Jerry Brown’s budget plan proposes cautious spending, paying down debt

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BUDGET HIGHLIGHTS

Here are highlights of the state budget Gov. Jerry Brown will propose today:

• $154.9 billion in spending from all funds

• 5 percent welfare grant increase

• $11 billion spent on debt reduction

• New “rainy-day fund” plan for November ballot

• **4.2 percent funding increase for UC, CSU; no tuition increases**

Bracing against calls for more spending after years of recession-era cuts, Gov. Jerry Brown today will propose modest increases for social services next fiscal year, with billions of dollars in surplus revenue going to reduce state debt.

The plan, obtained Wednesday by The Sacramento Bee, includes funding for about $6 billion in deferred payments to schools and a $1.6 billion contribution to a rainy-day fund.

In a message to lawmakers, Brown says past borrowing, unfunded retirement obligations and other costs have created a “mountain of long-term liabilities” and that “wisdom and prudence should be the order of the day.”

Brown planned to release his annual spending outline at a series of news conferences Friday, with appearances in Sacramento, San Diego and Los Angeles. His office hastily rescheduled those events for today after the document became public.
The election-year spending plan will open six months of budget negotiations at the Capitol, with Brown preparing for a likely re-election bid. The Legislative Analyst’s Office projected last fall that the state could post a $5.6 billion surplus by June 2015, and social service and education advocates already are pressing Brown for more money.

Still, the budget projects long-term financial liabilities of $354.5 billion, including $217.8 billion in unfunded future retirement responsibilities.

The budget calls for spending $154.9 billion from all funds, about a 5 percent increase over the current year, including $106.8 billion from the general fund. It projects spending on K-12 schools will grow to almost $70 billion, an increase of $22 billion from 2011-12. The budget summary makes no mention of transitional kindergarten, a measure championed by Democrats in both the Assembly and Senate in recent days.

As expected, Brown will propose using fees paid by carbon producers to help fund California’s high-speed rail project, and he will announce his support for a proposal by Assembly Speaker John A. Pérez to put a rainy-day fund constitutional amendment on the November ballot.

“Learning from the state’s recent history and seeking to avoid the same traps of the past,” the administration said in its plan, “the budget uses the surplus to pursue two goals that enhance the state’s long-term fiscal capacity – paying down debts and liabilities, and saving a portion for a rainy day.”

The state’s current rainy-day fund was established in 2004 but is rarely used. Brown’s measure would replace a state spending restriction already on the ballot that has been opposed by labor unions.

Brown and others have warned about becoming overly reliant on volatile sources of income such as capital gains, and the proposal notes that California’s heavy use of taxes on the wealthy means revenue can “swing both up and down quickly.”

Brown’s office did not return telephone calls for comment. Pérez said in an e-mail that he is “pleased to see so many areas of agreement between the governor and the Assembly, particularly how strongly he has embraced the rainy day fund that is the cornerstone of the Assembly’s budget proposal.”

The budget funds a 5 percent increase in monthly grants under California’s welfare-to-work program, CalWORKs, approved last year, and $670 million to pay for the expansion of Medi-Cal benefits, including mental health, substance abuse, adult dental and specialized nutrition services.

In-home supportive services, which saw dramatic reductions over recent years, will get a 6.4 percent increase over the current budget, bringing its general fund allotment to about $2 billion, according to the plan. Part of the increase stems from U.S. Department of Labor regulations that take effect Jan. 1, 2015, and require overtime pay for domestic workers.
The spending increases Brown proposed are unlikely to satisfy social service advocates. Anthony Wright, executive director of Health Access California, said the proposal does not go far enough to restore the most painful cuts to the state’s safety net in recent years.

“This is a budget that really continues the cuts we made in the depths of the recession, and that’s disappointing,” Wright said. “We think there needs to be some targeted restoration of the worst of the cuts that were made over the last many years.”

Brown’s budget proposal assumes that the state’s finances will be sound enough to include $173.1 million for state employee pay increases to kick in July 1, although it doesn’t firmly commit to it. About half that money will come from the general fund.

“A final determination will be made at the May Revision based on the latest revenue projections and updated expenditure information available,” according to the draft document.

State managers and supervisors will receive similar pay hikes to avoid salary compaction, which occurs when rank-and-file wages exceed management’s.

Brown’s budget summary doesn’t commit 2014-15 money to the struggling state teachers’ retirement fund. Instead, “the Administration will begin working with the Legislature, school districts, teachers and the pension system,” aiming to enact a plan in 2015-16 that will fully fund the system within 30 years.

Current obligations to CalSTRS’ current and future retirees total $80.4 billion more than it has assets to cover. Stabilizing the system would require more than $4.5 billion per year for many years.

Brown’s summary suggests that whatever plan emerges should phase in contribution increases over time and cautions that “school districts and community colleges should anticipate absorbing much of any new CalSTRS funding requirement.”

For schools, the plan proposes $61.6 billion toward the constitutional school-funding guarantee in 2014-15, $6.3 billion above the current budget year.

The plan also includes a $6.4 billion payoff of school deferrals. Those involuntary loans from school districts to the state forced districts to borrow billions of dollars with interest from private lenders or else absorb the cost from reserves or cutting programs.

With school-construction bonds from 2002, 2004 and 2006 all but exhausted, Brown wants to revisit what role, if any, the state should play in helping districts build new schools or modernize existing classrooms.

Any future school-construction programs, the plan reads, should “avoid an unsustainable reliance on state debt issuance that characterizes the current school facilities program.”

The budget, though, taps $188 million from the general fund for emergency school repairs.
In addition, the plan would allocate $26.3 billion for higher education and repeats calls for major changes in how the system operates. Instead of focusing on enrollment targets that increase costs, the University of California, California State University and community college systems must do a better job ensuring that students complete their degrees in a timely manner, according to the budget summary.

The budget includes a funding increase of $142.2 million each for the UC and CSU systems. The increases reflect the second year of a four-year pact with the administration that trades more money for the systems’ holding tuition at existing levels and making changes meant to “improve student success and to realize institutional efficiencies.”

State funding for community colleges, meanwhile, would increase 11.4 percent in 2014-15.

In other spending areas, the budget:

• Proposes spending $850 million from the state’s cap-and-trade program on energy efficiency, transportation and natural resources projects. Of that amount, $300 million would go to the California Department of Transportation and to the high-speed rail project, whose financial viability was cast into doubt by a recent court ruling.

The contribution to high-speed rail is opposed by some environmentalists and is likely to be a significant source of controversy.

• Assumes a federal court will grant California a two-year extension to meet a prison population cap, while proposing $500 million for more prison facilities with a 10 percent county match requirement.

Brown’s proposal would spend $11.8 million on substance abuse treatment and $11.3 million on mentally ill parolees while directing $40 million from the state’s Recidivism Reduction Fund to re-entry programs.

In his plan, Brown also proposes legislation to require county jail felony sentences to be split between incarceration and mandatory supervision, unless the court finds it in the interests of justice not to do so.

• Provides an additional $100 million for trial court operations and $5 million to support the state judiciary. The judicial branch leadership has been making a major push for increased funding to reopen courthouses that were closed by nearly a half-billion dollars in cumulative cuts over the past five years.