



CALIFORNIA BUDGET PROJECT

# Searching for Balance:

The Social and Economic Context of the Governor's Proposed 2010-11 Budget

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

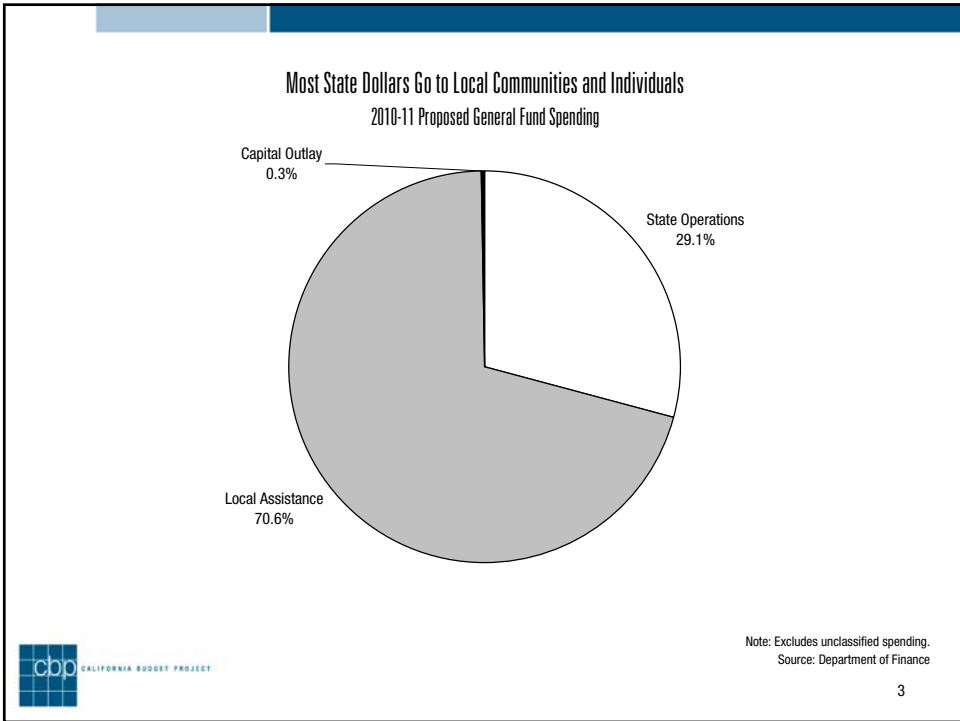
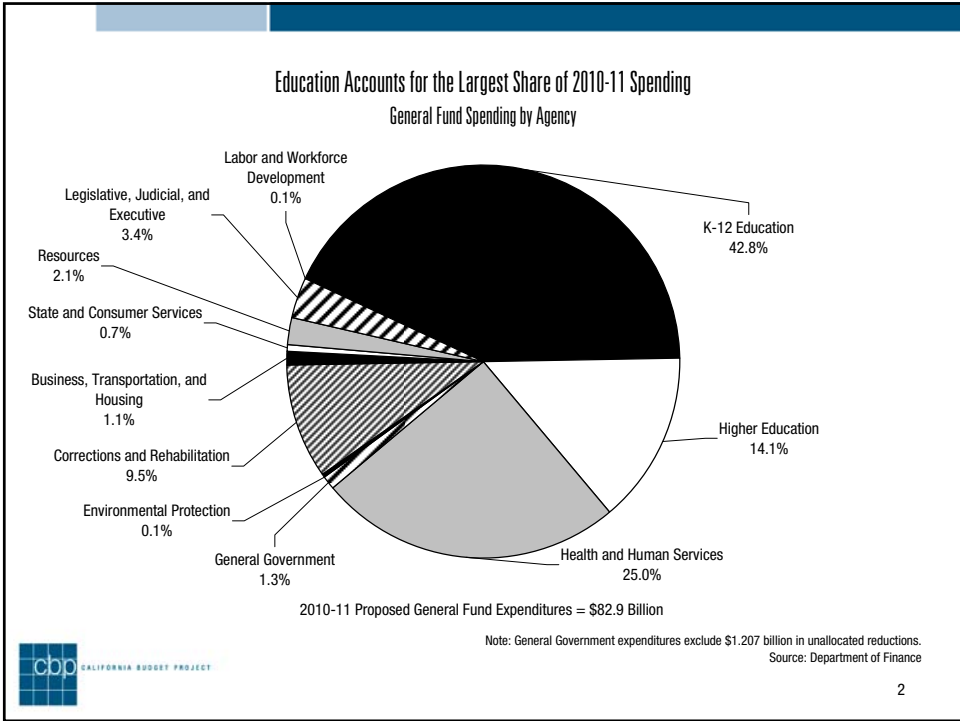
A PRESENTATION BY  
THE CALIFORNIA BUDGET PROJECT  
February 2010

## California Faces Critical Challenges

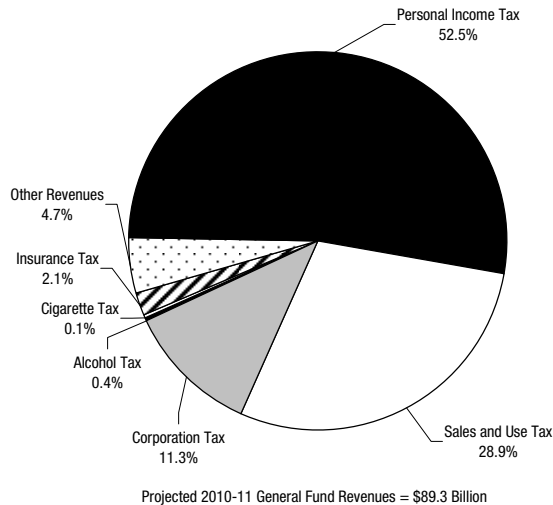
- California faces challenges that imperil the social and economic well-being of families and communities, as well as the competitiveness of the state's economy:
  - Ongoing budget shortfalls, not only in the upcoming year, but for the foreseeable future.
  - A weak labor market that will likely take years to recover jobs lost during the recent downturn.
  - A population that is increasing, aging, growing more unequal, and becoming more diverse.
  - Reductions in support for public systems that have fueled past cycles of economic growth, while providing a safety net for those in need.



CALIFORNIA BUDGET PROJECT



### The Personal Income Tax Provides More Than Half of 2010-11 General Fund Revenues



Note: Includes loans and transfers.  
Source: Legislative Analyst's Office

## The Big Picture

- California once again faces a budget shortfall of significant magnitude. While smaller in dollar and percentage terms, the \$18.9 billion gap in the 2009-10 and 2010-11 budgets may be even more difficult to close due to “solutions” to prior crises that impose future costs, earmark revenues, and otherwise limit options for balancing the budget.
- The current shortfall is largely due to continued weakness in the economy, as well as the failure to achieve “solutions” contained in recent budget agreements.
- The Governor proposes to close the gap with deep cuts in education, health and human services programs, and state employee compensation, as well as with federal dollars.



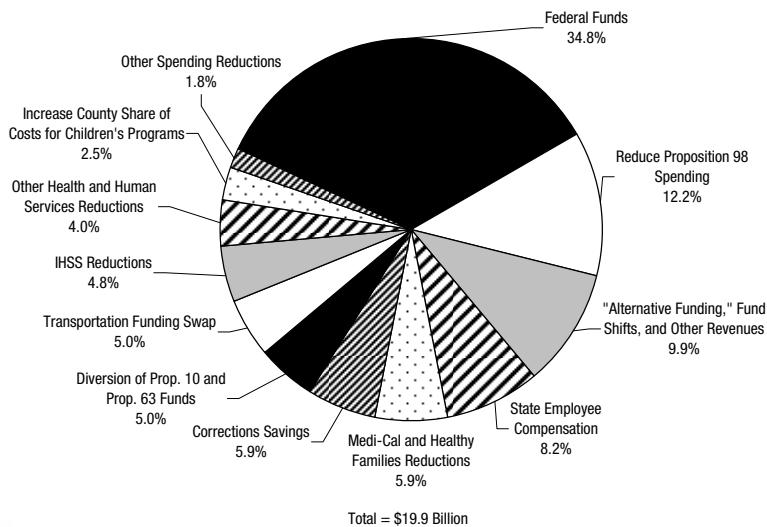
## How Does the Governor Balance the Budget?

- The Governor proposes to close the state's budget gap with:
  - \$6.9 billion in federal funds;
  - \$2.4 billion in cuts to schools and community colleges;
  - \$1.6 billion in reductions to state employee compensation;
  - \$1.2 billion in reductions in corrections spending;
  - \$1.2 billion in reductions to health coverage programs;
  - \$1.0 billion in reductions to the IHSS program which would eliminate services to 87 percent of current recipients;
  - \$792 million in reductions to other health and human services programs; and
  - \$4.8 billion in “alternative funding” and other reductions.



6

### How Does the Governor Propose To Balance the Budget?



Source: Department of Finance

7

## The Governor Assumes \$6.9 Billion in Federal Funds

- The Governor assumes California will receive \$6.9 billion in additional federal funds in 2010-11 that would be used to support costs that otherwise would be paid from the state's General Fund, including:
  - Extending ARRA funding for a range of health and human services programs through June 2011 (\$2.1 billion);
  - Permanently increasing the federal share of Medi-Cal Program costs from 50 percent to 57 percent (\$1.8 billion);
  - Providing \$1 billion in reimbursements to California for state costs related to mandated special education services;
  - Increasing federal funding by \$879.7 million to fully fund the cost of incarcerating undocumented immigrants in California state prisons;
  - Reimbursing California for Medi-Cal services provided to people with disabilities who were actually eligible for Medicare and change the required level of state funding for prescription drug costs (\$1 billion); and
  - Increasing federal payments for the Foster Care Program (\$86.9 million).



8

## The Recession Has Boosted Demand for Services

- California's families have turned to public programs to help make ends meet during the recession:
  - The number of Californians receiving food stamp benefits increased by more than 905,218 (43.0 percent) between October 2007 and October 2009.
  - The number of children enrolled in the Healthy Families Program rose by 97,172 (11.8 percent) between July 2007 and July 2009. A temporary enrollment freeze due to budget cuts reduced enrollment between July 2009 and October 2009. However, enrollment has started to rebound since October.
  - The number of Californians enrolled in Medi-Cal rose by 470,965 (7.2 percent) between May 2007 and May 2009.
  - The number of families receiving CalWORKs cash assistance increased by 86,524 (18.8 percent) between October 2007 and October 2009, marking the first substantial rise since the enactment of state and federal welfare reform.



9

## California's Tax System Contributes to the Budget Gap

- Tax policies and economic trends contribute to the state's budget problems:
  - Corporate income taxes have declined over time as a share of corporate profits. If corporations had paid the same share of their profits in corporate taxes in 2007 as they did in 1981, collections would have been \$8.3 billion higher.
  - The yield of the state's sales tax has declined over time, reflecting the shift in economic activity from goods to services and the rise of Internet and mail-order sales that escape taxation. If taxable purchases accounted for the same share of personal income in 2008-09 as they did in 1966-67, the state would have collected an additional \$21.5 billion in sales tax revenues.
  - Backloaded corporate tax cuts enacted in 2008 and 2009 will reduce future years' revenues by upwards of \$2 billion, widening future budget gaps.



10

## The Governor Proposes To Substantially Reduce CalWORKs Grants

- The Governor proposes to cut CalWORKs grants by 15.7 percent effective June 1, 2010 for savings of \$9.4 million in 2009-10 and \$120.6 million in 2010-11. This cut would reduce the maximum monthly grant for a family of three in high-cost counties from \$694 to \$585.
- CalWORKs grants have not kept pace with inflation and their purchasing power would decline further under the Governor's proposal.
- The maximum monthly grant for a family of three would have to increase to \$1,316 in 2010-11 – more than double the Governor's proposed grant level of \$585 – to have the same purchasing power as it did in 1989-90.

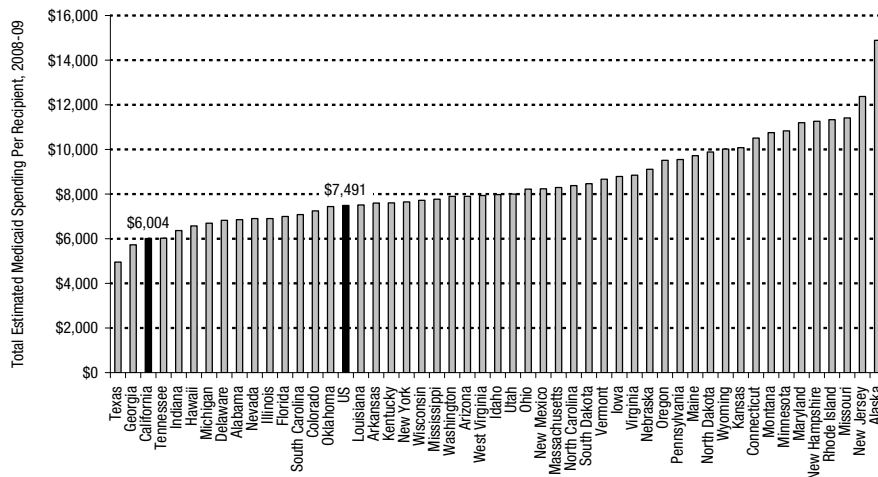


11

## The Governor Proposes Significant Cuts to Medi-Cal

- The Governor proposes a number of reductions in Medi-Cal spending for savings totaling \$1.1 billion, including a number of proposals that have been rejected by courts or the Legislature. Specifically, the Governor proposes to:
  - Limit services, increase cost-sharing, and/or make other unspecified changes to Medi-Cal for a total 2010-11 reduction of \$917.1 million.
  - Eliminate Adult Day Health Care benefits for 37,000 individuals for savings of \$1.5 million in 2009-10 and \$134.7 million in 2010-11.

California's Spending Per Medi-Cal Enrollee Is Among the Lowest Nationwide



Note: Number of recipients is for December 2008. Medicaid spending for 2008-09 is estimated.  
Source: Kaiser Family Foundation and National Association of State Budget Officers

## California Would Lose Nearly \$5 Billion in Federal Funds Under the Governor's Proposed Budget Cuts

- The federal government shares the cost of many health and human services programs with the state. Therefore, the state loses federal funds when it reduces state funding for these programs. For example, \$1.2 billion of the Governor's proposed state funding cuts to health programs would result in a loss of federal funds totaling \$2.0 billion. In addition, \$859.9 million of the Governor's proposed state funding cuts to human services programs would cost the state \$2.9 billion in forgone federal funds.
- Under the Governor's proposals, the state would lose:
  - \$2.4 billion in federal funds due to reducing IHSS eligibility;
  - \$1.5 billion from changes to the Medi-Cal Program;
  - \$468.9 million as a result of reducing CalWORKs grants by 15.7 percent; and
  - \$234.1 million from changes to the Healthy Families Program.



14

## The Governor Proposes To Eliminate Programs for Legal Immigrants

- The Governor proposes to eliminate – effective June 1, 2010 – several programs that provide state-funded assistance to legal immigrants who are not eligible for federally funded benefits. Specifically, the Governor proposes to eliminate:
  - Non-emergency Medi-Cal services for certain legal immigrants for savings of \$73.7 million in 2009-10 and 2010-11 combined. An estimated 65,600 individuals would be affected by this proposal.
  - The California Food Assistance Program (CFAP) for savings of \$3.8 million in 2009-10 and \$56.2 million in 2010-11. Approximately 37,000 legal immigrants would lose CFAP under this proposal.
  - CalWORKs eligibility for recent legal immigrants for savings of \$0.7 million in 2009-10 and \$21.8 million in 2010-11. Approximately 24,000 individuals would be affected by this proposal.
  - The Cash Assistance Program for Immigrants (CAPI) for savings of \$8.1 million in 2009-10 and \$107.3 million in 2010-11. Approximately 10,900 CAPI households would lose monthly grants under this proposal.

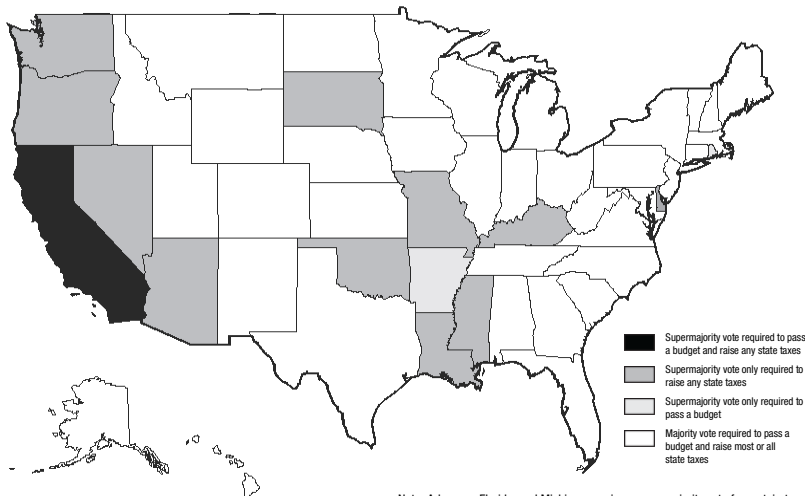


15

## The Big Questions

- What kind of California do we want, now and in the future?
- What is the appropriate role of public institutions in securing broadly shared prosperity and opportunity for all Californians?
- What role should government play in providing a safety net for vulnerable families and individuals?
- What changes are needed in California's budget rules, taxing, and spending in order to promote our vision for California's future?

### California Is the Only State To Require a Supermajority Vote To Pass Both a Budget and Any State Tax Increase



Note: Arkansas, Florida, and Michigan require a supermajority vote for certain taxes.  
Source: National Conference of State Legislatures