

HOW SHOULD THE SURPLUS BE SPENT? AN INVESTMENT BUDGET FOR CALIFORNIA

EXECUTIVE SUMMARY

For the first time this decade, state policymakers will have substantial resources available with which to craft a 1998-99 spending plan. The May Revision to the Governor's Proposed 1998-99 Budget is expected to reflect additional resources of at least \$3 billion through a combination of new revenues and cost reductions. The recent improvements in the state's fiscal condition provide an opportunity for lawmakers to invest in California's families and the state's future. In this document, the California Budget Project outlines an *Investment Budget for California*. The *Investment Budget* is based on information available prior to the release of the Governor's May Revision to the 1998-99 budget. As a result, estimates of anticipated cost savings may be incomplete and projected revenues are, by necessity, based on the best estimates available and may differ from those contained in the Governor's release. The *Investment Budget* is neither comprehensive nor definitive. Choosing among competing demands for capital outlay, deferred maintenance, and other one-time investments proved particularly difficult and resource constraints resulted in exclusion of a number of worthy efforts.

The plan described below provides a blueprint for investing the anticipated surplus, but does not attempt to address the budget as a whole. The *Investment Budget* is based on three principles:

- *Unanticipated resources should be used to invest in California's families and the future.*
- *One-time revenues should not be used to fund ongoing program spending or tax reductions.*
- *The state should establish a prudent reserve to protect against economic uncertainties and natural disasters.*

The *Investment Budget* allocates \$846 million for a budget reserve, 1.5 percent of estimated General Fund revenues; \$1.1 billion toward one-time expenditures; and \$1.5 billion for ongoing program costs. Specifically, the *Investment Budget*:

Invests in Families

- Creates a state Earned Income Tax Credit (EITC) using savings from the elimination of the renter's tax credit. The EITC provides assistance to low income families with income from work. Because it is refundable, an EITC targets relief to families whose incomes are too low to benefit from nonrefundable tax credits, such as the dependent credit.
- Provides a six percent pay raise for state employees. State employees have not received a general salary increase since January 1995. Since that time, inflation has lowered the purchasing power of state worker's paychecks by 7.9 percent.
- Restores CalWORKs grants and cost-of-living adjustments (COLAs). Current grant amounts are not enough to cover basic necessities in many counties and are approximately half of the 1998 federal poverty threshold. Without grant restorations and an annual COLA, it will be difficult for CalWORKs recipients to achieve self-sufficiency.

- Extends the state-only food stamp program and SSI/SSP to all legal immigrants, expands the Healthy Families program to cover more children, conforms to federal tax law changes, establishes an after school learning program, and restores the SSI/SSP COLA.

Invests in the Future

- Provides additional funding for education in order to move California toward the national average in per pupil spending. The *Investment Budget* increases school funding by \$300 million over the level proposed in the Governor's January Budget. The *Investment Budget* also restores the full cost-of-living adjustment for school apportionments, special education, and other categorical programs through projected savings attributable to the reduced pension costs for classified school employees.
- Invests in K-12 classrooms. The lack of investment in school facilities cripples our school system and short-changes California's children. The *Investment Budget* allocates \$225 million to address some of the most urgent needs for deferred maintenance and purchase facilities required to implement the Class Size Reduction program.
- Preserves California's natural environment through the purchase of the Headwaters Forest, an initial payment for the Lake Tahoe Environmental Improvement Plan, and initiating high priority deferred maintenance in state parks.
- Invests in state higher education facilities. With almost half of the state's higher education facility space constructed more than 28 years ago, facility upgrades and repairs are of critical importance to the future of the state's colleges and universities. The *Investment Budget* recommends spending \$225 million for deferred maintenance in the state's institutions of higher education.
- Addresses the state's housing needs with support for preservation of affordable housing, rehabilitating substandard housing, linking housing with public services, and encouraging the construction of homeless shelters through a matching grant program.
- Supports investment in new public transit projects and public health systems.

Prepares for Economic Uncertainties

While investments in facilities and programs will provide a strong underpinning for the economy and help ensure California's future prosperity, the *Investment Budget* recommends setting aside part of the projected budget surplus to prepare for economic uncertainties. Given the history of unforeseen natural disasters in the state, a modest reserve will help cushion against future calamities. The *Investment Budget* sets aside a 1.5 percent General Fund reserve and creates a reserve in the CalWORKs program to support future years' costs for welfare-to-work programs and services.

The budget surplus offers a unique opportunity for California to invest in its future. The California Budget Project's *Investment Budget* provides a policy framework for budget discussions to ensure California takes full advantage of this opportunity.

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An Investment Budget for California
Dollars in Millions

Program Spending	One-Time	On-Going
Augment Funding For Adult Protective Services		\$70.0
One -Time Augmentation For Child Protective Services	\$50.0	
Reduce The State Disproportionate Share Hospital "Take Out"		\$75.0
Enact A State Earned Income Tax Credit		\$410.0
Expand The State Only Food Stamp Program To Adults 18-64		\$88.0
Create A State SSI/SSP Program For Aged, But Not Disabled Legal Immigrants		\$13.0
Restore The 4.9% CalWORKs Grant Reduction And COLA		\$248.0
Restore The State Portion Of The SSI/SSP COLA		\$39.0
Conform To 1997 Federal Tax Changes		\$15.0
Establish After School Learning Programs		\$30.0
Extend Healthy Families Eligibility And Eliminate Premiums		\$5.0
Provide State Employees With A 6% Pay Increase		\$150.0
Create A State Homeless Shelter Grant Program	\$20.0	
Fund The California Supportive Housing Initiative		\$5.0
State Share Of Costs For IHSS Authorities		\$44
Augment K-12 Education Funding		\$300.0
Address High Priority Housing Needs		\$30.0
Create A Welfare-To-Work Transportation Demonstration Grant Program	\$20.0	
Create A CalWORKs/TANF Reserve	\$52.0	
Capital Outlay		
Increase State Payment Toward The Lake Tahoe Environmental Improvement	\$137.0	
Purchase The Headwaters Forest	\$130.0	
Begin Deferred Maintenance Projects In State Parks	\$225.0	
Carryout Deferred Maintenance In State Higher Education Facilities	\$225.0	
Fund Deferred Maintenance In K-12 Schools And Class Size Reduction Facilities	\$225.0	
Backfill The Public Transportation Account Shortfall	\$46.0	
Total	\$1,130	\$1,522.0