

**Assemblymember Noreen Evans
Chair, Assembly Budget Committee**



California's Fiscal Challenges

CHOICES AMID CRISIS

THE BUDGET IS ABOUT PRIORITIES: **Where should the State Spend its Money?**

Prisons



Higher Education



THE BUDGET IS ABOUT CHOICES: Who Should be Served?

School Children

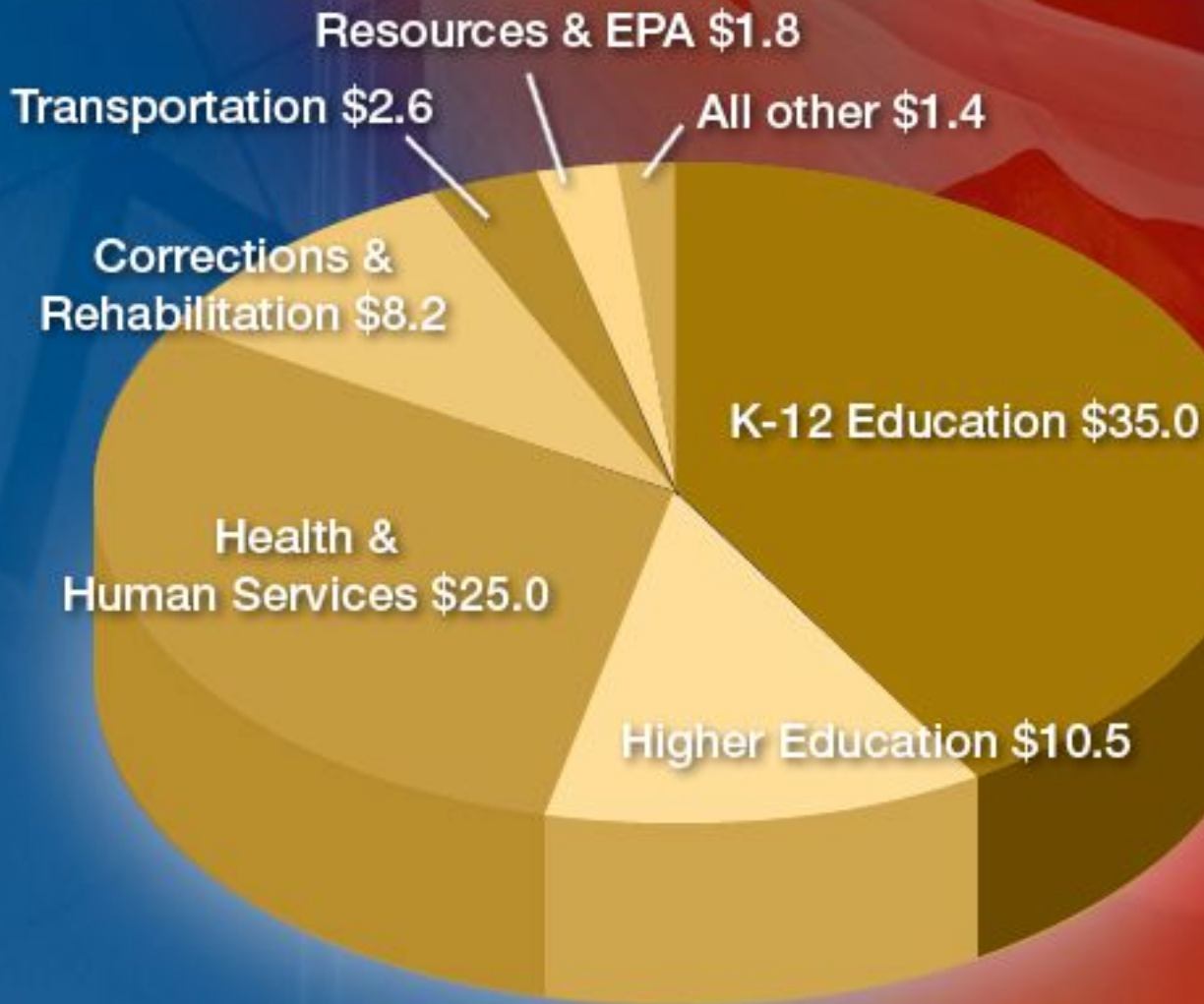


Poor Children



SPENDING

What Do We Spend Our Money On?



WHO PAYS?

Who Benefits?

Spending



- ✓ Top 20 counties in per capita spending

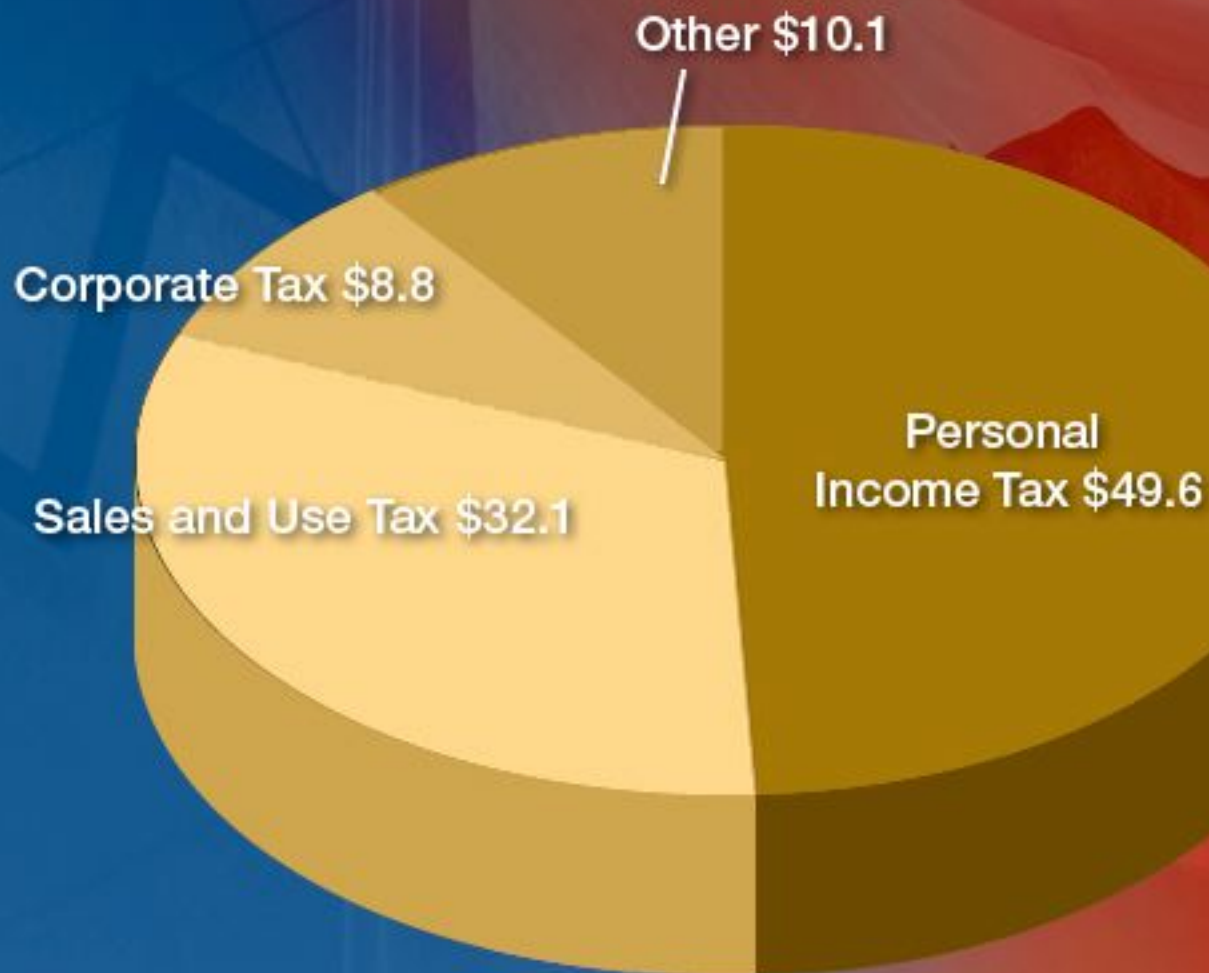
Taxes



- ✓ Top 20 counties in per capita revenues collected

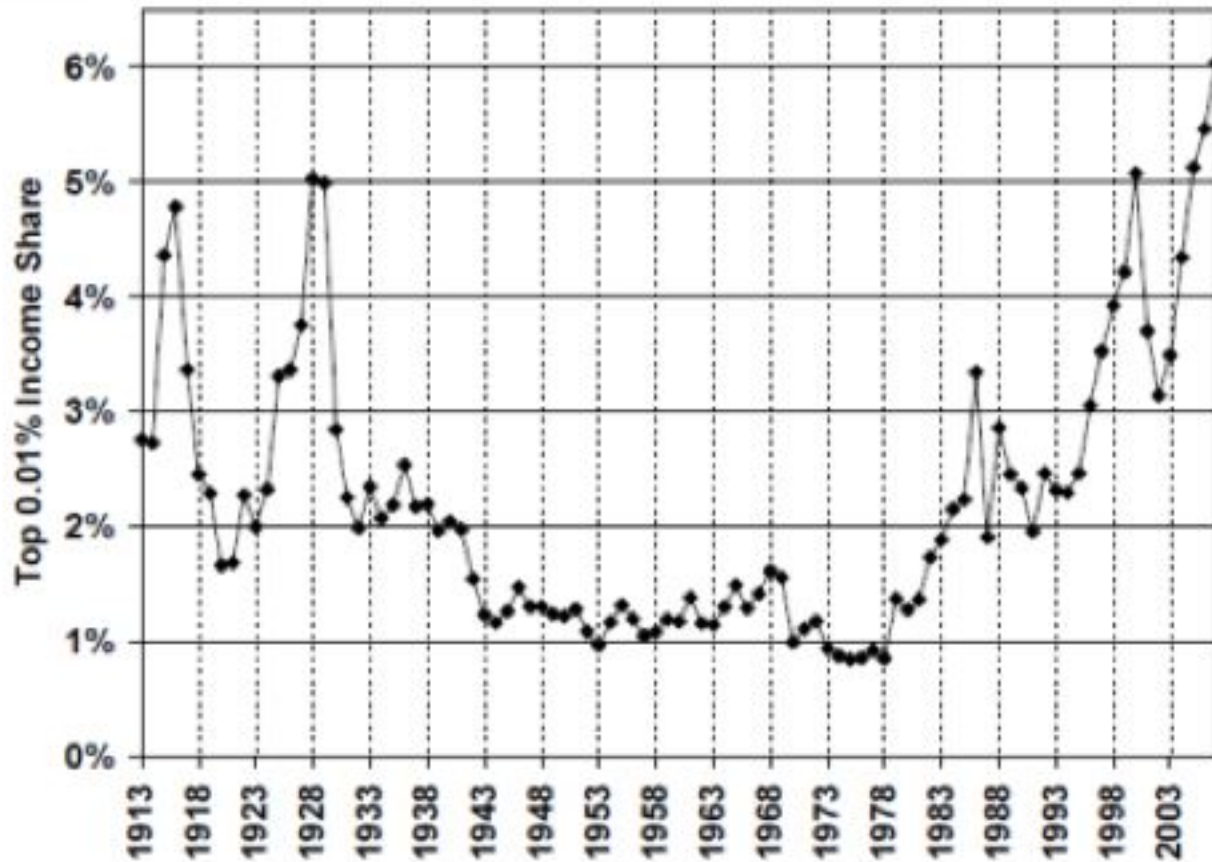
HOW DO WE PAY

For California's Government



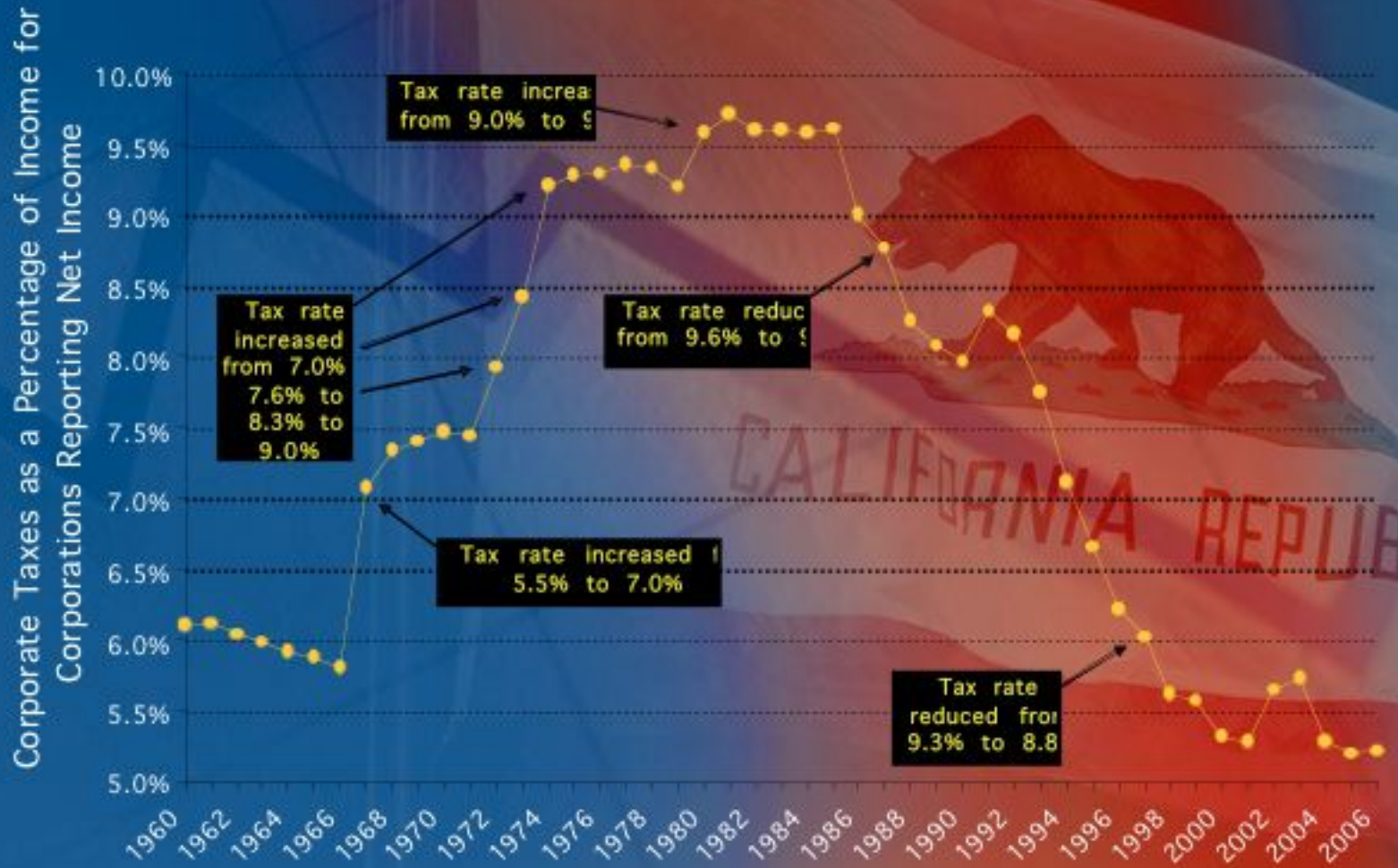
INCOME GAP WIDENING

Impacts Revenue



CORPORATE TAX HAS BEEN CUT

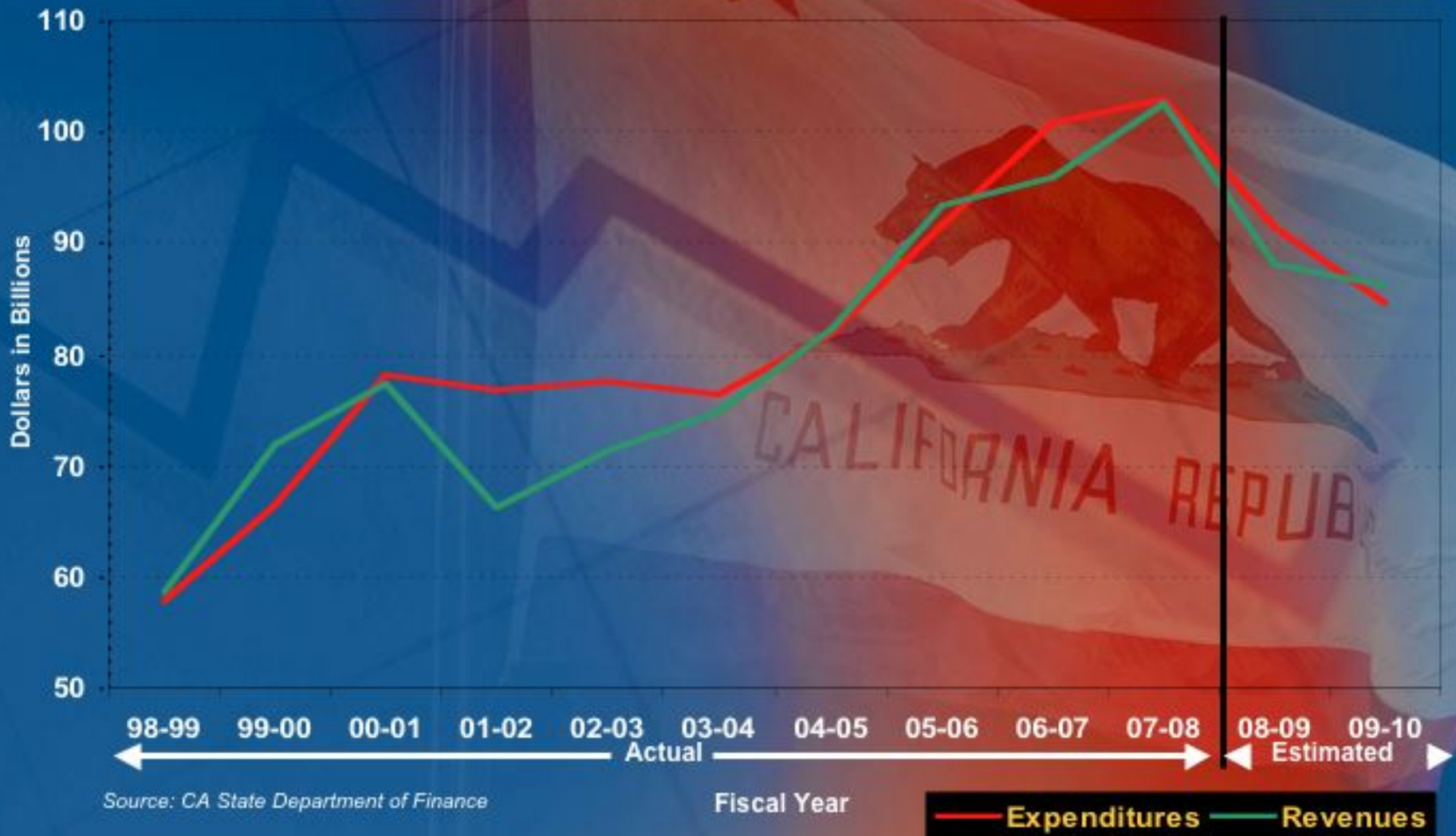
By Nearly Half Since 1981



Source: Franchise Tax Board

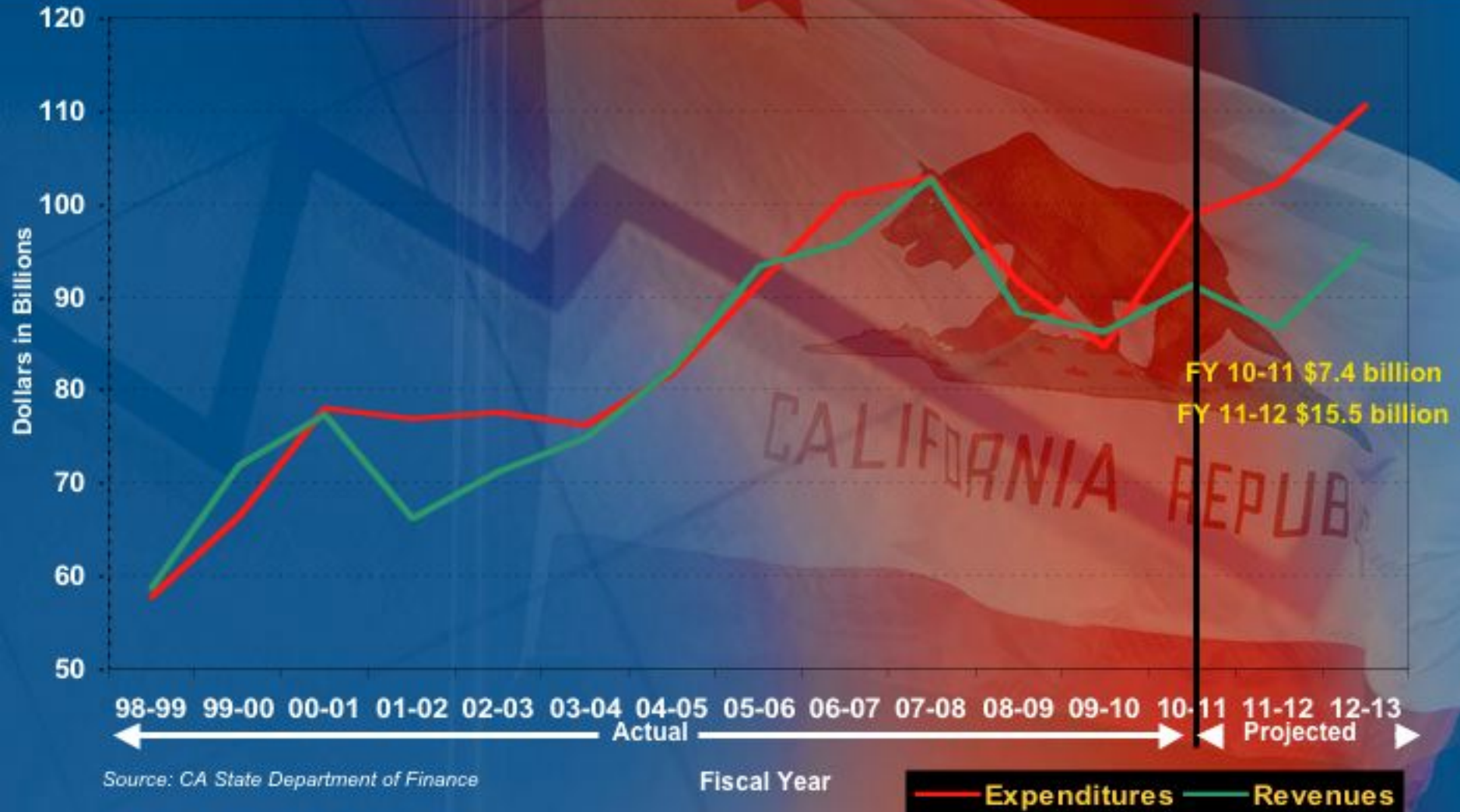
FISCAL INSTABILITY

Seven Deficits In Ten Years



FISCAL INSTABILITY

Future Deficits



2008-2009

Economic Meltdown



BUDGET IN CRISES

Current Year Budget is \$84.6 billion

- ✓ *February 2009 Budget closed \$41.7 B deficit*
- ✓ *July 2009 Budget closed \$24.2 B deficit*
 - *\$30.5 B in expenditure reductions.*
 - *\$12.5 B in new taxes.*
 - *\$7.8 B of federal stimulus revenue*
 - *\$7.6 B in borrowing.*
 - *\$1.5 B in Governor's vetoes*
 - *\$3.4 B in revenue increases + enhancements*
 - *\$2.4 B in fund shifts and other solutions*
- ✓ *State paid bills with IOU's and stop critical state projects*

HOW DID THIS HAPPEN?

And How Do We Fix it?



While
Reflecting
Our
Priorities?

HOW DID WE GET HERE?

General Fund Spending Growth

✓ \$45.8 Billion in Total Growth

- *\$31.2 B of total growth due to inflation and population growth.*
 - *Population growth 16.8% since 1998 (5,490,616 people)*
 - *Inflation has been 37.2% over the decade*

HOW DID WE GET HERE?

What Drives Spending Growth?

✓ Locked In Spending

- *Unfunded ballot box spending*
- *\$6 billion to backfill Vehicle License Fee reduction*

The background of the slide features a semi-transparent image of the California State Flag. The flag is white with a red stripe at the top and bottom. In the center, there is a red bear standing on a rock. Below the bear, the words "CALIFORNIA REPUBLIC" are written in red capital letters. The entire image is overlaid with a blue and red gradient.

CALIFORNIA REPUBLIC

HOW DID WE GET HERE?

Other Factors Driving Spending Increases

- ✓ *7.8% more kids in school than ten years ago—number of children growing faster than general population growth*
- ✓ *Autism diagnosis up 1,342% between 1992 and 2006*
- ✓ *Baby boom aging drives up health care costs*

HOW DID WE GET HERE?

Tax Cuts

✓ We Chose to Cut Taxes:

➤ <i>Dependent Credit Increase (1997)</i>	<i>\$1.4 B</i>
➤ <i>Seniors Property Tax Assistance (2000)</i>	<i>\$154 M</i>
➤ <i>Eliminating "Tractor Tax" (2001)</i>	<i>\$127 M</i>
➤ <i>Elimination of Inheritance Taxes by Feds</i>	<i>\$1.8 B</i>
➤ <i>Budget Deal Corporate Tax Loopholes (2008)</i>	<i>\$900 M</i>
➤ <i>Budget Deal Single Sales Factor (2009)</i>	<i>\$1.5 B</i>
	<hr/> <i>TOTAL \$5.9 B</i>

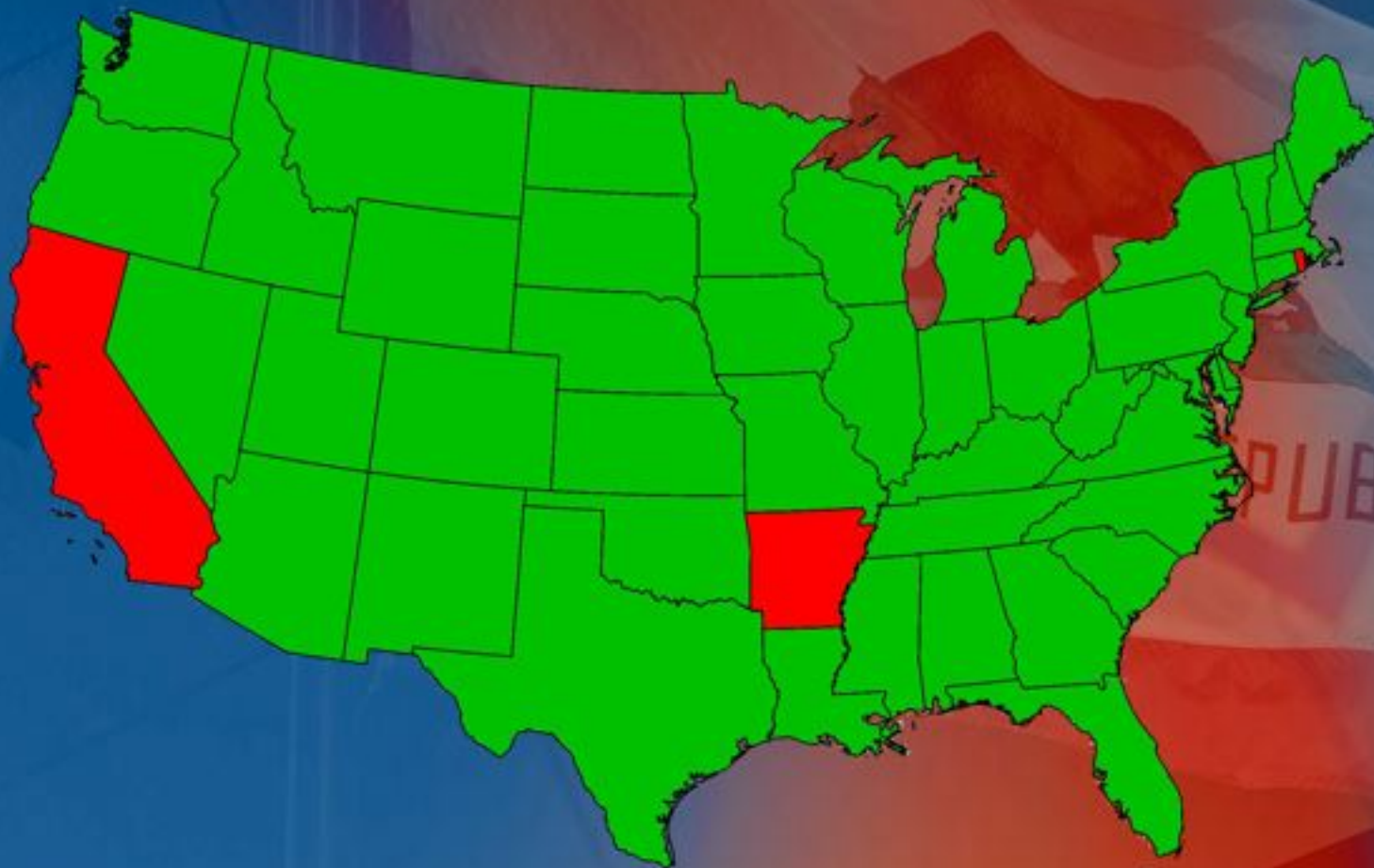
DYSFUNCTION BUILT RIGHT IN **The Budget Process**



REPUB

DYSFUNCTION BUILT RIGHT IN Majority Does Not Rule

✓ *What do these States have in common?*



DYSFUNCTION BUILT RIGHT IN

Paying the Piper: Cost of the 2/3 Budget Vote

- ✓ *Expensive Out-year Tax Reductions*
- ✓ *Major Policy Changes: e.g. Open Primary*
- ✓ *Petty Political Score Settling: e.g. Controller's Office Furniture*
- ✓ *Pork: e.g. Italian-American Culture Center*
- ✓ *Borrowing and One-Time Fixes*

DYSFUNCTION BUILT RIGHT IN

Skews Budget Priorities

In one year, California spends:

- ✓ ***\$435 per child enrolled in Healthy Families.***
- ✓ ***\$1,408 per participant enrolled in CalWORKS***
- ✓ ***\$3,721 per student enrolled in community college***
- ✓ ***\$5,707 per child in our foster care system***
- ✓ ***\$6,612 per student enrolled at CSU***
- ✓ ***\$7,806 per child in K-12 education***
- ✓ ***\$12,756 per student enrolled in UC***
- ✓ ***\$46,000 per prison inmate***
- ✓ ***\$248,000 per incarcerated youth***

DYSFUNCTION BUILT RIGHT IN

Skewing Our Priorities

WINNER!



- ✓ Prisons
- ✓ Corrections has increased by 8.5% annually over last decade (\$5.4 billion)

LOSER!



- ✓ Higher Education
- ✓ UC and CSU funding increased by 2.6 % annually over ten years (inflation was 3.2%)

DYSFUNCTION BUILT RIGHT IN

Skewing Our Priorities

WINNER!



- ✓ Corporations
- ✓ Share of Corporate Income Taxes has fallen by nearly half since 1981

LOSER!



- ✓ Lowest Income Families
- ✓ Pays the largest share of income for State and Local Taxes

DYSFUNCTION BUILT RIGHT IN

Making Politically Difficult Choices Impossible

- ✓ *Grover Norquist Pledge*
- ✓ *Term Limits*

TAXPAYER PROTECTION PLEDGE

I, _____, PLEDGE TO THE
TAXPAYERS OF THE _____ DISTRICT OF THE
STATE OF _____ AND ALL
THE PEOPLE OF THIS STATE THAT
I WILL OPPOSE AND VOTE AGAINST
ANY AND ALL EFFORTS TO INCREASE TAXES.

SIGNATURE

PLEASE SIGN AND RETURN TO:
AMERICANS FOR TAX REFORM
722 12TH ST., NW, 4TH FLOOR
WASHINGTON, DC 20005
FAX: 1-202-795-0261

DATE

WITNESS

WITNESS

The Taxpayer Protection Pledge is a project of Americans for Tax Reform (ATR). ATR works with taxpayer groups and activists around the country to ask all candidates and elected officials to make this important commitment to taxpayers. The national list of signers can be accessed at www.ATR.org.

FIXING THE PROBLEM

Spending: Restoring CA's Fiscal Health

- ✓ *Budget Reserve*
 - ✓ *Paying off debt*
 - ✓ *Pay-go for Ballot Initiatives*
 - ✓ *Health Care reform*
 - ✓ *Public Safety and Corrections reform*
- 
- The background of the slide features a semi-transparent image of the California state flag. The flag is white with a red stripe at the top and bottom. In the center, there is a brown bear standing on a rock, holding a spear. Below the bear, the words "CALIFORNIA REPUBLIC" are written in red capital letters. The entire image is overlaid with a blue and red gradient.

FIXING THE PROBLEM

Revenue: Increased Stability is Possible

- ✓ *Split-Roll Property Tax*



CALIFORNIA REPUBLIC

FIXING THE PROBLEM

Revenue: Reversing the Loopholes

Revenue

- ✓ ***Close Special Interest Loopholes and past tax giveaways***
- ✓ ***Let local voters raise their own local taxes for local services by a majority vote.***



FIXING THE PROBLEM

Let Majority Rule

- ✓ *Create Majority Accountability for the Budget*



FIXING THE PROBLEM

Don't Stop Thinking About Tomorrow

- ✓ *Extend Term Limits*
- ✓ *Pay as you go Initiatives*



FIXING THE PROBLEM

Other Reform Ideas

- ✓ *Spending Caps*
- ✓ *Two Year Budget*
- ✓ *Performance-Based Budgeting*
- ✓ *Part Time Legislature*

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CALIFORNIA REPUBLIC

ACHIEVING CALIFORNIA'S POTENTIAL

The Golden State



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