California's general fund spending has dropped -- but that doesn't tell the whole story

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Democrats say voters need look no further than California's $91 billion general fund budget to see how dramatically they have cut. That spending total is 11 percent below the state's pre-recession peak.

But the number can be misleading.

While California has cut education and services for the poor, budget writers also have relied on creative revenue streams and accounting maneuvers to move programs off the general fund books rather than cut them.

That has made comparisons difficult and, experts say, contributed to state bookkeeping disparities that have emerged in recent weeks.

"We've been through a period of extreme financial difficulty where each year's budget package has involved many complex changes," said Jason Sisney, a deputy at the nonpartisan Legislative Analyst's Office. "Frankly, it's so complex that it defies easy description. Not to say it's bad, but it's complex, and we've done a lot of it just because of the scale of problems we've had."

While the general fund has fallen 11 percent since 2007-08, California special fund spending grew more than 47 percent over the same period, from $26.7 billion to $39.4 billion this fiscal year.

If Brown's tax initiative passes, the state expects to set a record high for total budget spending at $142.4 billion, surpassing the $138 billion amount in 2007-08. That includes spending from bond funds, special funds and the general fund.

"You've got Democrats saying they've made $60 billion to $70 billion in reductions, and that's nonsense," said Senate Republican Leader Bob Huff, R-Diamond Bar. "Have they cut back the level government would have grown on the natural? Yes. They're to be applauded for that. But to set up this scenario where they've made massive reductions is not supported by the numbers."
The best example of why the general fund total can be misleading is Brown's "realignment" of nearly $6 billion in former state general fund programs to local governments. To shift those responsibilities, the state last year created new special fund accounts.

Brown pushed the plan because the state faced a federal court order to reduce its prison population, and the governor said it made more sense for local officials to handle responsibilities such as watching parolees and jailing lower-level offenders. But it also had the accounting effect of shrinking the state general fund.

**Democrat faults tax cuts**

Since 2010, Senate Republicans have asked the nonpartisan Legislative Analyst's Office to track what general program spending would be if various maneuvers hadn't taken place. Since the state's $103 billion high in 2007-08, the LAO has estimated the general fund has ranged between $99.1 billion in 2009-10 and $95.8 billion in the current fiscal year, with the latter sum including spending like the transferred realignment funds. The current total would have been $4.5 billion more if the analyst counted loan repayments for past borrowing.

Democrats contend California relied on accounting shifts on top of cuts because Republicans refused to approve higher taxes. Brown says that if voters pass his initiative to raise income taxes on wealthy earners and the sales tax by a quarter-cent on the dollar, he would be able to put California on a more honest budgeting track.

They point to programs across the spectrum where real cuts have taken place, from a shorter school year to smaller welfare grants to a reduction in services covered by Medi-Cal.

"We have lost significant revenue over the years as the result of tax cuts and corporate tax breaks," said Sen. Mark Leno, D-San Francisco, chairman of the Senate Budget and Fiscal Review Committee. "Since we can't raise the revenue since all the Republicans have signed a (no-tax increase) pledge, we're doing the best we can with the rules we've got."

"The fact remains that the budget is at its leanest since 1972," Leno noted. That refers to a Department of Finance statistic showing California general fund spending is at its lowest level as a share of the state's personal income since 1972-73.

But the situation is less stark when all funds are included. Brown's June budget summary says "total state spending is at the same level as the mid-1990s." According to Finance Department data, annual total spending from 1993 to 1999 was slightly lower as a share of California income than in the budget Brown signed in June.

Some growth beyond the general fund has come from voters. In 2004, they created the Mental Health Services Account when they passed a tax on millionaires to pay for mental health care. The account is projected to spend $1.4 billion this year. State leaders used $900 million from the account last year for programs previously paid by the general fund.
Programs shifted to funds

State leaders also have created new special funds in recent years to reduce general fund costs without cutting programs. Lawmakers last year approved a $150 fee on rural homeowners to pay for fire prevention, expected to raise $84 million this year for a new State Responsibility Area Fire Prevention Fund.

Another Brown idea, Assembly Bill 1492, would impose a 1 percent tax on lumber in California to pay for regulation of the timber industry. That would generate $30 million annually in a new Timber Regulation and Forest Restoration Fund, relieving the general fund of those costs.

Shifting responsibilities from California's general fund to its special funds has more than a bookkeeping impact. It can serve as a way to cut education funding below what the state constitution otherwise requires.

When the state shifted about $5 billion in realignment programs, it also reduced the amount the state owed K-12 schools and community colleges by $2.1 billion. The state's Proposition 98 formula uses general fund revenue as one factor in determining what schools receive.

The California Teachers Association accepted that cut last year in exchange for job protections, but other school groups sued the state, saying state leaders violated the spirit of the constitution. A San Francisco Superior Court judge ruled the practice legal.

Sisney, the deputy legislative analyst, cautioned against using dollar amounts as a strict guide for spending through the years. He said the recession increased demand for many public services and would have pushed spending higher without the program cuts the state enacted.

As Californians lost jobs, more people qualified for public assistance in welfare-to-work, Medi-Cal and college financial aid. Had the state left grant payments and Medi-Cal coverage at the same level as in 2007, it would have had to spend significantly more than $103 billion in the current budget.

"We've taken SSI grants down to their lowest level since 1983, CalWORKs is down to the lowest level since 1987 and state support for higher education is down by 25 percent," said Department of Finance spokesman H.D. Palmer. "I don't think anyone can look at those or any other areas and suggest they haven't had a programmatic impact."

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