

THE 2005 - 2006 STATE BUDGET

Overview

On Monday, January 10, 2005, Governor Schwarzenegger unveiled his proposed budget for the 2005-06.

The Governor's budget is now in the hands of the Legislature to review, analyze, debate, revise, and return to the Governor. Assembly Bill 90 (Laird) and Senate Bill 52 (Chesbro) will serve as the budget bills for the Assembly and the Senate, respectively. Multiple "Trailer Bills" will also be introduced in both houses as vehicles for statutory changes necessary to implement the final budget agreement.

Overall, the Governor's budget proposes expenditures of \$109 billion (excluding federal and bond funds) for 2005-06. Of this amount, \$85.7 billion is from the General Fund, an increase of \$3.4 billion from revised current year spending totals. The budget projects available General Fund resources for fiscal year 2005-06 to be \$86.9 billion, including a starting balance of \$1.4 billion, revenues of \$83.2 billion, transfers of \$544 million, and Economic Recovery Bond proceeds of \$1.7 billion. The Governor's proposed budget projects a final reserve of \$500 million.

Closing the Gap

The Governor's proposed budget relies on a total of \$9.1 billion in General Fund solutions to be balanced, however, the proposed budget contains a structural imbalance (annual expenditures exceed annual resources) of \$284 million that grows to \$6.3 billion in 2006-07 and increases beyond that amount in subsequent years.

The continued structural imbalance is due in part to the Governor's decision to shift current costs to future budget years. Individual proposals will be discussed in detail in the appropriate section as well as the Chapter titled Borrowing and Cost Deferrals later in this Preliminary Review. However the major shifts to future years total approximately \$6 billion and include:

- Economic Recovery Bond \$1.7 billion
- Proposition 98 Current Year suspension increase \$1.1 billion
- Proposition 42 Loan for both 2005-06 and 2006-07 \$2.6 billion
- Judgment Bond for *Paterno* lawsuit settlement \$464 million
- Deferral of Local Government mandate payments \$250 million

Though every area of the budget is impacted by the proposed General Fund solutions, the most severe proposals concern budget reductions to K-12 schools and community colleges, programs that serve California's aged and disabled, grants to families moving from welfare to work, critical transportation investments, and state employees. Each of these proposals will be discussed in detail in the appropriate section later in this review, however they include:

- Reduced Prop. 98 for K-12 and Community Colleges \$2.3 billion
- Shifting state STRS costs to local K-12 and CCC districts \$469 million
- Cutting all SSI/SSP COLAs \$215 million
- Increasing taxes of seniors and disabled \$140 million
- Cutting wages of IHSS workers for seniors and disabled \$152 million
- Cutting CalWORKS COLAs and grant levels \$288 million
- Suspending Proposition 42 \$1.3 billion
- Reducing Public Transportation Account funds \$215 million
- Changing pensions and compensation for state workers \$408 million

The Governor also proposes various reform proposals that are in some cases related to proposed General Fund solutions. These are discussed throughout this review in the appropriate section as well as in the chapter titled Proposed Reforms. The proposed reforms include 1) placing more of the budget on automatic pilot with proposed changes to Propositions 98 and 42, establishing an automatic across-the-board cut mechanism, and restricting future special fund loans; 2) consolidating various outstanding state obligations to be repaid over 15 years; and 3) significantly altering future pension systems for all public employees in the state including state, local, and school employees.

None of the Governor's proposed reforms will have any direct impact on resolving the General Fund shortfall for 2005-06.

Summary of Charts**2005-06 General Fund Summary
(in millions)**

	2004-05	2005-06
Prior Year Balance	\$3,489	\$1,425
Revenues	\$77,904	\$83,227
Transfers	\$315	\$544
Economic Recovery Bonds	\$2,012	\$1,683
Total Resources Available	\$83,720	\$86,879
Non-Proposition 98 Expenditures	\$48,171	\$49,206
Proposition 98 Expenditures	\$34,124	\$36,532
Total Expenditures	\$82,295	\$85,738
Fund Balance	\$1,425	\$1,141
Reserve for Liquidation of Encumbrances	\$641	\$641
Special Fund for Economic Uncertainties (Final Reserve)	\$784	\$500

**On-Going Structural Imbalance of Governor's Proposed Budget
(in millions)**

2004-05	2005-06	2006-07	2007-08	2008-09
-\$2,064	-\$284	-\$6,254	-\$6,651	-\$6,654

**How the Governor Proposed Closing the
Projected \$9.1 billion General Fund Gap (includes \$500 million Reserve)
(in millions)**

Category	Amount
Increasing Current Year Prop 98 Suspension	\$2,284
Non-Prop 98 Education	\$543
Business, Transportation and Housing (suspending Prop. 42)	\$,1311
Health and Human Services	\$1,167
General Government	\$928
Youth and Adult Corrections	\$272
Resources (Judgment Bond for <i>Paterno</i> Settlement)	\$475
Others	\$20
Economic Recovery Bonds	\$1,683
Revenues	\$409
<i>Total</i>	\$9,092

**2005-06 General Fund Revenue Sources
(in millions)**

Source	Amount	% of Total
Personal Income Tax	\$42,895	50.2%
Sales Tax	\$26,947	31.5%
Corporation Tax	\$9,015	10.5%
Insurance Tax	\$2,300	2.7%
Tobacco Taxes	\$115	0.1%
Liquor Tax	\$315	0.4%
Other	\$3,867	4.6%
<i>Total</i>	\$85,454	100.0%

**2005-06 General Fund Expenditures
(in millions)**

Category	Amount	% of Total
Education (K-12)	\$35,884	41.9%
Health and Human Services	\$26,708	31.2%
Higher Education	\$10,042	11.7%
Business, Transportation and Housing	\$380	.4%
Legislative, Judicial, Executive	\$3,016	3.5%
General Government	\$705	.7%
Youth and Adult Corrections	\$7,014	8.2%
Resources	\$1,270	1.5%
Environmental Protection	\$69	.1%
State and Consumer Services	\$563	.7%
Labor and Workforce Development	\$87	.1%
<i>Total</i>	\$85,738	100%

**General Fund Expenditures
Comparisons of 2004-05 to 2005-06
(in millions)**

Category	Budget Act of 2004 2004-05	Governor's Revised 2004-05	Governor's Proposed 2005-06
Education (K-12)	\$34,049	\$34,435	\$35,884
Health and Human Services	\$25,467	\$25,543	\$26,708
Higher Education	\$9,360	\$9,363	\$10,042
Business, Transportation and Housing	\$377	\$377	\$380
Legislative, Judicial, Executive	\$2,730	\$2,873	\$3,016
General Government	\$630	\$1,008	\$705
Youth and Adult Corrections	\$6,392	\$6,933	\$7,014
Resources	\$1,020	\$1,067	\$1,270
Environmental Protection	\$69	\$74	\$69
State and Consumer Services	\$514	\$535	\$563
Labor and Workforce Development	\$85	\$87	\$87
<i>Total</i>	\$80,693	\$82,295	\$85,738