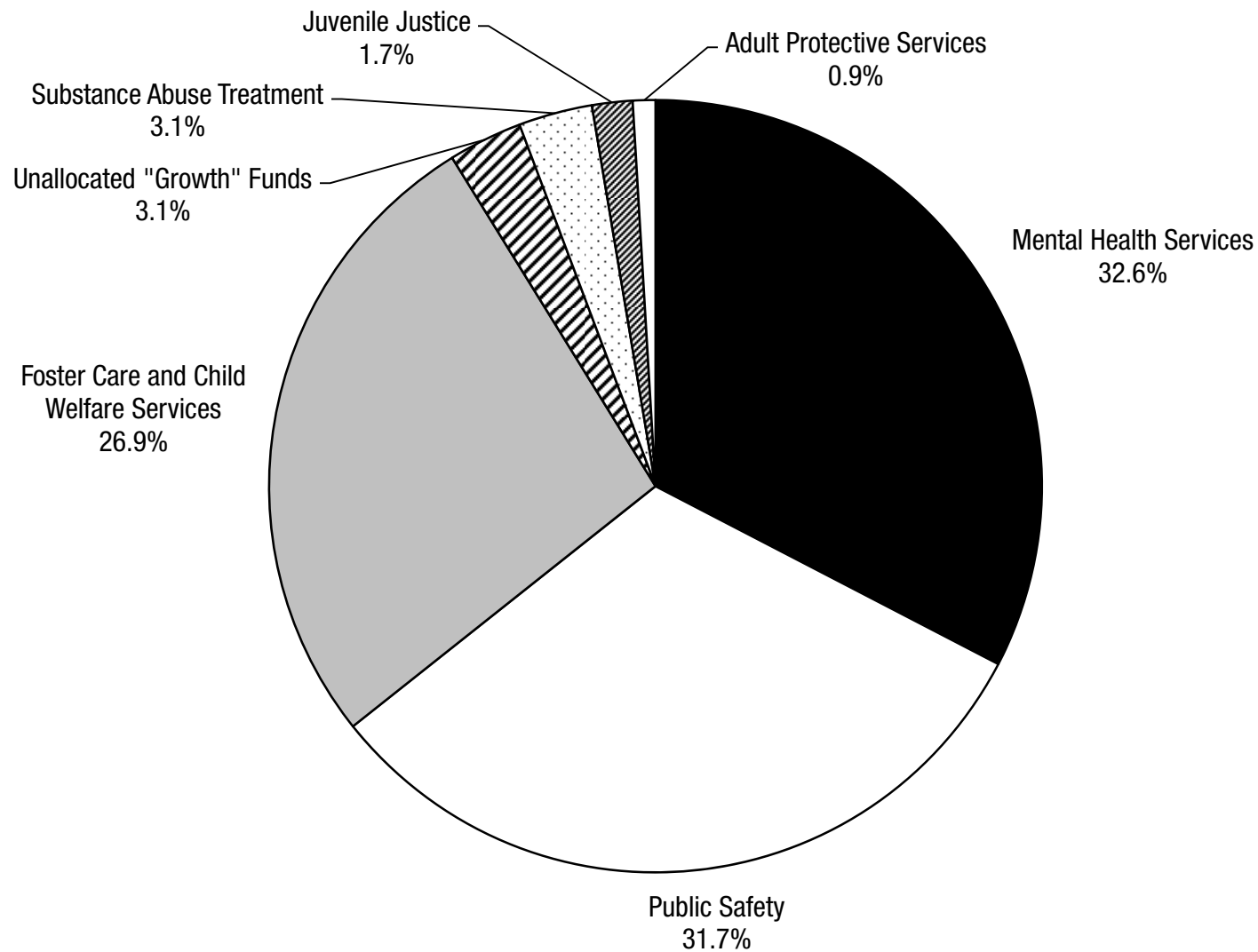
Seniors and People With Disabilities Comprise Fewer Than One Out of Five Medi-Cal Enrollees, But Account for More Than Two-Thirds of Medi-Cal Spending



The Governor's Ballot Measure Constitutionally Dedicates Realignment Revenues to Counties

- The 2011-12 budget agreement transferred responsibility for a number of public safety, human services, and mental health programs from the state to the counties and provided dedicated annual funding: a 1.0625 percent sales tax rate and approximately \$490 million in Vehicle License Fee revenues. The Governor's ballot measure would amend the state's Constitution to permanently earmark these revenues for counties to fund the realigned programs.
- The Legislature divided realignment revenues among programs and counties only for 2011-12. The Governor proposes a permanent allocation framework and suggests that Child Welfare Services – one of the programs transferred to the counties – should receive an additional \$200 million to help make up for past budget cuts.

Most Realignment Dollars Go to Supportive and Social Services

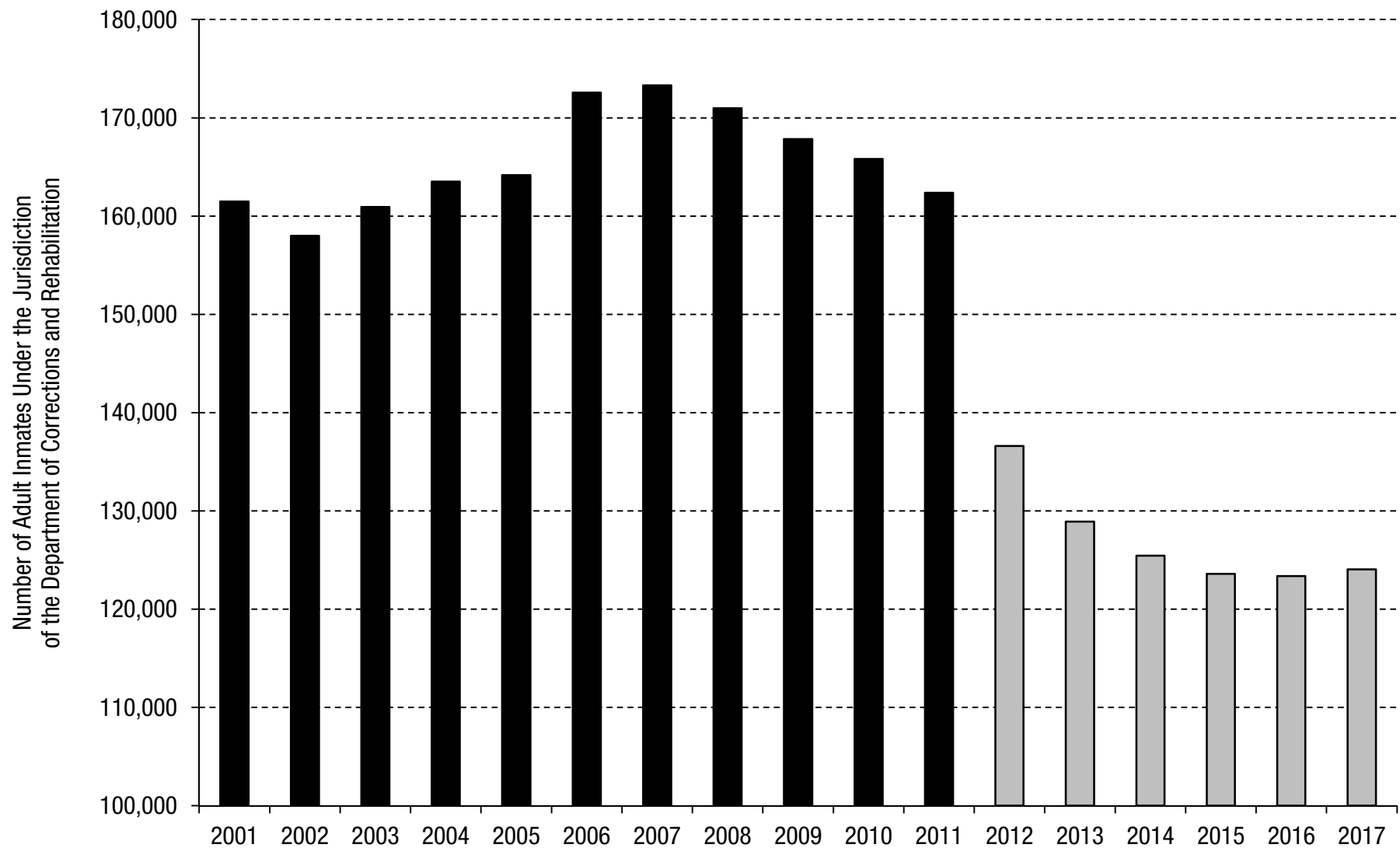


Note: Public safety includes court security and local costs for "low-level" offenders and parolees.
Source: Department of Finance

State Corrections Spending Is Projected To Decline

- The Governor projects significant state savings due to the transfer of responsibility for “low-level” offenders from the state to the counties, which began in October 2011. The Governor assumes savings of \$453.3 million in 2011-12 and \$1.1 billion in 2012-13 as a result of the projected decline in state prison and parolee populations.
- In addition, the Governor proposes to:
 - Expand the Alternative Custody for Women Program to include women with prior violent or serious felony convictions.
 - Stop accepting new juvenile offenders in state facilities beginning January 1, 2013 and transfer complete responsibility for managing these individuals to counties.

The Number of State Prison Inmates Is Projected To Decline Substantially Due to Realignment



Note: Data are as of June 30 of each year, and 2012 through 2017 are projected.
Source: Department of Corrections and Rehabilitation

Federal Decisions Could Further Strain California's Budget

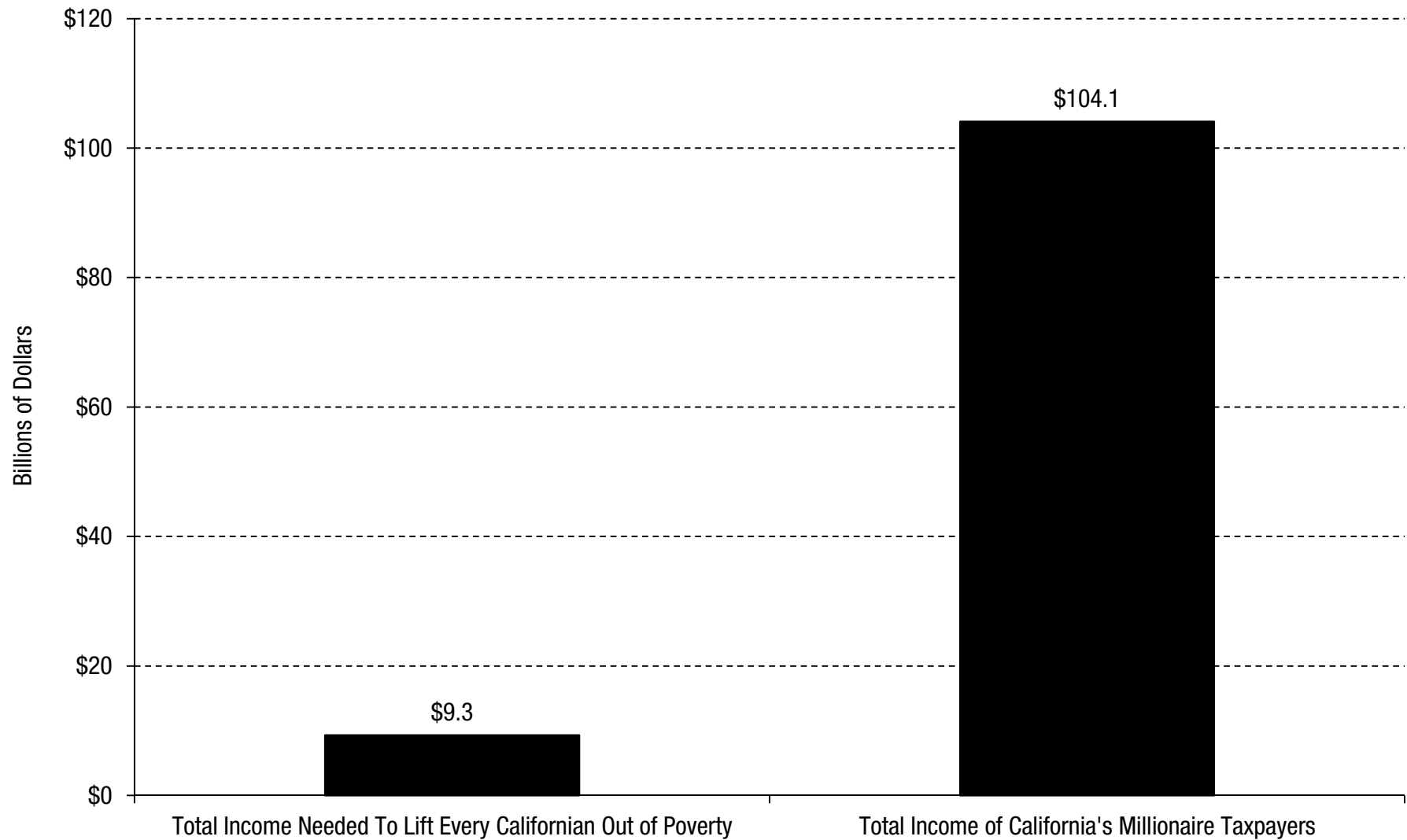
- The Budget Control Act of 2011 – adopted as part of a compromise over raising the federal debt ceiling – requires \$1.2 trillion in automatic cuts to specified federal programs over the next decade, beginning on January 2, 2013. California could lose an estimated \$1.3 billion due to cuts in nondefense grant programs in federal fiscal year 2013 alone. Targeted programs include Child Welfare Services and the Child Care and Development Block Grant.
- The Governor's long-term revenue forecast assumes that Congress will restore a provision that gives states a portion of federal estate tax revenues – the so-called “pick-up tax.” Most observers believe this is unlikely. Without these funds, state revenues would fall short by \$45 million in 2012-13, rising to \$1.2 billion in 2015-16, relative to the Governor's forecast.

California Remains a Place of Boundless Opportunity

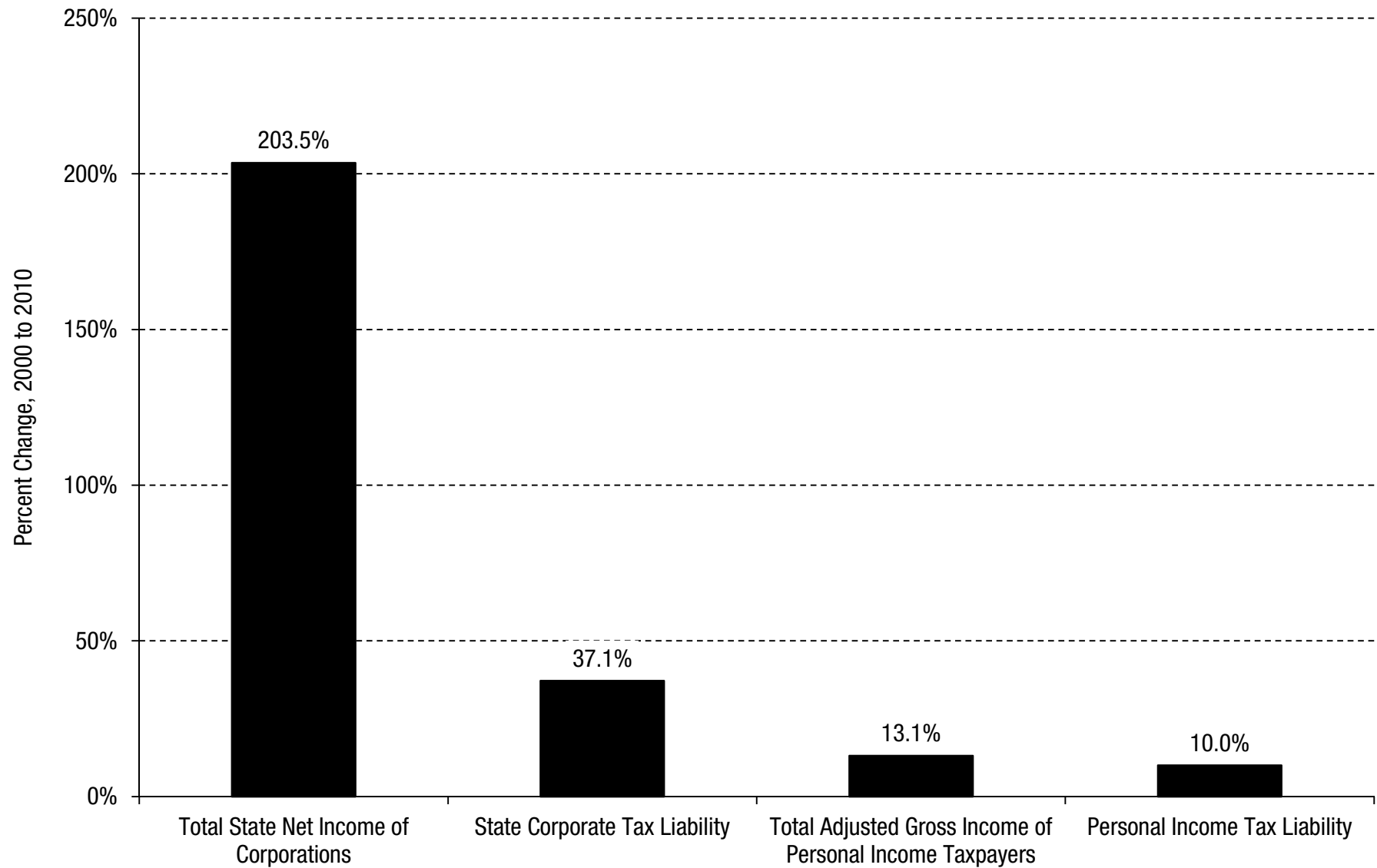
- Budgets are always about values and choices. California continues to face significant challenges that will determine whether the state remains a place of boundless opportunity. The choices confronting lawmakers and the state's voters are ***choices***.
- California possesses substantial wealth and diversity that, if appropriately marshaled can restore the luster of the Golden State:
 - The income of California's millionaires is 11 times the amount needed to lift every Californian out of poverty.
 - Corporate profits are up, yet the share of profits paid in taxes has declined.
 - While unemployment remains high, the state has added over 351,000 jobs since the recovery began.



California's Millionaires Together Have 11 Times the Income Needed To Lift Every Single Californian Out of Poverty



Recent Growth in Corporate Profits Far Outpaced Growth in Corporate Tax Payments



The Share of Corporate Income Paid in Taxes Has Fallen Substantially

