

Governor Brown's Budget Slashes State Spending by \$12.5 Billion

Sacramento - Governor Jerry Brown will release a balanced state budget today that slashes spending by \$12.5 billion, including an eight to 10 percent cut in take-home pay for most state employees, and proposes a "vast and historic" restructuring of government operations.

"These cuts will be painful, requiring sacrifice from every sector of the state, but we have no choice," Brown said. "For 10 years, we've had budget gimmicks and tricks that pushed us deep into debt. We must now return California to fiscal responsibility and get our state on the road to economic recovery and job growth."

Brown's budget also calls for temporary continuation of taxes while the state pays off debt, moves forward with his realignment plan and consolidates or eliminates functions.

"Since it will take some time to fully implement these changes, I propose to ask the voters for a five-year extension of several current taxes so that we can restructure in an orderly manner," the Governor explained.

He said the proposed spending plan, which puts \$1 billion into a "rainy day" reserve fund, closes California's budget deficit "now and into the future."

The Governor said his realignment plan, which he called "vast and historic," will return decisions and authority to cities, counties and schools and "allow government at all levels to focus on core functions and become more efficient and less expensive" by reducing duplication of services and administrative costs.

The one area of state spending spared from cuts is kindergarten through 12th grade education.

"Schools have borne the brunt of spending reductions in recent

years, so this budget maintains funding at the same level as the current year," the Governor said.

Brown's budget proposes total spending of \$127.4 billion for the 2011-12 fiscal year. Of this amount, proposed General Fund spending is \$84.6 billion.

The spending plan eliminates an 18-month budget gap estimated at \$25.4 billion, comprised of a current year shortfall of \$8.2 billion and a budget year shortfall of \$17.2 billion. A combination of \$26.4 billion in actions is needed in order to have a \$1 billion reserve. In addition, the deficit will grow to \$26.6 billion if the proposed sale of state office buildings, blocked by court order, does not proceed, requiring \$27.6 billion in budget actions in order to have a reserve.

Brown's budget proposes \$12.5 billion in spending reductions, \$12 billion in revenue extensions and modifications, \$1.9 billion in other solutions to close the gap and provide for a \$1 billion reserve.

Major spending reductions include \$1.7 billion to Medi-Cal, \$1.5 billion to California's welfare-to-work program (CalWORKs), \$750 million to the Department of Developmental Services, \$500 million to the University of California, \$500 million to California State University, and \$308 million or a 10 percent reduction in take-home pay for state employees not currently covered under collective bargaining agreements. Brown also plans to trim state government operations by \$200 million through a variety of actions, including reorganizations, consolidations and other efficiencies.

The Governor's spending plan proposes additional reductions throughout state government, including corrections, the judiciary and resources.

The budget also proposes to change the role that state and local governments play in local development activities by eliminating state tax benefits for enterprise zones and phasing out the current funding mechanism for redevelopment agencies. This will return billions in property tax revenues to schools, cities and counties and help pay for public safety, education and other services.

The revenue component of the budget calls for an election this coming June where voters will be asked to continue current personal income and sales taxes, as well as the Vehicle License Fee rate, for five years. Brown said revenue from the sales tax and the vehicle license fee will be transferred directly to local governments to finance the first phase of his realignment plan.

Brown's budget also requires all corporations to use a single sales factor when measuring income attributable to California and calls for an amnesty program for taxpayers who have avoided or underreported income owed to the state.

Brown called the spending plan "a tough budget for tough times" that will close the state's structural deficit and provide a "strong and stable foundation" to meet future needs.

"Without decisive action, the state's severe budget problems will persist, threatening economic recovery, job growth, public education and the quality of life in California," he said. "The adoption of this budget will position the state to lead the country as it slowly recovers from the Great Recession."

The Governor's spending plan assumes that all statutory changes to implement budget actions will be adopted by the legislature in March, allowing the necessary ballot measures to be put before the people at a June special election.

The Governor's news conference will be streamed live this morning at 11:00 a.m. at www.calchannel.com<<http://www.calchannel.com>>. The budget, in full, will be posted online shortly after the news conference begins at: www.ebudget.ca.gov<<http://www.ebudget.ca.gov>>.