CHILDREN'S ADVOCACY INSTITUTE

CALIFORNIA CHILDREN'S BUDGET 2004–05

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Executive Summary

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Children and Opportunity

Income inequality is increasing in California, with the state dividing into three groups: a top 5% enjoying unprecedented wealth, a middle class declining from 80% of the population to 60%, and an underclass increasing from 15% of the population to 35%. The latter projection is based on the current percentage of California children in families at or near the poverty line—substantially below income for family self-sufficiency.

The new underclass is predominantly young. The percentage of children born into families with incomes below the federal poverty line grew from 21.6% in 1989 to 28.2% in 1994–96, falling to a still high 24.7% in the current year and projected to increase slightly to 24.8% in 2004–05. In 2000, almost one-half of California's young children lived at below 185% of the poverty rate, a level below self-sufficiency. Youth unemployment is almost four times working-age adult levels, and the child poverty rate is more than double that of senior citizens. Child poverty is driven by continued high unwed birth rates—not among teens as widely decried, but among adult women, particularly in the African-American and, increasingly, Hispanic populations. Other major contributors include a minimum wage lagging behind cost of living increases and insufficient to elevate families above the poverty line; limitations on unemployment compensation; child care expenses; housing costs (now effectively precluding home ownership for the projected underclass *en masse*); and substantial safety net retraction by the state.

Long-run opportunity and upward mobility are also impeded by tax changes (including Proposition 13 discrimination against new and future homeowners), favoritism of existing homeowners over renters, high payroll and sales taxes, higher education disinvestment and cost increases, and a host of other extraordinary price increases for family essentials, including utilities, credit card interest, gasoline, and milk.

General Fund Revenues

In April 2004, the Tax Foundation reported that the "tax burden" imposed by California had declined from 8th in the nation to 26th. While the numbers used by this business-backed organization have been historically disputed as inflating the stated tax burden, its recognition of substantial state revenue retraction is widely accepted. The Foundation would set California's state and local taxation at 9.8% of income, against the 2004 national average of 10%. California has reduced the number of state employees from 9.9 per 1,000 population in 1977–78 to 8.9 in the current year and 8.7 as proposed for 2004–05. The state has among the lowest level of state employees/population in the nation—notwithstanding a 37% increase in employees engaged in public safety (primarily incarceration-related).

Almost all state public spending for children comes from the general fund. An important measure of adult investment in children is the percentage of personal income committed to schools, health, child care, safety net protection, and other general fund spending. This indicator normalizes automatically for population and inflation. As real income rises, one would expect the percentage of such monies invested in children to increase somewhat, as the amount of disposable income above basic adult needs is more easily met. The trend in California—particularly over the last five years—has been contrary. The percentage of personal income contributed in 1978–79 (one generation ago) for all general fund spending amounted to 7.35% of personal income. Trend analysis prior to 1978 requires major adjustment for the Proposition 13 and the famous *Serrano* school financing decision routing property tax monies through the state general fund. The general fund commitment dropped during the late 1980s and early 1990s, but again approached the 1978 levels by 2000–01. General fund spending as a percentage of personal income from 2001–02 to the current 2003–04 fiscal year arrays chronologically as follows: 7.1%, 6.8%, 6.7%, 6.5%. Governor Schwarzenegger's 2004–05 budget— after the 2004 May Revise increase—proposes general fund spending at 6.13% of personal income.

The data do not support the oft-repeated thesis of excessive spending over the prior four years, but instead show the reverse—tax and revenue reductions, including the Governor's momentous Vehicle License Fee cut from extant 1998 levels, and tax expenditures (deductions and credits) now amounting to almost $30 billion annually. If the 2004–05 budget were to commit the same percentage of personal income for general fund spending as adults did 25 years ago, the general fund budget would total $93.34 billion—$15.8 billion more than is proposed.

Federal Child Budget Policies

The total of the 2001 and 2003 Congressional reductions is $37.7 billion per year in reduced federal personal income taxes for California's adults. This estimate assumes that the tax cuts will not be sunsetted and will continue as enacted—as favored by the Bush Administration. While tax cuts increase in general fund monies foregone year to year, the federal (and state) conversion from entitlement formats to "block grant" static amounts does not adjust for population and inflation. Hence, as tax savings increase, investment in children progressively declines year to year.

Overall federal revenue, as a percentage of gross domestic product, is now at its lowest level (15.8%) since 1950; in 2000, the percentage was 20.7%. Spending on discretionary programs, where most child-related spending occurs, reached a modern-era record low of 3% in year 2000; in 2004, it dropped to 2.6%.

President Bush's proposed 2005 budget of $2.4 trillion would increase defense and homeland security funding by 17%. Other domestic discretionary funding is increased 0.5%, accomplishing a population/inflation adjusted cut of just over 3%. The most substantial increases are in faith-based grants. Most of the basic accounts remain at the same raw number levels for a seventh or eighth straight year, and now impose an effective 30%–35% adjusted cumulative reduction. This finding is applicable in particular to the block grant programs of the middle 1990s, including the Personal Responsibility Act, the child care and development block grant (CCDBG), and Head Start have tended to stay at the same funding level—without population or cost-of-living adjustment. Funding for child nutrition and Medicaid programs is unchanged. Funding for the federal housing voucher program (HUD Section 8) is decreased by $789 million in raw numbers, depriving as many as 150,000 families with children housing assistance at a time of record housing cost inflation. The Social Services Block Grant is the largest source of state assistance for child protection. Funding for this program was cut from $2.8 billion to $1.7 billion in 2003, and is scheduled by the President for funding at this reduced level through 2005. Juvenile justice programs are cut from $308 million to $180 million, a momentous 40% raw number decrease. Moreover, that subtraction is on top of momentous 2004 budget reductions for juvenile justice, especially prevention programs. The Juvenile Accountability Block Grant (JABG) program, funded previously at $250 million, was cut to $60 million in 2004 (the President had proposed zero and repeats that elimination request in 2005). Title V Juvenile Prevention funding was reduced from $95 million to $80 million in 2004 and is proposed for additional cuts to $38 million in 2005. Child care was cut by an amount depriving 100,000 children of assistance in the current 2004 year; the 2005 budget increases the reduction to another 200,000 children. And the President proposes to revert back to the federal Treasury $1.15 billion in State

Child Health Insurance Program (SCHIP) funds—rather than allow these unspent monies to roll-over for effective coverage of children eligible but not receiving basic medical coverage.

First among federal priorities is defense spending. Despite the end of the cold war, U.S. defense spending is re-inflating, with the 2005 budget reaching $450 billion, excluding non-military Iraqi spending and additional military requests to come. The next nearest defense budget in the world is Russia's—at $60 billion. The nation's spending for defense now exceeds by a substantial margin all defense spending by the rest of the world combined.

The Congress is increasingly adopting a "Pay as You Go" approach to spending. This means that an increase in one area must be matched by a decrease elsewhere in order to minimize deficit implications. If the defense, Iraq War, and other increases must be matched by reductions, they must alter downward discretionary programs—disproportionately involving child disinvestment.

Federal Deficit / Unfunded Liability

During the Clinton Administration, budgetary policies anticipated a surplus of $5.6 trillion over fiscal years 2002–11. That surplus allowed some new spending for children, with education and health the initial recipients. The tax cuts and defense/security spending decisions noted above have eliminated the surplus entirely and now substitute in its place a deficit of $374 billion in the current 2003–04 federal budget— annual shortfalls that the Congressional Budget Office predicts will rise to $4.2 trillion within the next decade if the Bush Administration tax cuts remain in place.

Of additional and even greater concern is the prospect of much larger deficit burdens emanating from the entitlement obligations to the elderly, particularly veterans' benefits, Social Security, and Medicare. U.S. Comptroller General David Walker stated in September 2003 that this additional burden—separate and apart from the $4.2 trillion projected cumulative deficit—would total "tens of trillions of dollars." Walker commented that the funding gap is "likely to exceed $100,000 in additional burden for every man, woman and child in America today." The total is predicted by some to reach $30 trillion. Of some special concern, the revenue sources here are primarily payroll deductions off-the-top, regressively subtracting revenue at a high percentage of income from the poorest parents.

California Tax Policy

California's tax system expended almost $30 billion in foregone revenues from particularized deductions and credits, up from $24 million in 2000–01. These "tax expenditures" amount to 40% of all state general fund spending. There are now 268 tax expenditure programs (197 at the state level and 71 local). Newly-enacted tax relief measures from 1996–2003 cost the state $6.1 billion in reduced taxes annually by the current year; about $2 billion of that total comes from new tax expenditures, with the $190 million refundable child care tax credit one of the few to benefit children. Most beneficiaries are special interests and the elderly. Such special exemptions now amount to about $20 billion applied to state personal income taxes—or over 60% of the total tax collected. They total over $3 billion in corporate tax offsets, reaching 54% of corporate taxes paid the state, and amounting to 27% of sales and use taxation.

Each of the state's tax expenditures continues unless it is ended affirmatively by legislative act. Further, since ending a tax benefit is a form of "tax increase," each requires a two-thirds vote of the Legislature under California's current rules. Accordingly, tax breaks achieved by Sacramento lobbyists are a special prize—a locked-in benefit that will continue indefinitely, independent of justification.

Viewing all state and local taxes together, the lowest one-fifth of households with average income of $15,300 per year pay the highest tax rate, at 12.1%. The total tax burden as a percentage of income lessens by quintile to the top 1%, earning over $434,000 per year, and who contribute an average of 7.8%. Over the last fifteen years, generally progressive inheritance, estate, corporate, and property taxes have declined substantially in relation to personal income and other revenue sources. Regressivity has been increasing since at least 1985.

Mid-Year Fee Increases

The fee increases enacted during the 2003 legislative year and imposed prior to the 2004–05 budget focus on lower income and child-related enterprise. Percentage increases of from 30%–100% have been imposed on higher education tuition and school fees—with university and state college increases of 40% during 2003 (to $4,984 for university undergraduates and $5,219 for graduate students). Community college fees increased 39%—from $11 to $18 per unit. Beyond education, working poor parents had co-pays markedly increase for child care assistance (see Chapter 6). And child care providers and foster care families and agencies—although among the lowest paid service industries—suffered large percentage increases in license renewal fees.

Healthy Families premiums charged to working poor parents to medically cover their children were also raised by a substantial amount. These premium raises were imposed notwithstanding the financing of two-thirds of such coverage from federal sources, the return of substantial sums to Washington due to large-scale coverage failure, and the fact that children may be covered at one-fifth the per person cost of older adults. It is also imposed above levels already charged, and which impede such coverage for many children of the working poor.

The Governor's 2004–05 Budget

A. General Fund Spending Trends

General fund revenue collection as a percentage of personal income was above 7% in the 1970s, dropping to around 6% in the early 1990s, and increasing back to just over 7.0% by 2000; since then, it has decreased each year to the current year's 6.5%—and the proposed budget cuts it to just above 6%. On the spending side, general fund expenditures since 2000–01 have totaled: $78.1, $76.8, $77.5, and are proposed at $77.6. Adjusting for inflation and population, the trend is $88.5, $82.0, $80.1, $77.6, and the 2004–05 proposal as revised in May is $75.1.

The four-year reduction of 13.2% in adjusted general fund spending—most of it to child-related accounts–represents the largest subtraction in child investment since the Great Depression of the 1930s.

Defenders of the budget contend that the 2000–01 spending represents an artificial high level due to the bolus of unexpected capital gains and options income, and that the proposed spending merely returns the state to a normal level. But that conclusion is only partly accurate. If one takes the average percentage of personal income expended for children over the last 27 years as the base (using general fund spending without adult corrections), the proposed budget represents an $11 billion shortfall. That underlying reduction is the product of gradually accumulating tax breaks and major reductions in corporate rates. Confronting a $7 billion historical shortfall, the Schwarzenegger Administration has (a) reduced the Vehicle License Fee almost $4 billion to create an $11 billion gap in historical investment level, and (b) increased fees $240 million—as discussed above.

B. Child Safety Net

The primary public safety net for children consists of two accounts: Temporary Aid to Needy Families (TANF, formerly AFDC) and Food Stamps. During the 1970s and 1980s, the maximum TANF grant plus average Food Stamps totaled more than the federal poverty line. By 1989, that total had declined to approximately the same amount as the line. Safety net protection was then reduced during the budget shortfall years in the early 1990s, falling to 77% of the poverty line during the Wilson Administration. Recognizing the hardship endured by impoverished children, the Legislature conditioned the Vehicle License Fee reductions after 1998 on the restoration of cost-of-living adjustments for TANF benefits. The proposed 2004–05 budget retracts those adjustments and imposes a 5% across-the-board cut in benefits. The resulting proposed level reduces total safety net protection for children (TANF plus Food Stamps) to a record low of about 70% of the poverty line.

The proposed budget imposes new sanctions on families where CalWORKs requirements are not met or where the sixty-month lifetime benefit limit is reached. Current state policy reduces grants for such persons by the "parent's share"—or from $669 per month as the maximum proposed for 2004–05 for the

benchmark mother and two children to about $470 per month. The proposed budget then takes another 25% from the remaining amount (the "child's share"), reducing TANF maximum safety net grants to the benchmark family to $350. Adding in average Food Stamp benefits for all three will produce about $610 per month in total resources for food, rent, utilities, clothing, and all other necessities—thus providing these families with assistance at just 47% of the federal poverty line.

The policy toward child safety net sustenance contrasts with the relatively generous Social Security (and universal medical) subsidies offered to the elderly—who enjoy a poverty rate of below 8%. Most of these safety net and medical benefits will be financed substantially beyond the contributions of their adult beneficiaries, by current children to be assessed their cost.

Related to a publicly-provided safety net is spending intended to limit child poverty, including lessons in reproductive responsibility, birth control so that children are intended by two adults planning for their arrival, parenting education, and child support collection. The Wilson Administration initiated some programs intended to address reproductive responsibility, but most have atrophied and are not assisted in the proposed budget.

Importantly, child support collection is scheduled for substantial staff cuts. Reductions are underway across the state in county offices of the state's relatively new Department of Child Support Services. Ironically, money expended in such collection yields most of its revenue directly for the benefit of impoverished children, and over 40% of it repays public budgets for TANF costs. The record suggests that from $3–$5 is collected by public authorities for every new $1 invested in collection. The relative newness of the Department precludes trend comparison before 2002, but the budget was reduced $40 million in 2003–04. The 2004–05 budget is slated for a $34 million adjusted cut. For the first time over the last twenty years of records, it is likely that adjusted child support collection for 2004 and for 2005 will decline from the 2003 levels—after two decades of increase.

C. Child Nutrition

Of particular concern is the loss since 1997 of one million eligible California children from Food Stamp receipt. A substantial number of these children have not left TANF rolls for higher family income, and up to one-half of them live below 50% of the poverty line, without adequate safety net coverage or sufficient parental employment. California does have a sophisticated nutrition program for pregnant women and infants (WIC), and an extensive system of subsidized school lunches. However, these programs provide less than 20% of the meals properly consumed by impoverished school-age children, and substantially miss children from ages 1–5, a critical period of brain development.

During 2002–04, advocates for children and the poor lost most of the changes they sought for the protection of impoverished children, including: (1) an increase in Food Stamp levels to the "low-cost" food plan which more realistically calculates food costs (rather than the "thrifty food plan" of USDA); (2) indexing benefit levels to inflation; (3) mitigation of harsh time limits for unemployed workers by allowing at least six months of Food Stamps while looking for work and continuing benefits so long as work is sought and not unreasonably refused, particularly for youth under age 25, given the high youth unemployment rates; (4) allowance of some exceptions to the lifetime ban on safety net help for persons convicted of drug possession felonies where a clean start has been made (as enacted in 28 states); (5) increase of the minimum benefit by $25 and adjustment of the shelter allowance cap by the urban area median rent; (6) exclusion of reasonable retirement and educational savings from asset limitations; and (7) substantial federal funds to stimulate and finance state streamlining of for easier access to benefits. None of these measures is a part of the proposed 2004–05 California or 2005 federal budgets.

D. Child Health

The proposed 2004–05 state budget added 10% to a pending 5% overall cut in Medi-Cal rates. The proposal was withdrawn in the May Revise. Note that the state's Medicaid spending per resident is at $702, with the national average at $763. Of greater concern is the rate discrimination against pediatric specialties. Children now have to wait unprecedented lengths of time to see a pediatric orthopod or other specialists because the state's reimbursement schedule for many child-related treatment is below cost, and the supply of practitioners has accordingly declined. The rates for procedures for children are

commonly one-half to one-third the amount paid by Medicare for identical services for the elderly. Child advocates contend that such discrimination violates federal law requiring compensation for comparable treatment between patient groups. The 2004–05 budget continues this underlying disparity in pediatric specialty rates.

Other health cut proposals were also withdrawn in the Governor's May Revise; however, other less obvious strategies to limit coverage remain advanced. Premium increases—including the imposition of higher premiums for parents between 200%–250% of the poverty line—will have some of the same effects as withdrawn proposals to cap numbers covered. It is difficult to persuade parents to spend $400–$1,000 in premiums on child coverage for children who are not ill at that point in time, especially where discretionary income after payroll taxes, rent, child care, and food is minimal.

The 2004–05 proposed budget both imposes new barriers to Healthy Families coverage and limits or stops outreach spending for new enrollment. The unstated premise of the Administration is to hold state spending down as much as possible, notwithstanding benefit-cost impact and the 2–1 federal match eschewed. The proposed budget inhibits almost one million children who are eligible for coverage from receiving it. The state has already returned $1.1 billion in available matching funds for Healthy Families, and stands to return another $1.9 billion over the next three years—a sum that will amount to the largest giveback of appropriated federal funds for any state in the nation's history. The societal advantage to child coverage also includes its modest cost—one-fifth the per capita price of covering the elderly. All elderly receive basic coverage, and recently received $600 billion in additional federal pharmaceutical benefits.

Almost all children living in families with income above 250% of the poverty line have private coverage from parental employers. Those below 250% of the line are eligible for public coverage. A surprisingly small 3% of the state's children are not medically covered and are ineligible for coverage. Accordingly, child advocates urge the state to reverse its current system of 15 separate programs with paperwork, qualification, premiums, tracking, and filtering—all to keep this small proportion of children from receiving subsidized medical care. Such a small proportion of ineligible commends the reversal from the "you're out unless you are enrolled in" arrangement to a system where all children are presumed to be eligible for coverage. If a child then incurs more than $500 or some other threshold of expense over per year, parents may be required to certify their income, with billing on a sliding scale for those who must pay.

The Schwarzenegger Administration also seeks a redesign of the Medi-Cal program, some elements of which will require federal consent. It intends to apply for a Section 1115 waiver for such changes in August 2004. Initial drafts suggest continuation of the theme of fee and premium increases for impoverished parents.

E. Special Needs

The proposed 2004–05 budget includes substantial cuts for children with special needs. Although the Governor withdrew his January 2004 proposal to cap Regional Center and CCS caseloads, most special needs-related accounts will suffer adjusted reductions.

Beyond the state budget directly, infrastructure (county and school district level) cuts are now occurring and are disproportionately felt by special needs children. School districts suffering unprecedented staff lay-offs are not in a position to offer the same level of IDEA special education services. Counties throughout the state are currently cutting staff, with mental health staff and service reductions particularly severe.

F. Child Care

The proposed 2004–05 budget has preserved two areas of child care spending: preschool preparation (four-year-olds in particular) and after-school care. However, this preservation is from a relatively low base. For example, 53% of the state's 3- and 4-year-olds attend preschool, with a national incidence of 64%. Only 41% of California's children participate in the successful federal Head Start program, compared to 58% nationwide. After-school programs also reach a very small percentage of children and

youth. Although they were championed by the Governor in his successful campaign for Proposition 49, the budget prerequisites for that measure's funding have not been met. Existing after-school programs have been preserved in the budget—perhaps partly due to the program's favored status with the Governor. Child care spending as a whole is hit hard in the proposed 2004–05 budget and thereafter, particularly for CalWORKs parents leaving TANF roles, and for the working poor who need some subsidy help to remain employment and avoid "latchkeying" children home alone.

The Little Hoover Commission contends that the current major child care subsidy system serves "7% of those eligible," noting that for most families, subsidy is available "as funds become available." Waiting lists grew to 280,000 by 2002, and exclude the many parents discouraged from applying.

Recent cuts include the denial of subsidies for all 13-year-old children (coverage only to age 12), and elimination of what the Governor's Budget refers to as "grandfathered" child care—stopping assistance immediately to those who have temporary income just above the eligibility line. But of greatest concern is a $200 million reduction in child care help by (1) manipulating the compensation survey used to establish rates away from market factors; (2) categorically prohibiting hourly rates for full-time care; (3) limiting evening/weekend premium payments; (4) cutting the compensation ceiling to a lower percentile paid in the relevant regional market (a sliding scale from 85% down to 40% of market level—a level already providing barely minimum wage compensation); and (5) changing the family fee schedule to require higher co-pays. This last "reform" adds a fee that starts at 1.4% of family income, and tops out at 10%—quite substantial amounts for working parents earning near the poverty line. It will affect 77,250 children. Although phrased in the jargon of child care compensation complexity, the reductions are serious.

Governor Schwarzenegger's proposed 2004–05 budget, as revised in May, will cut-off former TANF recipients who have found employment under CalWORKs at either the three- or four-year mark. That is, after two years in Stage 2, assured Stage 3 coverage will last for only one or two more years, bringing assured assistance (assuming income and otherwise qualified) to no more than three to four years—notwithstanding the federal promise of "adequate child care" for TANF recipients who secure employment.

G. K–12 Public Education

The proposed 2004–05 budget cuts education spending for both K–12 and higher education. In March 2004, Education Week rated the states for regionally (cost) adjusted K–12 spending per child. California placed 44th—between Louisiana and Mississippi. This rating used 2001 data, prior to the deep cuts of 2002, 2003, and as proposed. While some other states also suffered reductions, most have not followed California's "no new revenue" insistence. Child advocates believe that with the enactment of the proposed budget, the state is likely to be 50th in the nation in regionally-adjusted education spending per child. Of the states below California, none has encountered the cost factors facing California, ranging from housing for teachers to milk in the cafeteria to gasoline for school buses. Of particular note are utility costs (electricity, heat, cooling) that have risen more than 50% since 2001. On the revenue side, California has cut revenues, and her adjusted spending per pupil since the 2001 Education Week data range as follows: $7,235, $6,703, $7,011, and $6,883 as proposed after the May Revise.

The combination of cost increases and revenue decreases since 2001 is likely to place the state dead last in cost adjusted spending per child for K–12 education with the proposed 2004–05 budget.[1] Only Arizona and Utah have a realistic chance to undercut the California adjusted performance—making 48th out of 50 the aspirational hope of the state. The state's decline in public education investment from

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[1] Although not covered in the *Children's Budget* text, a review of the six states spending less than California in 2001 reveals that in **Mississippi**, K-12 funding has increased 21% during the past four years; in **Tennessee**, the 2005 proposed budget fully funds $61.5 million in increased education spending; in **Florida**, the 2004 budget provides for new revenues and for major increases in school funding, including a $1 billion boost for the state's 67 public school districts (as well as $539 million for higher education); in **Nevada**, efforts are underway to require the Legislature to fund education first, with a target to increase per pupil funding to the national average; in **Arizona**, the 2004 budget fully funds K-12 education, averting a possible $210 million reduction from prior year funding; and in **Utah**, public education funding is budgeted to increase 6.6% above current year expenditures in fiscal 2005.

among the top of the nation (from the 1950s through the 1970s) to almost last place has received little public discussion. It has occurred notwithstanding the electorate's strong enactment of Proposition 98 in1988 to assure minimum general fund commitment to public education.

The Governor proposes to spend a combined $966 million below the Proposition 98 minimum guarantee for 2002–03 and 2003–04. These underages continue the trend in California budgeting to regard the Proposition 98 guarantee not as a minimum for public education, but as a ceiling that may be undercut in a future year by any amount it has been exceeded previously. As to this $996 million shortfall, the state would appropriate additional resources at some future time in order to "settle up" to the amount constitutionally required—delaying repayment until 2006–07. For 2004–05, Governor will violate the required $3 billion Proposition 98 minimum and "rebase" the floor $2 billion lower, to be restored in future years—a familiar refrain with the new Administration. The Legislative Analyst opines that revenues would have to grow to about $103 billion, or 8% annually, in order to simply restore this taking by 2008–09.

The 2004–05 proposed budget makes further cuts to the 70 categorical programs that include class size reduction, special education, teacher training, child nutrition, and others. Some of these programs are designed to take advantage of federal subsidies (*e.g.*, school nutrition programs); others are experiments with educational reforms, and others address particular statewide needs. Governor Schwarzenegger is proposing to eliminate 22 categorical programs and transfer the funding to revenue limits; the level of funding for those 22 programs is currently at approximately $2 billion. Education advocates were grateful that the 2004 May Revise added $36 million to reflect population/inflation change for this spending. The categorical programs proposed for elimination include Advanced Placement Programs; Home to School Transportation; the Instructional Materials Block Grant; Dropout Prevention; English Learners Student Assistance; the Targeted Instruction Improvement Block Grant; and 10th Grade Counseling.

H. Higher Education Investment

The proposed 2004–05 general fund contribution to higher education is 2.3% less than the final 2003–04 figure. Overall spending is kept relatively constant due to some federal funds increase, and an overall 18.2% increase in student fees. The Governor's proposed budget does not include funding for enrollment growth or cost-of-living adjustments at public universities—and alarmingly proposes to reduce freshman enrollment growth at UC and CSU by 10%.

Overall, Governor Schwarzenegger's proposed budget for 2004–05 includes several major reductions in higher education investment. Combined, these changes would result in over a half billion dollar disinvestment in our young adults, and would add to the state's ongoing failure to ensure appropriate student access to higher education. The major components of the Governor's higher education reductions include the reduction of general fund support for outreach programs at UC and CSU; reduction of freshman enrollment growth at UC and CSU by 10% ($45.9 million); increasing UC and CSU fees by 10–40% ($209.9 million); increasing community college fees by 44% ($73.4 million); reducing Cal Grant income ceilings ($11.2 million); and reducing maximum Cal Grant awards for students at private colleges ($32.7 million). Cal Grants to children in need of assistance for higher education would not be increased by a cost-of-living adjustment, but would be adjusted for the tuition increases under the May Revise.

The Governor is also proposing a long-term fee policy applicable to the UC and CSU systems, linking undergraduate fees to the change in per-capita personal income, reflecting ability of families to pay. But he is proposing an increase of 14% for 2004–05 and a floor of at least an 8% increase for each of the following two years, with increases pegged to the personal income percentage increase thereafter. Only 20%–33% of the additional fees will be reserved for student financial assistance; the remainder is intended to relieve the general fund of financial obligation.

Using nomenclature similar to that adopted by former Governor Davis, Governor Schwarzenegger announced in his 2004 May Revise that he had entered into a Higher Education Compact with UC and CSU. The Compact would begin in 2005–06 and last through 2010–11. It purports to guarantee annual fixed increases in base state general fund support, starting in 2005–06 and continuing through 2010–11, to be used for activities including core instruction, academic and institutional support, faculty and staff

salary and benefit increases, inflation, and facility maintenance. Allegedly assured annual budget increases will be 3% in 2005–06 and 2006–07, increasing to 4% in 2007–08, and 5% in 2008–09 through 2010–11. The additional 1% increase provided beginning in 2008–09 will be specifically for core academic support needs, including instructional equipment, instructional technology, libraries, and ongoing maintenance. These increases will not match inflation/population growth, requiring real spending reductions in the system over the next seven years—when the population bulge of 18-year-olds and societal need for a much higher rate of higher education degrees will coalesce. The budget not only fails to grow higher education beyond population growth as needed, but denies entrance to thousands of qualified students that prior generations have provided capacity to accommodate.

The California Community College (CCC) system currently serves 1.104 million students, and is projected to have an enrollment of 1.137 million in 2004–05. Actual proposed spending for 2004–05 is $6.623 billion, up 6.6% from the 2003–04 funding level. As noted above, the 2003–04 Budget Act increased tuition for California's community colleges (CCC) from $11 per credit to $18. The proposed 2004–05 budget increases the amount to $26 per unit, a combined increase of 136% for community college students over just two years. Although the fees remain under the national average, child advocates are concerned that the Schwarzenegger Administration is contemplating further increases, perhaps eliminating one of the most prized legacies of California investment in children—its highly affordable "second chance" access to advanced education—especially given the states unusually high living costs that students encounter.

Governor Schwarzenegger estimates that community colleges will experience a 3% enrollment growth in 2004–05. Any such "growth" would be primarily due to the state's failure to adequately fund the necessary number of slots at UC and CSU schools and their referral down to community colleges, as noted above. Community college advocates predict that the Governor's budget would require the state's community colleges to turn away 39,600 students—primarily in order to make room for the students who will be redirected from the UC and CSU systems. This capacity contraction does not account for the special population bulge now graduating from high schools. Even before the profound cuts ordered, community colleges have been in a growing capacity "crisis" since at least 2001, with the numbers of courses increasingly limited and additional semesters or multi-school registration needed to meet degree or certificate requirements.

Child advocates observe that politicians across the spectrum now publicly espouse "retraining" and enhanced higher education to ameliorate the unemployment caused by the export of manufacturing jobs overseas. All agree that the labor market niche of the U.S. centers on technology and higher education. Ironically, while those promises are now commonplace, the 2004–05 state budget not only fails to expand higher education opportunity to more students, but markedly contracts the percentage of 18-year-olds able to obtain advanced education for marketable employment.

Exacerbating the capacity contraction and beyond tuition/fee increases, the 2004–05 proposed budget will put education out of the reach of many students through grant/loan denial or limitation. The Governor is proposing to reduce Cal Grant income ceilings—the maximum allowable income for Cal Grant recipients—by 10%. For example, the current income ceiling for a family of four is $67,600; under the Governor's proposal, the maximum income would be cut to $60,840. Thus, fewer students would qualify for Cal Grants under the Governor's proposal, saving the state $11.2 million. At the same time, the budget reduces the maximum Cal Grant award for students at private colleges and universities from $9,708 per year to $5,482 per year—an amount equal to the annual undergraduate fee at UC schools, if the Governor's proposed 10% fee hike takes effect in 2004–05. The May Revision makes a net general fund reduction of $73.3 million from the Commission's funding levels contained in the January budget proposal.

I. Child Protection

The Governor's 2004–05 Budget Summary notes the increase in foster care payment expenses since 1998, accurately attributing the increase to three factors: "(a) COLAs, (b) rate increases for group homes, (c) increased placements in higher-cost FFAs and Group Homes." It then proposes to make matters more efficient by convening a stakeholders group of those persons creating much of the expense. Child

advocates without ties to foster care providers have advocated increasing family foster care rates to at least equal the out-of-pocket costs of caring for the children involved (a 22% increase); assigning an office within the Department of Social Services with the specific task of improving family foster care supply and quality; creating a budget for such an office to enable it to stimulate a range of measures from mass media recruitment to community college courses; and raising the quality of family foster care by providing for advanced certification and rewarding those who achieve it with a premium compensation rate. The enactment of such an approach would cost a small amount more in 2004–05 but would save many millions in future years as fewer children would be in group homes costing the state six to ten times the cost of family foster care.

The disconnect between proper diagnosis and concrete proposals contradicting or unrelated to those intentions is also reflected in the major 2004–05 proposal of the Legislative Analyst (to cut back on adoption assistance coverage and payments). Child advocates contend that this puzzling proposal suffers the same short-term vision and misunderstanding of the economics of foster care as does the budget proposal of the Administration. Denying or cutting those adoption payments reduces the supply of those able to afford adoption, and relegates more children to continued foster care to their disadvantage—and at much greater public cost given the expense of group homes where most older children are relegated.

J. Juvenile Justice

The average cost of housing each juvenile committed to CYA in the current 2003–04 year is approximately $60,000 per year in direct expenses, excluding capital costs. The Governor's budget proposes total expenditures of $378.1 million for CYA in 2004–05, about 13% below estimated current-year expenditures. The general fund portion of CYA funding would drop 12% below general fund expenditures in 2003–04, closing correctional facilities and reducing the age of CYA jurisdiction from 25 to 22 years of age.

In 1989–90, the state spent $124 million in current population adjusted dollars for "prevention and community corrections." This account addressed delinquency through prevention grants and projects, such as upgrading local facilities, etc. The current 2003–04 and the proposed 2004–05 budgets impose further overall reductions in prevention spending—in the face of a major Little Hoover Commission Report recommending increased resources and major state governmental reorganization to apply them. Those reductions include the virtual elimination of the Office of Prevention and Victim Services, currently funded at just $6.5 million—a cut of 92% from the 1989–90 unadjusted funding level, and proposed at just $3.7 million in 2004–05.

The Juvenile Justice Crime Prevention Act Grant Program (JJCPA) addresses a continuum of responses to at-risk youth and juvenile offenders—including prevention, intervention, supervision, treatment and incarceration. The main source of federal funds here is the federal TANF block grant, which has historically provided approximately $200 million for probation services. Under current law, however, the TANF block grant for juvenile probation programs sunsets in October 2004. Governor Schwarzenegger has proposed to allow the block grant funding to sunset at that time, resulting in a reduction of $134 million in 2004–05—much of it for juvenile probation programs. These funds are now used by county probation departments to provide services to youth detained in juvenile halls, camps, and ranches—elements that LAO describes as "core services."

K. Local Infrastructure

Apart from direct state budget accounts discussed above, administration of many child-related programs depends upon county and school district offices. The counties are political subdivisions of the state and local staff which directly provide social workers and administration for CalWORKs, Medi-Cal, Healthy Families, and other medical programs for children; mental health and special needs services; child care; child protection (including local child protective offices); and juvenile justice (local camps and probation). The 2002–03 threatened cuts of 20% across-the-board for local administration were not implemented, but during 2003–04 local governments began to lose hundreds of millions in expected revenues from the state due to a dispute over the proper "depreciation schedules" to use in calculating the VLF revenues due local jurisdictions. Correction of this problem was stymied when it was labeled a "tax increase."

Typical of the decisions being faced in June of 2004 is San Diego County announcement of the elimination of 983 positions and the layoff of another 394 workers to close an anticipated reduction of $151 million. Although the cuts are the largest in county history, no sheriff deputy lay-offs were included. The County conceded that many of those receiving notices are in child support collections, probation, and social service programs (serving impoverished and protecting abused children).

The May Revise will require $1.3 billion local government reduction in the proposed and the following year—characterized as a "loan" of the VLF monies from the locals to the state. Hence, the Governor keeps his promise to restore local government their losses from the VLF cuts, but only after two years of forbearance, with the shortfall repaid by the state after 2005–06. The May Revise does limit the county portion of this "loan" to $350 million per year. However, their impact, in addition to the current hiring freeze and reductions being implemented across the state in the current 2003–04 year is likely to approximate the total workforce reduction anticipated in 2002–03. The evidence suggests that two years of such additional cuts will translate into the lay-off of about 4,909 local workers—a disproportionate number relied upon by children in need.

The current shortfall will be further exacerbated by two 2004 May Revise additions to local burden. First, the counties must pick up 20% rather than the current 10% in Medicaid expenses for the Early Periodic Screening Diagnosis and Treatment (EPSDT) required for impoverished children; total obligation to be added is a significant $44 million. The Revise similarly assesses counties $17 million for child welfare system augmentation that had been previously waived.

Across the state, child advocates are now reporting dismissal and attrition of basic infrastructure serving children—ranging from clinic closures in Los Angeles County to CalWORKs staff cuts in the Bay Area, to the layoff of paralegal and clerical assistance for counsel representing abused children in San Diego. The reductions are significant, and carry with them costs that are rarely reported to the public or to those public officials approving them. They are delegated out into 58 counties and 1,000 school districts that lack practical financial resources, and are compelled to reduce services to children. The state hiring freeze precludes state assistance to fill developing vacuums. Resulting from this evolution are backlogs and delay in coverage and services, and service denial where workload precludes coverage.

Child Investment Omissions in the 2004–05 Budget

Beyond reductions discussed above, the 2004–05 Budget proposal avoids important child investment obligations and opportunities identified by experts and included in prior *Children's Budgets*. The major omissions, discussed in the substantive chapters of the *Budget*, include the failure to:

- give impoverished parents a chance to reach beyond the poverty line and toward self-sufficiency, including (a) a seamless quality child care system that includes coverage of the working poor, and (b) an earned income tax credit state augmentation;

- provide a realistic and efficient plan to provide child health coverage (true presumptive eligibility), despite federal funds available at a 2–1 match to provide it, as well as efficiencies flowing from the reduction of red tape barriers;

- create a private responsibility agenda, including public service announcements on reproductive responsibility, available parenting education to teach basics about children— particularly for males;

- reduce class sizes, especially in grades 4–8, to move California up from its current rank of 49th in the nation in class size, and improve teacher supply and quality as was attempted in the substantially aborted teacher improvement program of former Governor Davis;

- expand higher education capacity substantially, from the UC to community colleges, and further enhance student aid to allow a generation realistic job opportunity in the labor market of the 21st century; and

- assure adequate supply and quality of family foster care providers, realistic adoption opportunities, and resources so state-parented children who become 18 have a realistic chance at higher education—something that a responsible parent would provide.

Propositions 57 and 58—Budget Changes and Obligation Deferral

In March 2004, the electorate approved Propositions 57 and 58, proposed by the Governor as a double-joined method of deficit amelioration. Proposition 57 authorizes up to $15 billion in bonds to finance the state budget deficit. It is to be repaid over as much at 19 years from the proceeds of a one-half cent sales tax apportionment at an annual cost of $1.2 billion in 2004–05, to increase incrementally thereafter. In May 2004, the state sold $7.9 billion in bonds at a fixed rate of from 2.5%–5.25% (depending upon term). Another sale of $4 billion on a variable rate basis is planned for mid-June. The total cost of this $11.9 billion for immediate deficit financing will include its repayment, plus over $0.5 billion per year in immediate years, declining gradually as bonds expire. The accumulation of these and other bonds issued by the state also have an effect on general fund revenues, since interest paid is not subject to federal or state income tax.

The Governor's 2004–05 budget proposes to use $9.2 billion of the bond proceeds to pay off the accumulated deficit as of June 30, 2003—currently financed through short-term borrowing and several deficit vehicles currently under challenge in the courts. The Governor then proposes to use the remaining $3.1 billion to pay the state's share of employee retirement costs unpaid in 2003–04 ($1.9 billion), repay the $188 million in loans from special funds to the general fund, cover the $325 million in the expansion of net operating loss deductions, make $100 million in state debt service payments, pay $209 million in state employee compensation costs, and add $300 million to the state's reserve.

Proposition 58 amends the state Constitution to authorize the Proposition 57 bonds. It also sets up a process for mid-year spending cuts. To wit, where general fund revenues decline or expenditures increase substantially, the Governor may declare a fiscal emergency and call the Legislature into special session. The term "substantially" is not defined and effectively delegates the trigger to the Governor. The Legislature must act on the Governor's proposal or an alternative within 45 days, and it may not recess or act on any other bill until it does so. The measure also prohibits the Legislature from enacting and the Governor from signing any budget that spends more from the general fund than revenues received, although such calculations are always made on an estimate basis. The state would be explicitly prohibited from future general deficit relief bonds such as those enacted in 2003–04 or the bond authorized by Proposition 57. And it provides for a "reserve" to be collected in stages until it reaches 5% of general fund revenues or $8 billion, whichever it higher.

Tobacco Master Settlement Agreement: Diversion of Future Funds

The Tobacco Settlement Fund collected monies paid by the tobacco industry pursuant to the Master Settlement Agreement of 1998, settling most public/state claims against the tobacco industry. The settlement requires the payment of sums for the benefit of those injured by the nicotine addiction deceit and manipulation and related unfair business practices of the tobacco industry. The restitution sums payable to California amount to approximately $21 billion payable over twenty five years from 1999. The state receives 50% of the sum ($10.5 billion) and local jurisdictions the other 50%. However, instead of directing these funds at restitution or health, 75% of the state's share has now been committed over the entire life of the obligation to pay interest and principle on bonds to lessen the general fund debt; $4.5 billion in bond sales were scheduled ($2.3 billion were sold by October 2003 for the current fiscal year). All future revenue over the next 20 years is sacrificed for immediate relief, and incurred debt service obligations such that the total cost will be $7.9 billion in future payments that could be expended then to save $4.5 billion immediately.

Taxes and Revenue

Basic taxes have been reduced $9 billion since 1996. Almost half of that reduction consists of the VLF reductions ordered by Governor Schwarzenegger. As discussed above, the Governor's VLF decision was not to halt a tax increase, but to preserve a conditional tax cut. That tax cut was framed as an "offset"

or reduction of the 2% of automobile value VLF long in place—on the assumption that revenues would increase to make it affordable without serious child disinvestment. That assumption was wrong as of 2002, and the reduction (or "offset" from the statutory 2% fee) was properly rescinded by then-Governor Davis.

Beyond tax reductions is the issue of tax "expenditures," which the 2004–05 budget does not abate. These are tax deductions and credits that diminish tax obligation and lower general fund collection. Their growth is a major factor in the decline in public child general fund investment as a percentage of personal income since 1978. Tax expenditures added since 1996 have varied from $46 million to $397 million each year. Each then tends to increase annually thereafter. Of the 40 such new expenditures approved between 1996–2003, only the $190 million refundable child care credit of 2000 clearly benefits children directly.

Beyond legal tax expenditures is the issue of tax avoidance. In 2003, the state authorized a special "amnesty program," allowing Californians who evaded taxes through unlawful tax shelters to pay monies due without penalty or other sanction. The forbearance was expected to yield some $90 million in additional funds. As of April 2004, it yielded over $1 billion from 1,000 taxpayers, 296 of them corporations—with substantial representation from the oil and retail sectors. The *Children's Budget* is not a taxation-focused document, but Chapter 1 lists twenty sources of revenue ranging from $500 million to $10 billion each. The state has one of the highest personal income rates in the nation and can afford to return to the levels of personal income investment in children of the previous two generations.

Systemic Budget Reforms for Children

Children are disadvantaged in the budget process by asymmetrical and anti-majoritarian biases that favor "here and now" indulgence, and tax/child investment reduction. These biases manifest themselves through undemocratic procedural rules—above and beyond the underlying advantage that political money and organization affords most interest groups above the diffuse or future interests, which children paradigmatically embody. Seven structural areas warrant reform for the balanced representation of children and the future, including:

1. Bi-Lateral Supermajority. California is one of three states (with Arkansas and Rhode Island) that requires a two-thirds vote to enact a budget (California Constitution Article IV, §12d). California also requires a two-thirds vote to increase taxation, and to terminate a tax break (deduction or credit), since such action is technically a tax increase. Hence, child investment faces a successful bar to spending, or taxation, or the removal of tax expenditures (which rarely benefit children) by a minority of one-third of the Legislature. A more balanced approach would follow the precedent of most states and allow budgetary adoption by majority vote. Such a decision represents the basic appropriations power of the Legislature properly guided by majoritarian decision.

2. "Pay as You Go" on the Tax Side. Related to the supermajority lack of balance is the one-sided application of the "Pay As You Go" concept both federally and in California. California has a partial "pay as you go" element in Proposition 58 as noted above. If some expenditure is running above the budget, another account must be reduced so the total expended does not increase. Ominously, the budget does not project prison spending to increase—although its history of overages has been marked and expenditures here may be compelled by court decision. The compensating reductions are likely to come in discretionary/child related accounts. Moreover, the "Pay As You Go" adjustment on spending has not been balanced by a similar adjustment on the revenue side. That is, a tax deduction or credit can be created or increased (and by only majority vote) without having to raise revenue elsewhere to balance the effect on the bottom line. The imbalance is especially pronounced where a state has $30 billion in outstanding tax breaks in place already. A balanced approach would similarly require an increase in public revenues wherever the Legislature proposes to decrease tax obligations to selected taxpayers. The same rationale for responsible bottom line end point commend similar "Pay As You Go" adjustments for both budget spending and tax expenditures.

3. Rotating Sunsets for Tax Expenditures. All state spending must be specifically enacted annually as part of the budget process. In contrast, tax expenditures (deductions or credits for particular

taxpayers) are enacted initially by majority vote, and then continue indefinitely in the normal course unless specifically terminated. Most such expenditures have a legislative purpose (*e.g.*, to stimulate home ownership, research and development, solar power development or some other applicable legislative intent). Some of these deductions and credits warrant continuation or increase, while others fail to provide promised benefits. As with any budgetary decision, they should properly be reviewed on a regular basis, as through a system of rotating sunsets, to provide for automatic termination at three-, four-, or five-year periods unless specifically re-enacted would stimulate needed review. AB 990 (Ridley-Thomas), pending in 2004, provides for annual tax expenditure reports to the Legislature, and their systematic review.

4. Proposition 13 and Equal Protection. A decision to cap taxation is a policy decision available for electoral decision through constitutional proposition in California. The voters of California enacted Proposition 13 in 1976 to so limit property taxes to no more than 1% of the assessed valuation of real property. However, the initiative also improvidently froze all assessments at 1977 levels, with a limited 2% annual increase allowed thereafter. A resale may establish a new assessment level, but businesses have avoided such reassessments by selling stock in corporations owning property—thus freezing assessments at particularly disproportionate levels. But even residential properties held by older adults are now paying taxes at rates that are one-fifth or one-tenth of their market value. A property tax is an *ad valorem* assessment (a tax on the market value of an asset). As discussed above, new residential purchasers—including in large measure youth and children who will buy in the future—will pay taxes on current market prices, suffering what is becoming increasingly gross discrimination *vis-a-vis* preexisting homeowners. It is unclear ethically why the young should bear five to ten times the tax burden of older persons based on a market value tax on properties of identical value and to provide the same governmental services. All property should be assessed for tax purposes at its market value, with waiver of taxes for low income elderly until the owners die, with recovery from the estate. No person is forced out of their home by inflated real estate values, but the young are not burdened with five to ten times the taxes paid by older, wealthier homeowners.

5. Required Spending Accountability. The *California Children's Budget 2004–05* recommends that any new program in excess of $1 million automatically sequester from 1%–3% into a special fund to finance independent review of each such spending (and tax expenditure) program for efficacy. Such studies should include surveys of similar programs and outcome measures in California and in other jurisdictions. Very few California public programs are subject to such independent evaluation. Indeed, Proposition 140 limiting legislative terms also placed limitations on the Legislature's budget. The cuts that have since occurred among legislative agencies and staff have lessened the Legislature's ability to staff a monitoring/evaluation function. The Little Hoover Commission, Bureau of State Audits, Legislative Analyst's Office, Senate Office of Research, outside think tanks and academic institutions, and occasional committee hearings explore a small number of programs and problem areas annually. The review is episodic, fragmented, and uncoordinated—and most often non-existent. Such a routine process for evaluation provides the kind of accountability naturally present in properly functioning markets for natural selection improvement.

6. Prevention Investment. State agencies providing services to children should ideally be working to eliminate the need for such services. However, budget forces at work in the normal course—while often praising prevention as a concept—rarely advocate for it in practice. As a result, investment in measures to lessen unwed births (among adult women as well as teens) have not been advanced by advocates nor become a part of a statewide strategy—notwithstanding its correlation with child poverty and needed child-related public services across a wide spectrum. Similarly, parenting education in schools and public education about reproductive responsibility—the right of a child to be intended by two adults and the benefits that flow from such a simple commitment—are not a part of public debate or expenditure.

The Legislature's own policy and research resources should be focused not on the media fascination *du jour*, but on underlying prevention strategies and funding. The Wilson Administration budgets at least raised some of these issues; the 2004–05 Schwarzenegger Administration budget avoids them.

7. Volatility Control

Proposition 58 adds several measures to avoid revenue volatility from creating sudden intractable deficits. These include the mid-year adjustment, and the reservation of a substantial reserve fund over time. However, an additional volatility control is advisable. Sources of revenue that are particularly volatile, such as capital gains and stock option revenue, should be income averaged over a running five-year period. Where a given year exceeds that average by some percentage, a substantial portion of that overage is properly banked for future expenditure. Hence, when such income jumped from $12.7 billion in 1999–00 to $17.7 billion in 2000–01, a large portion of the overage from historical levels should be placed in a "volatility control" fund.

Comment on Revenue Line Drawing and Child Disinvestment

The "structural deficit" of $14 billion, as well as accrued deficits and unconstitutional borrowings, are addressed in the 2004–05 budget through two major mechanisms—obligation deferral and spending cuts. The failure to arrange for meaningful new revenues is contrary to longstanding precedents where smaller deficits have been presented. The approach further diminishes adult fiscal commitment to children.

The Administration has moderated some of the more egregious reductions from the January iteration of the 2004–05 proposal, and cites its remaining, significant reductions and deferral approach with two arguments: (1) the deficit is primarily the result of the state receiving capital gains/options income from an economic boom and imprudently setting new spending levels at those artificially high levels, and (2) future economic recovery will allow revenues to catch up with current public spending levels.

However, the closing of the real structural deficit does not occur with the return of revenues to the level of spending in 2000–01 or 2003–04. As this *California Children's Budget* calculates, population and inflation change the spending level required to hold child investment even. The Schwarzenegger 2004–05 budget starts $11 billion behind the historical average over the last 27 years in percentage of personal income for general fund child-related spending. That gap will not be closed except by countervailing the process creating it—tax cuts and favors for powerful interests.

Evidence supports the Governor's campaign thesis that the Legislature has engaged in some overspending—including in some child-related accounts. For example, most child advocates found dubious the decision of former Governor Davis to present every high school senior scoring in the upper 10% of statewide standardized testing with a $1,000 check from the general fund; the labeling of these checks as "Governor's Scholarships" bestowed upon newly-eligible voters added nothing to their merit.

Evidence also supports the more general conservative thesis that social service spending may be supported by a social service establishment reflexively and regardless of success, and that insufficient attention is paid to prevention to private responsibility. But the prescription advanced by the Governor does not follow from his diagnosis. That prescription is to confine underlying spending to levels produced by a decade of weakened revenue mechanisms. The standard for child investment is properly set as a percentage of personal income, or gross domestic product, or some other measure responsive to population, inflation and ability to pay factors—not raw numbers. Nor is the proper measure tax revenues in a setting of reduction and tax expenditure growth.

Minority leaders in both the state Senate and Assembly have seized upon an absolute bright line of "no new taxation"—as a categorical *malum prohibitum.* The spending cuts that are now occurring (and their real world implications for involved children) creates political risk and ethical liability for our policymakers, who are choosing to make those cuts in order to save wealthy taxpayers—already relieved of $37 billion per year in federal taxes—from making any increased contribution whatever. A bright line position "on principle" properly yields where competing principles conflict, as the adult obligation to invest in our children exemplifies. The legitimate conservative concern over the results of no clear limitation on spending has not been balanced by similar concern over the lack of limitation on tax reduction of special tax forbearance breaks. As with agencies seeking infinite spending expansion, the lobbies of Sacramento seek infinite tax reduction. In applying supermajorities to limit spending abuse, but not tax contribution avoidance, and drawing a strict ceiling on one without a floor to the other, the state moves into a downward spiral in long-term child investment.

Precedents for raising additional revenue center on prior Republican Governors. In the late 1960s, Governor Reagan faced a similar budget deficit inherited from his predecessor. He considered an across-the-board 10% spending cut, but upon practical consideration, approved of tax increases that amount to $5 billion in today's dollars. The increase did not spur an economic downturn, and minimized harm to important interests depending upon public monies. In 1991, Governor Wilson faced a similar deficit and similar posturing from his Party's legislative leaders; he insisted on serious spending cuts, but he also approved of new revenues yielding again about $5 billion in new revenue, making up about one-half of the shortfall. The economy did not suffer, and in fact expanded rapidly.

A value-consistent short-term approach would be to (1) raise about one-half of the shortfall through new revenue (perhaps through the retraction of improvidently approved tax cuts), as did the Governor's two Republican predecessors; (2) refuse to push forward obligations on future taxpayers except to a very limited degree for averaging purposes; and (3) insist on spending reductions where benefit-cost impacts justify them. In terms of longer-term policies, an approach consistent with the Republican critique would advance some of the systemic budgetary changes discussed above, in particular (1) preventive and private responsibility initiatives similar to those raised by the Wilson Administration; (2) insistence on social service (as well as education) performance accountability—with an assured portion of spending allocated for independent outcome measurement to substitute for the absent market and to guide spending termination/enhancement decisions; (3) agreement that tax expenditures are properly subject to review and periodic required approval as with other spending; (4) alteration of inequitable taxation (such as Proposition 13's discrimination against the young); and (5) measures to dampen revenue volatility.

Nationally, a 2004 report by the National Association of State Budget Officers found that the governors of 26 states are seeking $5.4 billion in additional revenue, mostly tax increases. Substantial additional increases are also in prospect from legislative addition, these states include Kansas, Florida, and Texas—hardly dominated by "tax and spend" liberals.

Recent evidence suggests that the electorate's view is closer to the response nationally, and to traditional Republican policies—rather than current absolutist, arbitrary line-drawing. The sentiments of voters are counterintuitive to many public officials, but they support additional public taxation and the amelioration of cuts—particularly as to child-related accounts. The current position of state Republican leaders raises the ironic specter of political liability for standing inflexibly on the "principle" of categorical revenue rejection. The Public Policy Institute of California's surveys of voters have found surprising support for increased taxation, including income taxes and increased tobacco and alcohol taxation, among others. An extraordinary 82% oppose spending reductions for K–12 education, and a strong 71% oppose health and human services cuts. Interestingly, 67% would agree themselves to additional taxes to prevent education spending reductions.

Children's Budget 2004–05 **Recommendations for New Revenues and Their Expenditure**

■ Generate new temporary revenue of $4 billion per year for three years, to sunset in 2007–08, to pay off deficits accrued through 2003–04, and with $3 billion allocated for 2004–05. Retire or cancel Proposition 57 and other bond indebtedness, rescind accounting devices and loans that defer obligations to future payers.

■ Establish a revenue base of 7% of personal income, consistent with the historical average over the past 27 years, to be publicly invested in children, producing $11 billion in new general fund revenue for 2004–05.

■ Utilize the $11 billion addition for leveraged investment in a **California Child Advancement Fund**, to promote child health, education, well-being, and opportunity consistent with prior investment and spending in other states. This expenditure would attract more than $3 billion in additional federal funds. The Child Advancement General Fund $11 billion should be allocated to the following:

- $3 billion would be used to reverse the child-related cuts of Governor Schwarzenegger's proposed 2004–05 budget, as revised in May. Such restoration should maintain inflation-adjusted spending for child accounts, rather than the reductions proposed. Maintenance of real spending levels would include TANF child safety net grants ($500 million), CalWORKs ($200 million), outreach and access to medical coverage ($20 million), child care compensation ($80 million), K–14 and higher education investment ($1.5 billion), juvenile probation and crime prevention ($150 million), and the "loan" required of counties to the state ($350 million). Child-related fee increases would be rescinded (*e.g.*, foster care and child care license renewals), as would tuition increases—except for tuition at graduate schools of engineering, medicine, law, and business ($200 million). This $3 billion in restoration should cause an increase of about $1 billion in federal monies, mostly in the medical coverage area.

- $8 billion would go toward new general fund investment expended as follows (and attracting $3 billion in additional federal funds through sums below that are asterisked), as follows:

  - $290 million to fund a Prevention Agenda, including on-going public education and public service messages supporting the right of a child to be intended by two adults, reproductive and paternal responsibility, parenting education, and the strengthening of marriage (Chapter 2)*

  - $450 million to assure a minimal safety net for impoverished children, including additions to local infrastructure; an 8% TANF grant increase to partially compensate for fifteen years of reductions; an economic downturn reserve fund to hold children harmless; and implementation of the housing voucher safeguard as intended to prevent child homeless status (Chapter 2)*

  - $80 million to redesign TANF for greater work incentive, and to give some credit to parents who work more than half-time (Chapter 2)

  - $200 million so TANF parents who are employed publicly receive wages (rather than a "workfare" allowance), thus allowing federal Earned Income Tax Credit and food stamp eligibility, and using federal funds to keep involved children above the poverty line (Chapter 2)*

  - $250 to implement broadly the Child Support Assurance concept pioneered in New York, to allow children owed support by absent parents to receive assured subsistence funding from the state, which then collects sums due (Chapter 2)

  - $950 million to create a state Earned Income Tax Credit (EITC) to supplement the federal EITC, to form a bridge over the poverty line and to self-sufficiency (Chapter 2)*

  - $57 million to ensure breakfast availability at all public schools and state-funded outreach for school meal inclusion and enhanced WIC coverage—all of which are primarily funded federally, allowing leveraged advantage for impoverished children (Chapter 3)*

  - $5 million for automatic retention of TANF families on Food Stamps for one year after transitioning from rolls, recognizing that virtually all such families remain income-eligible for such assistance for at least that period (Chapter 3)*

- $50 million for the expansion of the Food Stamp electronic benefit card into a general "child assistance card," including updated eligibility information on magnetic strips for TANF, Food Stamps, medical coverage, special needs, and protective services, and allowing realistic and efficient access to help (Chapter 3)*
- $300 million to medically cover all children, providing screening and prevention statewide without regard to income. Where a child receives more than $500 in services in a year, bill parents earning over 300% of the poverty line *post hoc* on a sliding scale. Finance coverage from three sources: (1) $300 million new general fund money; (2) $300 million in general fund savings from the termination of over ten fragmented systems with expensive obstacles to exclude the 4% of California children now uncovered and ineligible for public coverage; and (3) $1.2 billion in available federal funds at a 2–1 match (Chapter 4)*
- In relation to the above proposal, combat "crowd out" (employers halting dependency coverage in light of available public coverage) by assessing a small fee on all employers with more than ten full-time employees who fail to provide dependency coverage for employees earning under 300% of the poverty line; use those monies to finance a tax credit of 30% of the cost for such dependency coverage for employers who do provide it (Chapter 4)
- $60 million to increase funding for safety and injury prevention, with particular attention to lead poisoning dangers, vision/hearing screening, and dental disease prevention (Chapter 4)
- Fund from Proposition 10 sources systemic advocacy on behalf of the health of young children before the state's regulatory system and before the courts, where decisions affecting coverage are made and such children lack representation (Chapter 4)
- $32 million to better serve children with special needs by (1) preserving mental health within Medi-Cal and Healthy Families; (2) applying the "System of Care" concept for accountability (rather than eliminating it); (3) applying the managed care reforms to mental health services as recommended in Chapter 4; (4) providing attorney's fees for successful IDEA petitions; and (5) adjusting SSP benefits to the cost of living (Chapter 5)
- $450 million to create a single, seamless child care system on a sliding scale based on income and number/age of children. Alternatively, expand the state's new refundable child care tax credit to provide that sliding scale subsidy. Seek a federal match to total $900 million (Chapter 6)*
- $550 million to upgrade the quality of child care providers, including training and certification bonuses, retention subsidies, and "best practice" roll-out grants; attract a federal partial match to total $700 million (Chapter 6)*
- $120 million to confer refundable tax credits to child care providers close to the poverty line to facilitate compensation for these important caregivers at "self-sufficiency" levels above the poverty line (Chapter 6)
- $40 million to create a refundable tax credit available to child care centers and employers amounting to $500 for each caregiver they employ at a salary that is above 120% of minimum wage (Chapter 6)
- $180 million to allow a tax credit for child care centers amounting to $500 per year for each child (enrolled for a full year) living below 150% of the poverty line (Chapter 6)
- An amount to be determined to implement a five-year plan of bond investment and tax credit subsidy to provide $3 billion for the construction of quality child care centers in areas of undersupply, coordinated with the provider tax credits above and expanding upon AB 1542 (Chapter 6)
- $40 million to triple the state's regulatory oversight for child care in stages over a three-year period (Chapter 6)

- $200 million to begin implementing Proposition 49, the Schwarzenegger after-school initiative, with more extensive roll-out in 2005–06 (Chapter 7)
- $1.5 billion to begin three-year phased class size reduction (especially in grades 4–12), bringing California to at least the national average by 2007–08 (Chapter 7)
- $300 million to target the lowest-performing schools with intensive intervention, not token grants (Chapter 7)*
- $30 million for parenting education programs (Chapter 7)
- $80 million for school districts, county offices of education, and district attorney to engage in aggressive truancy/drop out prevention (Chapter 7)
- $100 million and a bond sale for technology competence, to assure computer/distance learning facilities in public schools (Chapter 7)
- $25 million to test and mitigate lead drinking water levels in schools (Chapter 7)
- $400 million for community college and vocational school expansion (70% to be spent on increasing capacity) (Chapter 7)
- $1.2 billion for UC/CSU capacity expansion (Chapter 7)
- $31 million for Cal Grant increases for higher education opportunity (Chapter 7)
- $80 million to increase family foster care compensation rates by 15% and tie them to the Consumer Necessities Index thereafter; compensation should be additionally increased where providers are certified to care for special needs children through additional education (Chapter 8)*
- $16 million to enhance family foster care supply and quality through (1) the creation of an Office of Foster Care Supply and public campaigns to generate applicants; (2) removal of racial barriers to adoption; and (3) diminution of dependency court confidentiality (Chapter 8)
- $20 million for adoption assistance, which should be allocated without regard to parental income and maintained at family foster care rates, with increases for special needs children (Chapter 8)*
- $40 million for foster care children reaching 18 years of age, to assist them into employment and independence to age 23, including full tuition and room and board while a student in good standing at a vocational school or college (Chapter 8)*
- In conjunction with the four prior recommendations, substantially enhance child abuse prevention spending, including “Healthy Beginnings” and early intervention, education during pregnancy, and other initiatives (Chapter 8)
- $20 million for paternal involvement grants with federal match as a delinquency prevention strategy (in addition to Chapter 2 responsibility investment) (Chapter 9)*
- As to any existing program expending more than $2 million annually, or any new or pilot project of over $1 million, 1%–3% of the spending amount, for one to two years, should be automatically and inflexibly allocated to an independent evaluation of spending outcomes, with published reports analyzing comparative empirical results over time, and with other state and national programs (Chapter 1)

Total New General Fund Child Investment: $8.146 billion