

The Governor's Proposed Budget

The Governor has presented his proposed budget for 2004-05. It includes deep cuts, borrowing and cost shifts to cover an estimated gap of \$17 billion. Certainly, there will be changes to this budget; the May revise, with updated estimates of caseloads and revenues issued after April tax receipts are in, is a more realistic view of California's financial situation and is the version on which the budget passed by the legislature is based. But, for now, we have just the vision presented by the governor, and it is sobering.

The California Budget Project's analysis of the proposal shows \$7.3 billion in program reductions and savings including:

- deep cuts to K-12 education of \$2 billion (suspending Proposition 98's guarantee)
- Medi-Cal cuts of \$1.1 billion
- \$886 million less for higher education
- cuts of \$950 million to transportation
- significant reductions to CalWORKs, In-Home Supportive Services and child care programs.

The budget recognizes that the Proposition 57 economic recovery bonds will be repaid over a longer period of time than the bonds authorized by the 2003-04 budget agreement, thereby requiring smaller payments each year. This would create savings of \$1.3 billion in 2004-05 but have a greater long-term cost. Other loans and borrowing, including money from pension obligation bonds and other deferred payments and loans, total \$2.6 billion. This budget also assumes new federal funds coming to California (certainly not a sure thing) and transfers and other revenue totaling \$1.6 billion.



Cost shifting to local governments creates additional savings for the state budget, while creating difficult situations for cities, counties and special districts. They would share \$1.8 billion in additional costs. Eliminating the CalWORKs allocation to juvenile probation programs, eliminating reimbursements for some tasks such as booking fees, and reducing other reimbursements accounts for about \$500 million. The state would save another \$1.3 billion by shifting that amount of property tax revenue from the cities, counties, and districts to schools, thus reducing the state's school funding obligation.

The governor's budget proposes spending reductions in nearly every area. The largest share of the "solutions" to the budget gap would come from health and human service programs, including controversial proposals to limit enrollment in a number of programs (\$3.1 billion); K-14 education (\$3.0 billion); economic recovery bond savings (\$2.8 billion); business, transportation, and housing (\$1.9 billion); and the shift in property taxes from local governments (\$1.3 billion). These are all substantial cuts, especially coming, as they do, after several years of belt tightening!

California has a large structural deficit: revenues are insufficient to fund service levels under existing law. How the governor, legislature and constituent interests will work to find solutions for this year, and for years to come, will be critical for us all.