

# Let's play the

# BUDGET GAME

Those crazy politicians in the Capitol have gotten themselves into one heck of a mess. They've piled up billions in debt with billions more forecast in the months ahead. Your task, should you choose to accept it, is to help them dig out. On these pages we've provided an overview of the problem and details on where most of that money is spent. For context, we've shown you how those programs have grown since 1998-99, when Gov. Gray Davis took office. We've also given you an estimate of how much money you could raise with various tax increases. We've even given you some space to doodle. Now go at it. And don't fret. Chances are, you can't do any worse than the professionals.

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## START

The clock is ticking. The current fiscal year ends June 30 and the next one begins July 1.

The state is on track to end the budget year with a \$9 billion deficit. And there's at least a \$10 billion gap between tax revenues and expenditures next year--not even counting the cost of serving new students in the schools and the growing number of people applying for health and welfare benefits.

There are a million different ways to approach the problem. But for simplicity's sake, let's start with \$15 billion. That amount in full-year cuts would be needed to solve next year's problem even under the most optimistic scenario.

Keep a tally of the cuts you make as you advance on the budget board. If you come up short of the mark, you can balance next year's budget by picking from a handy list of tax increases at the end.

Ready? Begin.

## Where did the money go?

State general fund spending has increased by nearly \$19 billion, or one-third, since 1998-99, the year Gov. Gray Davis was elected. That's an increase of about \$540 for every man, woman and child in the state, or about \$340 per person after inflation. Where did it go? Almost 40 percent of the spending increase went to kindergarten-12th grade education. The next biggest chunk, about 30 percent, went to health and welfare programs. Higher education, including community colleges, got about 12 percent. The state prisons took about 4 percent of the increase. Most other programs, including environmental protection, natural resources, and transportation have been flat during this period, which means they have actually lost ground to inflation.

\*Figures for general government in 2002-03 include \$3.2 billion transfer from state to local governments as reimbursement for reduction in the vehicle license fee or car tax. This is recorded on the state's books as an expenditure but is actually a tax cut. Numbers are actual for 1998-99 and as budgeted for 2002-03

## THE BIG PICTURE

Here's the detail:

AGENCY	1998-99	2002-03	CHANGE	% CHANGE
Legislative, judicial, executive	\$1.9 billion	\$2.5 billion	\$575 million	30.5%
State and consumer services	\$442 million	\$471 million	\$28 million	6.4%
Business, transportation, housing	\$311 million	\$228 million	-\$83 million	-26.7%
Trade and commerce	\$107 million	\$42 million	-\$66 million	-61.3%
Resources	\$1.1 billion	\$1 billion	-\$64 million	-5.8%
Environmental protection	\$175 million	\$173 million	-\$1 million	-0.9%
Health and human services	\$16.1 billion	\$21.6 billion	\$5.6 billion	34.7%
Youth and adult correctional	\$4.5 billion	\$5.3 billion	\$737 million	16.2%
K-12 education	\$23.5 billion	\$30.8 billion	\$7.2 billion	30.8%
Community colleges	\$2.3 billion	\$3 billion	\$757 million	33.5%
UC, state universities	\$5.1 billion	\$6.7 billion	\$1.6 billion	31.1%
General government*	\$2.3 billion	\$4.9 billion	\$2.6 billion	115.1%
Total general fund	\$57.8 billion	\$76.7 billion	\$18.9 billion	32.7%

## BUREAUCRACY

Want to save money by cutting bureaucrats? You can try, but it's not going to get you very far. Most of the state budget isn't in state employees. It's in transfer payments to the poor, health care, aid to schools and local government. Still, the no-nonsense budget cutter might find some savings here. The growth since 1998? About 36,000 more employees and \$3.7 billion more in salaries. Personnel costs during that time have grown about 29 percent, while inflation and population growth combined climbed at 20 percent. The biggest growth wasn't in paper pushers but in professors, at the University of California and the state universities. Not all of the payroll costs are in the general fund, so savings can be difficult to quantify. And keep in mind, you cannot double-count cuts made here and in the programs detailed elsewhere on these pages.

AGENCY	PERSONNEL			SALARY		
	1998	2002	% CHANGE	1998	2002	% CHANGE
Legislative, judicial, executive	14,736	15,905	7.93%	\$714 million	\$916 million	28.40%
State and consumer services	14,240	15,635	9.80%	\$567 million	\$752 million	32.59%
Business, transportation, housing	41,275	45,006	9.04%	\$1.9 billion	\$2.5 billion	29.97%
Trade and commerce	321	319	-0.62%	\$15.3 million	\$14 million	-8.56%
Resources	14,747	16,180	9.72%	\$645 million	\$845 million	30.95%
Environmental protection	4,284	4,857	13.38%	\$212 million	\$279 million	31.59%
Health and human services	39,417	43,277	9.79%	\$1.6 billion	\$2.1 billion	26.67%
Youth and adult correctional	47,869	50,131	4.73%	\$2.3 billion	\$2.8 billion	24.01%
K-12 education	2,761	3,014	9.16%	\$119 million	\$158 million	31.96%
Community colleges	212	207	-2.36%	\$10.5 million	\$13 million	24.24%
UC and state universities	89,964	113,265	25.90%	\$4.36 billion	\$5.9 billion	35.10%
General government	14,626	12,659	-13.45%	\$633 million	\$609 million	-3.88%
Total	284,452	320,455	12.66%	\$13.1 billion	\$16.8 billion	28.66%

## CAUTION

The state will owe about \$2.5 billion this year in payments on general obligation bonds approved by the voters. If you make any across-the-board cuts in department budgets, this is spending that cannot be reduced.

## CAUTION

Collective bargaining contracts cover salaries paid to most of the 320,000 state employees. You can lay some of them off, but you can't roll back salaries without the unions' consent.

## \$2.5 billion LEGISLATIVE, JUDICIAL, EXECUTIVE

While this is a fast-growing part of government, it remains small relative to the entire budget. The biggest single increase in this sector is due to the state's takeover of trial court funding from county governments. The state's portion of these costs grew by a half-billion dollars over four years.

**State cost**

- 1998-99: \$1.9 billion
- 2002-03: \$2.5 billion
- Change: 32 percent
- Change adjusted for inflation: 20 percent

**Possible cuts**

Rolling back the Legislature's budget to 1998 levels would save \$58 million.

**Worth noting**

The state's contribution to the Judges Retirement Fund has increased from \$87 million to \$117 million over four years.

## \$1.1 billion IN-HOME SUPPORTIVE SERVICES

One of the state's fastest growing programs, this service provides aides who assist the disabled and elderly in their homes. Supporters say the program saves the taxpayers money by keeping people safely in their homes and avoiding expensive full-time nursing care. But the costs have soared, because demand for the service is growing and wages to the caregivers are rising. In the past year alone, this program has grown by more than \$200 million, or nearly 25 percent.

**State cost**

- 1998-99: \$527 million
- 2002-03: \$1.1 billion
- Change: 111 percent
- Change adjusted for inflation: 99 percent

**Number of people served**

- 1998-99: 214,000
- 2002-03: 297,300
- Change: 39 percent

**Possible cuts**

Even with the growth in caseload, the state could save \$200 million by rolling back the per-client cost of the program to 1998 levels plus an adjustment for inflation.

**Worth noting**

The state estimates that the number of people in the program will grow to 320,000 next year.

## \$1.8 billion DEVELOPMENTAL SERVICES

This fast-growing department provides services to Californians with brain disabilities that impair their development. The state operates five developmental centers and 2 community centers that provide 24-hour care, and contracts with non-profit agencies to run 21 regional centers that provide outpatient care. Although the state hospital population is decreasing, costs are climbing because more of the remaining patients require increased levels of medical care or higher levels of supervision. The regional centers also treat the state's fast-growing population of people diagnosed with autism.

**State cost**

- 1998-99: \$1.3 billion
- 2002-03: \$1.8 billion
- Change: 38 percent
- Change adjusted for inflation: 16 percent

**Number of people served**

- 1998-99: 3,747 in state hospitals; 150,000 in regional centers
- 2002-03: 3,691 in state hospitals; 182,000 in regional centers
- Change: 1.4 percent decline in state hospitals; 21 percent increase in regional centers

**Possible cuts**

- Davis expects to save \$100 million by implementing statewide standards for the purchase of services at the regional centers.
- The Legislative Analyst says the state could save up to \$200 million annually by charging for these services to those whose families have the ability to pay.

**Worth noting**

If current trends continue, the cost of these programs will rise by more than \$1 billion in the next five years.

## \$3.1 billion SSI/SSP

This program provides payments to the low-income aged, blind and disabled to supplement Social Security. Since 1998, monthly grant amounts have increased from \$650 to \$750 for individuals and from \$1,156 to \$1,332 for couples. The number of disabled people as a proportion of this program's caseload grew through the 1990s as AIDS patients and disabled drug addicts were added to the rolls, but the disabled have stabilized at about two-thirds of those served.

**State cost**

- 1998-99: \$2.2 billion
- 2002-03: \$3.1 billion
- Change: 40 percent
- Change adjusted for inflation: 28 percent

**Number of people served**

- 1998-99: 1 million
- 2002-03: 1.1 million
- Change: 10 percent

**Possible cuts**

Gov. Davis has proposed saving \$800 million by eliminating cost-of-living increases and cutting grants 6 percent, to \$708 for individuals and \$1,225 for couples.

**Worth noting**

California's SSI/SSP grants are the highest among the 10 largest states.

**PROCEED**  
Game continues on facing page.



## \$1.2 billion ENVIRONMENT

California's two agencies that focus on the environment, Resources and Environmental Protection, are largely funded by fees and special taxes and represent a small portion of the general fund. In fact, these two agencies are among the few places in state government where general fund spending has declined over the past four years.

State cost	RESOURCES	EPA
• 1998-99	\$1.1 billion	\$175 million
• 2002-03	\$1.0 billion	\$173 million
• Change	-9%	-1%
• Change after inflation	-21%	-13%

**Possible cuts**

The governor is proposing to reduce taxpayer support for the EPA by \$76 million, largely by increasing fees on companies that are regulated by the government. Fees to pay for air pollution regulators, pesticide oversight, and clean water regulation would all go up.

**Worth noting**

State park fees, which Davis reduced with great fanfare his first year in office, would climb again under his current proposal.

## \$2.0 billion CAL-WORKS

The state's primary welfare program serving mainly single mothers with children. Cal-Works had been transformed during the past five years. It has changed from a program that maintained families on public assistance to one focused on preparing recipients to enter the workforce. Monthly grant levels have climbed from \$611 for a family of three to \$679 since 1998, but recipients are now limited to five years in the program and required to work if able. While the number of people on aid has dropped, costs remained steady because the remaining recipients receive more in child-care and job training services.

**State cost**

- 1998-99: \$2 billion
- 2002-03: \$2 billion
- Change: 0 percent
- Change adjusted for inflation: -12 percent

**Number of people served**

- 1998-99: 651,000 families
- 2002-03: 511,000 families
- Change: -22 percent

**Possible cuts**

Gov. Davis has proposed a 6 percent cut in monthly grants, to \$637 for a family of three in high-cost counties. Davis says the cut would save \$66 million.

**Worth noting**

The number of families on welfare has declined by 42 percent since 1995.

## CAUTION

The state is spending the minimum allowed by federal law for Cal-Works, the major welfare program for the poor. Any further cuts would jeopardize more than \$2 billion in federal funding for this program.

# Let's play the

# BUDGET GAME

PROCEED

## \$10.1 billion MEDI-CAL

This is the fastest growing major program in state government, providing subsidized health care for welfare recipients, the working poor and the elderly in nursing homes. California over the past four years significantly broadened eligibility for this program, which is one reason enrollment has been climbing even as the poverty rate and the number of people on welfare declined. Two-thirds of Medi-Cal's costs now go for the elderly and the disabled. Reimbursement rates for doctors who treat Medi-Cal patients were increased by up to 30 percent in 2001.

**State cost**

- 1998-99: \$7.4 billion
- 2002-03: \$10.1 billion
- Change: 36.5 percent
- Change adjusted for inflation: 24 percent

**Number of people served**

- 1998-99: 5 million certified eligible
- 2002-03: 6.4 million certified eligible
- Change: 28 percent

**Possible cuts**

- 15 percent reduction in doctor reimbursements: \$700 million
- Limit eligibility to families earning no more than 61 percent of federal poverty level: \$492 million
- Eliminate dental care for adults: \$212 million
- Reduce enrollment by requiring quarterly applications: \$85 million

**Worth noting**  
Despite recent increases, California still spends less per patient than most major states on health care for the poor.

## \$821 million MENTAL HEALTH

More than half of the state's costs for mental health are in the state hospitals, where the most seriously ill patients are confined. But the fastest growing part of the budget is for a federally mandated program to diagnose and treat mental illness in children. State costs for that program were about \$75 million in 1998-99 and grew to \$325 million this year. They are expected to climb to about \$400 million next year.

**State cost**

- 1998-99: \$651 million
- 2002-03: \$821 million
- Change: 26 percent
- Change adjusted for inflation: 14 percent

**Number of people served**

- 1998-99: State mental hospitals: 4,467
- 2002-03: State hospitals: 4,786
- Change: 7 percent

**Possible cuts**  
Gov. Davis has proposed cuts of \$15 million through the elimination of the Early Mental Health Initiative Program in the schools and about \$5.5 million by reducing payments to psychiatrists who treat the mentally ill.

**Worth noting**  
The state shifted most of the responsibility for mental health services to the counties in 1991.

## \$4.8 billion CORRECTIONS

California's prisons budget has continued to grow faster than the rate of inflation, even as the prison inmate population has dropped slightly and the number of felons on parole has grown slowly. The department's payroll costs have climbed by about 25 percent in four years. The legislative analyst estimates that salary raises already approved for correctional officers will increase state costs \$600 million by 2007.

**State cost**

- 1998-99: \$4 billion
- 2002-03: \$4.8 billion
- Change: 20 percent
- Change adjusted for inflation: 8 percent

**Number of people served**

- 1998-99: 162,064 prison inmates; 112,494 parolees
- 2002-03: 160,661 prison inmates; 117,233 parolees
- Change: 1 percent decline in prison population; 4.2 percent increase in parolees

**Possible cuts**  
The Legislative Analyst has suggested about \$400 million in cuts. Most would come from releasing inmates early from prison and discharging them early from parole.

**Worth noting**  
About 55 percent of prison inmates are incarcerated for drug, property or other non-violent crimes.



### CAUTION

Proposition 98, a voter-approved constitutional amendment, sets a minimum level of spending for the public schools. Gov. Davis estimates the guarantee next year at about \$28.2 billion for K-12 and community colleges, which is about \$3.3 billion less than was budgeted this year. If you want to cut more than that, you'll need a two-thirds vote in the Legislature to suspend the constitution, and any money taken from the schools will need to be repaid in future years.

## \$2.8 billion COMMUNITY COLLEGES

Long viewed mainly as a bridge to higher education for high school graduates who needed that transition, the community colleges in recent years have become more recognized for their job training mission. The schools have taken in many of the welfare recipients who are being pressured to move into the workforce, and the campuses are on the front lines in training thousands of nurses to overcome a shortage that is reaching crisis proportions.

**State cost**

- 1998-99: \$2.3 billion
- 2002-03: \$2.8 billion
- Change: 22 percent
- Change adjusted for inflation: 10 percent

**Number of people served**

- 1998-99: 962,000 full-time-equivalent students
- 2002-03: 1.1 million full-time-equivalent students
- Change: 14.3 percent

**Possible cuts**  
Gov. Davis has proposed a cut of \$300 million, or about 11 percent, this year, and another reduction of \$600 million next year. That would leave the community colleges with 17 percent less from the general fund than they had four years ago. Davis proposes making up for some of that shortfall by more than doubling student fees, from \$11 to \$24 per unit.

**Worth noting**  
Student fees, at \$11 per credit unit, are the lowest in the nation.

## \$28.9 billion K-12 EDUCATION

This is the state's biggest program, and it grew by more than \$6 billion in four years. State and local spending per pupil has soared, from \$5,757 to \$7,067, an increase of 23 percent. Much of that money has gone into higher teacher salaries, which now rank number 1 in the nation. Other changes include a longer school year, more money for training and textbooks, and special funds targeted at improving low-performing schools.

**State cost\***

- 1998-99: \$22.3 billion
- 2002-03: \$28.9 billion
- Change: 29.6 percent
- Change adjusted for inflation: 17 percent

**Number of people served**

- 1998-99: 5.4 million pupils
- 2002-03: 5.9 million pupils
- Change: 9.3 percent

**Possible cuts**  
Davis has proposed reducing state support for K-12 education by about \$2.4 billion this year and then essentially freezing it next year. But an increase in local property tax revenue would still give schools \$600 million more next year, and Davis has proposed shifting nearly \$900 million in child care costs out of the school budget, freeing that money up for other expenses.

**Worth noting**  
The Legislative Analyst says state spending on K-12 education is on pace to grow by nearly \$7 billion by 2007.

\*Does not include debt service and state retirement costs.

## \$5.9 billion PUBLIC UNIVERSITIES

Higher education is always a big target in downturns, because it is the biggest state program that is essentially optional. University budgets grew rapidly in the 1990s, as the state reduced and capped student tuition, raised professors' salaries and increased budgets for equipment and research. In the past four years, however, their spending has not kept pace with the combination of enrollment growth and inflation.

State cost	UC	CSU
• 1998-99	\$2.5 billion	\$2.1 billion
• 2002-03	\$3.2 billion	\$2.7 billion
• Change	28%	28.5%
• Change after inflation	16%	16.5%

Number of people served*	UC	CSU
• 1998-99	161,400	274,000
• 2002-03	195,600	321,100
• Change	21%	17%

**Possible cuts**  
Gov. Davis has proposed cuts of \$373 million for the UC and \$326 million for the CSU, leaving the systems with less general fund money to handle more students. But both systems' governing boards have already voted to increase tuition and fees, by about 12 percent at UC and 10 percent at CSU, which will make up much of the difference.

**Worth noting**  
Financial aid for UC and CSU students increased by 45 percent in four years, to \$1.1 billion, and is expected to grow another \$300 million next year.

\*Full-time students



## \$4.8 billion GENERAL GOVERNMENT

This is the grab-bag into which everything that doesn't fit somewhere else is thrown. It includes the Military Department, the Department of Industrial Relations and the Arts Council, among other things. The largest source of its growth is a \$1.2 billion increase in aid to local governments to reimburse them for a reduction in the car tax. Health and dental benefits for retired state employees have increased by \$250 million, or 80 percent, in four years. Overall figures reported for 2002-03 are artificially low because they include about \$1 billion in cuts that were called for in the budget but probably won't be made.

**State cost**

- 1998-99: \$2.3 billion
- 2002-03: \$4.8 billion
- Change: 109 percent
- Change adjusted for inflation: 97 percent

**Possible cuts**  
Davis has proposed cutting \$3 billion that the state is giving local governments to cushion them from the effects of the car-tax reduction.

### CAUTION

The state will spend about \$600 million on health benefits for retirees this year. That money is included within "general government" and cannot be cut.

## AND, FINALLY, TAXES

Driven by a spike in the personal income tax, state revenues soared between 1998 and 2000 and then collapsed. The biggest tax source, the personal income tax, peaked at \$44.6 billion in 2000-01 before falling by 25 percent. Taxes on retail sales and corporate profits have been less spectacular but also more steady. Total general fund taxes this year are expected to represent about \$5.75 for every \$100 of personal income, compared to \$6.25 in 1998-99.

	1998-99	2002-03
Personal income tax	\$30.9 billion	\$32.9 billion
Sales tax	\$21 billion	\$22.4 billion
Bank and corporation tax	\$5.7 billion	\$6.4 billion
Other	\$600 million	\$2.8 billion
<b>Total general fund tax collections</b>	<b>\$58.2 billion</b>	<b>\$64.5 billion</b>
• Change:	10.8 percent	
• Change adjusted for inflation:	-1.2 percent	

### Possible tax increases

- Raise \$4 billion annually by restoring the vehicle license fee to 1998 levels. This would roughly triple the fee by setting the assessment at 2 percent of a car's value when sold. The fee on a \$20,000 car would jump from \$132 to \$400.
- Raise \$4 billion by increasing the sales tax 1 penny on the dollar.
- Raise about \$2.5 billion by adding two new tax brackets, of 10 percent and 11 percent, on the state's top income earners. Single taxpayers would pay 10 percent on income over \$130,000 and 11 percent on income over \$260,000. The current top rate is 9.3 percent.
- Raise \$2 billion annually by subjecting recreation and amusement services to the sales tax.
- Raise \$1.8 billion with a 5 percent surcharge on income tax.
- Raise about \$500 million by increasing the tax on wine, beer and alcohol by a "nickel a drink." This would triple the alcohol tax.
- Raise \$475 million by increasing tobacco taxes 50 cents per pack, from 87 cents to \$1.37.

## Do the math

On the sheet below, you can keep track of how much you've cut from each major program. Add in any tax increases. Did you reach the \$15 billion goal? Congratulations. Now imagine selling your plan to the person you know who most disagrees with your take on the world. If you can do that, you're ready for the Legislature.

PROGRAM OR AGENCY	CUTS
Legislative, judicial and executive	
In-home supportive services	
SSI/SSP	
Developmental services	
Cal-Works	
Resources	
Environmental protection	
Medi-Cal	
Mental health	
Corrections	
K-12 education	
Community colleges	
University of California	
Cal State Universities	
General government	
Other	
Subtotal (a)	
<b>TAX INCREASES</b>	<b>ADDED \$</b>
Vehicle license fee	
Personal income tax on high-income	
Recreation and amusement services	
Surcharge on income tax	
Alcohol tax	
Tobacco tax	
Subtotal (b)	
<b>GRAND TOTAL (a + b)</b>	

Want to share your work with state leaders?

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## FOR BUDGET JUNKIES ONLY

This is an estimate of the budget gap, assuming no budget cuts or tax increases by the end of the current fiscal year on June 30. Any cuts or taxes before June 30 would reduce the size of the year-end deficit and leave more revenue available to spend in 2003-04.

	2002-03	2003-04
Prior year deficit	-\$2.1 billion	-\$9.0 billion
Revenues and transfers	\$73.1 billion	\$69.0 billion
Total resources available	\$71.0 billion	\$60.0 billion
Expenditures	\$80.0 billion	TBD*
Ending balance	-\$9.0 billion	TBD*

\*To be determined

Note: Resources and expenditures for 2002-03 are Department of Finance estimates. Revenues and transfers for 2003-04 are based on the Legislative Analyst's projections. The Legislative Analyst also estimates that spending is on track to grow to about \$86 billion in 2003-04 because of growth in program case loads.