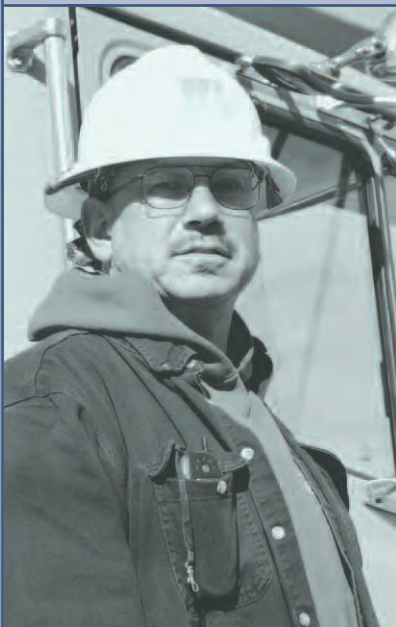


# CALIFORNIA'S Budget Gap



**The Impact of the State's Budget  
Deficit on Working Families**



California LABOR Federation

# Budget Basics

## Process

Each January, the governor launches the state budget process by introducing a proposed budget. Over the months that follow, both houses of the legislature review, revise and debate the budget in public committee hearings and private negotiations between legislative leaders and the governor. The final budget must be balanced and it can only pass with support from a 2/3rds supermajority in each house. That budget, subject to the governor's line-item veto authority, determines state spending for the fiscal year that runs from July 1 through June 30.

## Budget Timeline:

- JANUARY: Governor proposes budget
- FEBRUARY–MAY: Legislature holds public hearings to review the governor's proposed budget
- MAY: Governor issues revised budget based on new revenue estimates
- JUNE 15: Deadline for legislature to pass a balanced budget (2/3rds supermajority vote required)
- JULY 1: New fiscal year starts

## Revenues

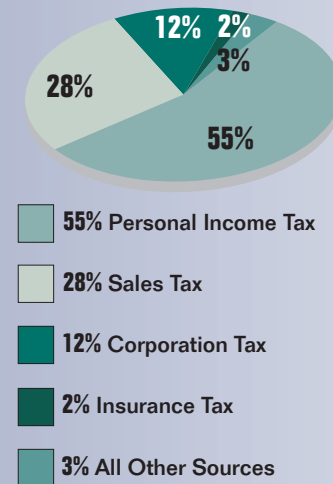
The amount of money the state has to allocate to various programs depends on the revenues it brings in each year. Some revenues, like gas taxes, are legally tied to specific programs. These Special Fund revenues, as distinct from General Fund revenues, account for roughly 20% of state spending. The rest of the state's budget (\$102.9 billion for 2008–09) comes primarily from personal income taxes, sales taxes, and corporation taxes.

## Spending

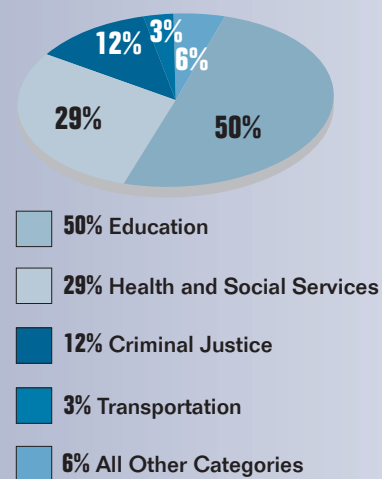
Four major categories – education, health and social services, criminal justice and transportation – account for 94% of state spending. While the legislature has some control over which programs to fund and at what levels, the vast majority of the state's spending is pre-determined by federal mandates, voter-approved spending formulas and constitutional requirements.



**General Fund revenue for 2008-2009\***



**General Fund spending by major program area 2006-2007\***



\*Source: Legislative Analyst's Office, Feb. 2008

# Budget Gap

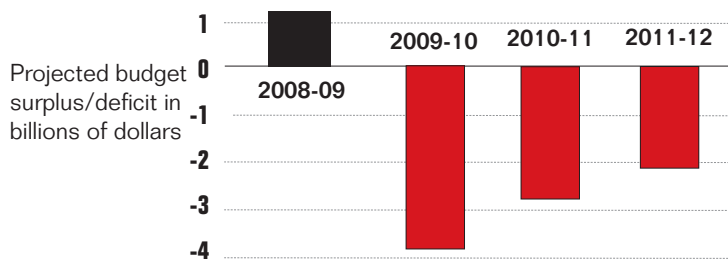
## California's structural budget deficit threatens vital programs and services

**California is facing a budget crisis, and all the easy solutions are gone.** For years, California has employed borrowing and accounting maneuvers to balance its budget. This year, those options aren't on the table. After a round of emergency cuts and bonds to address the looming shortfall for the 2007-08 fiscal year, the state is still facing a deficit of at least \$8 billion for 2008-09. If we don't enact long-term budget solutions this year, California's working families will see devastating cuts to the services we all rely on.

**Schwarzenegger balances the budget at the expense of working families.** Rather than looking for real budget solutions, Governor Schwarzenegger has proposed deep cuts to most state services. His cuts-only budget proposal will undo the progress California has made in securing education, child care, public safety and more for working families.

**California can't cut its way to a balanced budget.** Even if the legislature adopted every proposed cut and maintained those cuts for the next several years, the state's structural budget problems still wouldn't be solved. We would still face multi-billion deficits for at least the next three years. The cuts on the table don't just hurt working families – they actually don't solve the long-term problem.

### Budget shortfalls would continue even with Schwarzenegger cuts\*



\*Source: Legislative Analyst's Office, Feb. 2008



## Impact of Governor Schwarzenegger's Proposed Budget Cuts

Governor Schwarzenegger has proposed deep cuts for nearly all state-funded programs.

Enacting those cuts would be equivalent to:

- Cutting education spending by more than \$800 per student; and
- Closing 48 state parks; and
- Eliminating health care coverage for 150,000 low-income parents and children; and
- Slashing home care services for 400,000 vulnerable seniors and people with disabilities; and
- Cutting county services including foster care and prisoner rehabilitation programs by \$600 million; and
- Eliminating 18,000 child care and preschool slots for working families; and
- Releasing more than 20,000 prisoners early; and
- Hundreds more program cuts and reductions.

# Budget Solutions

## California needs long-term solutions for its budget problems

Californians care about the quality of their kids' schools, the safety of their neighborhoods, and enforcing labor and environmental laws, but the state's perpetual budget woes put these very priorities on the chopping block every year. To safeguard the programs that matter most to working families, we need to tackle California's budget problems head on. California must:

- 1. Re-evaluate its tax breaks and loopholes.** When the state budget was flush in the 1990s, California cut tax rates for individuals and corporations. Since then, the legislature has also piled on a number of tax breaks and loopholes that often benefit those who need it least. According to the California Budget Project, the combined tax cuts enacted since 1993 will cost the state \$12 billion this year alone. It's time to take another look at who gets tax breaks and whether the state can really afford them.
- 2. Increase enforcement and collection of existing taxes.** The State Controller's office estimates that 11% of all taxes owed in California go uncollected each year. Much of that money is owed by business operating in the underground economy. While we can't collect every tax dollar owed to the state, increasing the collection of existing taxes should always be a top priority.
- 3. Develop new revenue sources.** Even increasing enforcement and closing tax loopholes won't be enough to put the state on firm financial ground going into the future – we need new revenues. Some potential revenue sources, like oil extraction taxes, are virtually untapped. California remains the only major oil producing state that doesn't tax oil companies for the oil they take from our land and water. Other sources, like corporate income taxes, need to be adjusted for today's economy. If corporations paid the same share of their profits in taxes as they have historically, corporate tax collections would increase by billions of dollars a year. To make sure the state can continue to protect workers and provide the health care, education and public safety services we need, new revenue sources must be on the table.

None of these solutions will be easy, but with schools, health care, public safety and labor law enforcement resources on the line, they are necessary. They're the only real way California can put an end to its budget troubles once and for all.



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For additional information: please visit [www.calaborfed.org/issues/economy](http://www.calaborfed.org/issues/economy) or contact Emily Clayton, California Labor Federation Policy Coordinator at [eclayton@calaborfed.org](mailto:eclayton@calaborfed.org)



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