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Gov. Jerry Brown warns of uncertainty, unveils cautious state budget proposal

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SACRAMENTO — As California steels itself for the fiscal implications of a Trump presidency and the possibility of another economic downturn, Gov. Jerry Brown on Tuesday presented a cautious budget proposal for 2017-18 that gives modest increases to schools and universities but reins in spending growth elsewhere.

“Save some biscuits for a rainy day,” the governor wrote on one page, above a paw print. He dedicated the budget to his beloved “first dog,” 13-year-old Sutter Brown, who died in late December.

For Sutter Brown

“Save some biscuits for a rainy day.”



In proposing the \$122.5 billion general fund budget, down slightly from last year, Brown urged fiscal restraint in a period of uncertainty and lower-than-expected revenue.

Brandishing a red Sharpie, Brown underscored his point on one of the cautionary charts that have come to characterize his budget presentations. Without curtailing spending, he said, the state risks running \$1.6 billion in the red — the first deficit since 2012.

The proposal adds money to university budgets, continues to support Medi-Cal expansion and calls for new taxes for transportation and infrastructure improvements. But those looking for more spending for affordable housing, child care and other social services came away disappointed.

Instead, Brown proposes balancing the budget and shoring up the state's Rainy Day Fund with a lower-than-expected increase to K-12 schools, keeping child-care subsidy rates flat and phasing out the popular new "middle class" college scholarships. The roughly 37,000 undergraduates now getting scholarships to UC and CSU on a sliding scale based on family income would continue to receive their awards, but then the program would be discontinued.

"It's still not where we need to go for the future of education in California," said Susan Henry, president of the California School Board Association. "We still have funding that puts us (toward the bottom) in the nation when it comes to teachers, nurses, counselors and computers per student."

But to many, the fiscal caution was no surprise. Bold new spending initiatives were unlikely given the uncertain fate of the Affordable Care Act and the \$20 billion in federal funding it brings to California each year, said Assemblyman Phil Ting, D-San Francisco, who heads the Assembly budget committee.

According to the state Department of Finance, California receives \$105 billion annually in federal revenues each year — the bulk of it for health and human services. That's on top of the roughly \$180 billion raised by the state.

Major changes to Obamacare would likely be "painful" for California, Brown said, but it's impossible to craft budget plans around the unknown. So his proposal is based on the continuation of the current health care law.

"I don't think there's a politician in American history that could ever imagine taking away health insurance from 20 million Americans," he said.

Health care advocates were heartened by Brown's commitment to expanding Medi-Cal to childless adults, it will cost the state roughly \$800 million more next year to do so under Obamacare. That's because the 2010 law calls for the federal government to beginning to scale back its support, covering 95 percent of the cost rather than the full amount.

"It was important for Gov. Brown to continue California's commitment to Medi-Cal, which covers one in three Californians," said Anthony Wright, executive director of Health Access California, a statewide health care consumer advocacy coalition.

At the Western Center on Law & Poverty, policy advocate Mike Herald characterized the proposed budget as a status-quo spending plan, “which means we are losing ground.”

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According to Gov. Jerry Brown's proposed 2017-18 budget, the federal government will contribute \$105 billion in funds to California. That amount is in addition to the \$179.5 billion the state will spend.

Spending category	Federal funds
Health and human services	\$78,058,675,000
K-12 education	7,528,125,000
Labor and workforce development	6,785,995,000
Higher education	5,158,647,000
Transportation	4,981,127,000
Legislative, judicial and executive	1,219,491,000
Environmental protection	384,227,000
Natural resources	290,225,000
Business, consumer services and housing	136,908,000
Corrections and rehabilitation	99,995,000
Government operations	24,854,000
General government	
Miscellaneous spending	302,273,000
Tax relief/local government	34,939,000
Total: \$105,005,481,000	

Source: California Department of Finance

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California’s public schools and community colleges — which receive the largest share of the budget — would receive raises under the governor’s proposal, growing to \$73.5 billion from \$71.9 billion in the current fiscal year. But the state’s Legislative Analyst’s Office in November projected that K-12 schools and community colleges would get an even greater increase, based on a school-funding guarantee California voters approved in 1988.

The governor also repeated his calls for long-neglected transportation fixes, which lawmakers such as Sen. Jim Beall, D-San Jose, have also vowed to address this year. Brown’s plan would bring local road repairs, transit funding and improvements to highways, bridges and culverts — a package that relies on several new taxes and fees — including a new \$65 fee for all vehicles and an 11-cent increase in the diesel excise tax — that the Legislature has been reluctant to support.

These are taxes that the Bay Area’s business community wholeheartedly backs, said Michael Cunningham, senior vice president of public policy for the Bay Area Council. “The need is so great that our members took a look at what was being proposed and said, ‘Yes, and more,’” Cunningham said.

One key area that Brown is trying to address in the new budget is the shaky foundation of one of the state's main climate change programs. The "cap-and-trade" program requires power plants, oil refineries and other large polluters in California to buy allowances at an auction for each ton of greenhouse gas pollution they emit, creating a financial incentive to clean up.

The program has raised roughly \$3.4 billion in recent years, which the state has spent to provide rebates on consumer power bills and fund high-speed rail, energy efficiency upgrades at state buildings, forestry improvements and other programs.

But the law that established the program, signed in 2006 by former Gov. Arnold Schwarzenegger, expires on Dec. 31, 2020. The California Chamber of Commerce has filed a lawsuit — calling it an illegal tax — while the state Air Resources Board says the intent of the Legislature was to allow it to continue the program after 2020. The uncertainty has caused wild fluctuations in prices at the quarterly auctions. Brown's budget calls for asking the Legislature to reauthorize the program beyond 2020 by a two-thirds vote. If that happens, the budget released Tuesday would spend \$2.2 billion in money from auctions over the next year, with \$375 million going to high-speed rail, \$650 million going to city light rail, bike lanes and other transit programs. The rest would go to other climate and energy efficiency efforts.

Senate Republican leader Jean Fuller, R-Bakersfield, said Republicans approve of the governor's solution to the projected deficit — "to cut expenses rather than to increase taxes."

"Even a mild recession," Fuller said, "would put us into a difficult position."