California budget deal on track, due to be signed

By Kevin Yamamura, Torey Van Oot and Jim Sanders
kyamamura@sacbee.com
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California state budgets rarely look better than on the day they are signed. With the fiscal year starting Sunday, revenue has yet to fall short, cuts face no legal challenges and polls show a multibillion-dollar tax initiative clinging to a slim majority of voter support.

Gov. Jerry Brown signed a spending plan Wednesday that he hopes will put California's budget troubles to bed for good. One of his demands was that Democrats send him a plan that not only eliminates the current $15.7 billion deficit but maintains a balanced budget in years to come.

But it will take a hefty dose of optimism to believe California will avoid budget struggles hereafter.

For starters, the budget plan relies on voters passing a temporary tax hike on sales and high-income earners to raise $8.5 billion in the current budget cycle. If that fails, K-12 schools face classroom reductions, while universities and community colleges also stand to lose funding. Few believe education groups would take such cuts lightly, setting up another battle over school funding next spring, if not beforehand.

"Ultimately, it will be up to the voters," said Senate President Pro Tem Darrell Steinberg, D-Sacramento. "I trust the voters. I think they've seen what has occurred in this state with these cut-only budgets over the last number of years."

With a deal with Brown in hand, Democratic lawmakers sent the governor "trailer" bills Wednesday that detail how to carry out the cuts and revenue increases contained in the main $91.5 billion spending legislation. They sent the governor the main bill on June 15, the constitutional deadline after which lawmakers would have lost pay and expense money had they not passed a budget. Brown signed the main bill Wednesday, the 12-day deadline for doing so, along with some supporting legislation. He did not release details of his line-item vetoes, which he is expected to make public today.

California's budget hole grew deeper this spring when tax returns showed that state leaders were too optimistic when they closed the deficit last year with a last-minute bonus projection of $4 billion.
The nonpartisan Legislative Analyst's Office said in May that Brown's latest revenue forecast was $550 million too high. The LAO also said Brown may have overstated redevelopment agency assets by $900 million.

Even the analyst's projection may fall short. It assumes California will receive $2.1 billion from taxes on Facebook stock transactions through June 2013. But that relies on a Facebook stock price of $42 per share in November when more insiders will sell, $10 higher than the current share price.

"What we look for is there to be at least realism," said Gabriel Petek, an analyst with Standard & Poor's, whose credit ratings help determine the interest rates California pays on its borrowing. S&P gives California an A-minus, lowest among U.S. states. "We prefer that there not be overly optimistic projections," Petek added. "I think last year everyone believed the $4 billion (projection) was optimistic. … It doesn't seem like there's something like that in this budget, so it seems like it is more achievable."

Some of the biggest budget cuts this year hit trial courts and state workers. Court employees and lawyers warn that the public could face problems submitting legal filings and accessing small-claims courts. Most state worker unions have agreed to take 12 days of unpaid leave, saving the state nearly 5 percent in pay costs. Safety-net cuts include an 8.7 percent cut in subsidized child care, equal to about 10,500 slots for low-income families. The state also extended a 3.6 percent cut in hours to in-home care recipients. Those were smaller in scope than Brown initially demanded. "This is the best we could do under the circumstances," said Assemblyman Gil Cedillo, D-Los Angeles.

Other high-profile reductions won't save money immediately. The governor's plan to cut off welfare-to-work services to jobless parents after two years won't begin until January. The state won't count previous months of welfare-to-work aid against recipients, so most savings won't occur until 2015.

In the meantime, welfare savings will come in less painful ways. The state for two more years will allow parents of young children to receive aid without finding work, which saves on child care and job training costs. The state also will require some CalWORKs recipients who receive smaller grants and no services to confirm eligibility once per year rather than twice, which lawmakers said would save on administrative costs. Brown staked his budget deal partly on shifting all 880,000 low-income children in Healthy Families to Medi-Cal, which he contends would improve efficiency. The change saves $13 million in the upcoming fiscal year – and $73 million at full implementation in 2014-15. Prominent health care groups opposed the change, while Republicans vowed to block a related $183 million tax on managed care plans that previously paid for Healthy Families – a move that would result in a net loss for the budget, they said.

The biggest savings in child care – $165 million – come from shifting part-day preschool programs into the state's education budget. The move presumably leaves less money for K-12 and community college programs.
The state expects to save $663 million by moving high-cost Medi-Cal/Medicare patients into managed care programs. The idea is that the state will save money by keeping patients out of nursing homes and controlling costs. But the state needs federal approval before beginning the program in eight counties, so it initially saves the money through accounting shifts.

"It's less than 10 percent cuts," said Senate Republican leader Bob Huff, R-Diamond Bar. "The rest are gimmicks, other tax increases, shifts. It's a typical kind of budget we've had in the past – kick the can down the road."

In some cases, the state relies on one-time funds to balance the budget. The state is using $410 million from a multistate settlement with banks over mortgage abuses, as well as $1.4 billion in assets that once belonged to redevelopment agencies before the Legislature eliminated them last year.

Democrats say the 2013-14 budget will be balanced. But that assumes passage of the November tax hike, which fills about $3.2 billion in that fiscal year.

Assemblyman Jim Nielsen, R-Gerber, vice chairman of the Assembly Budget Committee, predicted more budget wrangling ahead.

"We will be back, continuing through August and likely early next year because this budget won't work," he said. "It's based on taxes that will probably not pass. It's a roll of the dice, but a poor one."

What's in the budget?

Gov. Jerry Brown signed the main budget bill Wednesday as lawmakers sent him remaining legislation they say will close an estimated $15.7 billion gap for the fiscal year that begins July 1. Here's some of what they did:

- **TAXES:** Assumes voters in November approve a sales tax increase and income tax increase on those earning more than $250,000 a year. Only $5.6 billion of the $8.5 billion that Brown's tax measure would raise would go to reduce the deficit. K-14 education would get the rest under Proposition 98.

- **K-12 EDUCATION:** Provides schools more this year if Brown's tax increases pass on Nov. 6. If they don't, schools would be cut by about 10 percent and districts would be given the option of cutting the school year by 15 days each of the next two years. Rejects Brown's proposals to eliminate transitional kindergarten and the state mandate to require a second year of high school science.
• **HIGHER EDUCATION:** If Brown's taxes fail, subjects CSU and UC to a $250 million cut. If the taxes pass, gives CSU and UC $125 million each if they agree to freeze tuition in 2012-13. Restricts Cal Grants to colleges with lower loan default rates and higher graduation rates.

• **STATE WORKERS:** Assumes 5 percent reduction in compensation costs by reaching furlough agreements with 21 bargaining units. As of Wednesday, 17 units had agreed, most by taking one unpaid furlough day each month.

• **HEALTH CARE:**Eliminates Healthy Families program, moving clients to Medi-Cal. Reduces payments to hospitals and nursing homes.

• **WELFARE:**Reduces aid limit from four years to two, beginning next year, and creates many exemptions to protect one-fifth of all recipients. Rejects Brown's plan to cut grants for kids whose parents time out.

• **IN-HOME CARE:** Rejects Brown's plan to cut caregiver hours by 7 percent across the board and eliminate domestic services in shared households. Continues 3.6 percent cut in hours. Shifts pay negotiations for workers from counties to a state board, which labor hopes will raise wages.

• **CHILD CARE:** Rejects deeper cuts proposed by Brown but eliminates $80 million, equivalent to 10,500 slots.

• **COURTS:** Cuts $544 million from county courts by taking reserves and courthouse construction funds. Construction projects in Yolo, San Joaquin, Sutter and five other counties are not affected.

• **PRISONS:** Ends program to house prisoners out of state. Funds three dormitories at existing prisons, which will ultimately close the California Rehabilitation Center in Norco.

• **REDEVELOPMENT:** Relies on $1.4 billion from former redevelopment assets, as well as $1.7 billion in property taxes that would have otherwise gone to redevelopment agencies. Allows state to withhold tax payments to cities if it believes "successor agencies" are spending too much to retire debt.

• **BORROWING, FUND TRANSFERS:** Borrows $312 million from state disability fund to make interest payment on loan for unemployment fund. Transfers $697 million from highway and vehicle fuel funds. Borrows $432 million from motor vehicle fund. Delays $307 million in loan payments.

• **MORTGAGE SETTLEMENT:** Takes $410 million from California's settlement with major banks, mostly to pay interest for housing bonds.

• **STATE MANDATES:** Eliminates several requirements, including the Open Meeting Law (and $828 million in payments) for local governments.

• **OTHER CUTS IF TAXES DON’T PASS:** Cuts funding for developmentally disabled programs by $50 million and reduces state game wardens, lifeguards and park rangers.

*Source: Governor's Office, California Legislature*