

## Democratic Budget Proposal Summary

In the 2010 May Revision, the Governor identified a budget shortfall of \$17.9 billion. He offered a total of \$19.1 billion in budget “solutions” to close the shortfall and generate a reserve of \$1.2 billion.

The Conference Committee budget includes approximately \$18.5 billion in General Fund “solutions” to close the gap, and provides a final reserve of \$535 million.

The Conference Committee budget provides a credible path to closing the significant budget gap facing California. The Committee has taken steps to make significant expenditure reductions and raise a few key revenues that will help to stabilize the state’s fiscal future by starting to restructure state services.

A summary of the Conference Committee’s solutions, by category, is shown below.

<b>Starting Problem (per May Revision)</b>	<b>-\$17.9 billion</b>
<b>Solutions:</b>	
Expenditure Reductions	<b>\$8.3 billion</b>
Federal Funds	<b>4.1 billion</b>
Additional Revenues	<b>2.4 billion</b>
<ul style="list-style-type: none"> <li>• <i>LAO update revenue forecast</i></li> <li>• <i>Corporate tax break delays, Oil severance tax, tax reform package</i></li> <li>• <i>Tax enforcement measures</i></li> <li>• <i>Adjustment: Prop. 98</i></li> <li>• <i>Adjustment: Revenues dedicated to Public Safety restructuring</i></li> </ul>	<i>(1.4 billion)</i> <i>(4.5 billion)</i>  <i>(0.2 billion)</i> <i>(-3.2 billion)</i> <i>(-0.5 billion)</i>
Alternative Funding	<b>1.0 billion</b>
Fund Shifts, Other	<b>2.7 billion</b>
<b>Total Solutions</b>	<b>\$18.5 billion</b>
<b>Reserve</b>	<b>\$535 million</b>

*A detailed spreadsheet of all solutions is included at the end of this report.*

## Key Highlights

**Education:** The Conference Committee provides total funding for Prop. 98 education of \$52 billion, compared to \$49 billion in the Governor's May Revision.

Specifically, the budget:

- **Restores most serious proposed cuts:**
  - Restores \$1.5 billion for Revenue Limits (the most basic, flexible, funding provided to school) that the Governor proposed to cut.
  - Restores \$1.4 billion for child care (including \$286 million from one-time funds). The Governor had proposed to eliminate funding for child care altogether.
  - Restores \$300 million for Class Size Reduction. The Governor had proposed to reduce funding by \$550 million.
  - Restores \$230 million that the Governor proposed cut with a "negative COLA".
- **Provides major increase in one-time funds for mandate relief:** Provides an additional \$1.3 billion to \$4 billion of one-time money to schools to payoff past mandate claims and court-ordered settlements. The budget would establish a statewide local school district Joint Powers Authority (JPA) to enable school districts to accelerate the mandate funds. The exact amount that would be generated would depend on the outcome of court-ordered settlements in several lawsuits filed by school districts on mandate claims. At a minimum, the JPA would likely generate at least \$1.3 billion (the amount owed to school districts for undisputed prior-year mandate claims). This JPA concept is based on the successful JPA used by local governments last year to accelerate the \$2 billion in Prop 1A suspension repayments.
- **Suspends Prop. 98 guarantee with beneficial out-year impacts:** The budget rejects the Governor's legally-suspect proposals to manipulate Prop. 98, and rather proposes direct suspension of the guarantee. As the LAO has pointed out, suspension of Prop. 98 eliminates any legal or Constitutional ambiguity over the \$11.2 billion maintenance factor created as part of last year's budget agreement. Thus, the suspension keeps last year's budget promises. and enables funding to grow as the economy rebounds to ensures that the state meets the long-term Constitutional minimum guarantees established in Prop. 98.

**Health and Human Services:** The budget makes a number of reductions in health and human services programs, but rejects the Governor's proposals to eliminate CalWORKs, community mental health programs, Adult Day Healthcare, and the near-elimination of IHSS. The budget also rejects the Governor's proposals to substantially reduce the ability of those most severely effected by the current recession to access Medi-Cal services.

**Public Safety:** The budget assumes about \$1.1 billion in savings from public safety programs:

- **Reduces Prison Health Costs.** The budget reduces prison healthcare costs by \$820 million, consistent with the Governor's proposed budget savings.

- **“Restructures” State-Local Relationship for Certain Criminal Offenders:** The budget reduces spending for the Department of Corrections and Rehabilitation by \$375 million by realigning state-county responsibility for “wobbler” offenders. Specifically, the budget shifts responsibility for these offenders to the counties, and provides a new, permanent, funding mechanism to pay for the services. Counties will be able to house and supervise the offenders at the local level if they so chose, or may transfer the “wobbler” offenders to state prison and pay for it. This “restructuring” of the state-local relationship will grow over time, eventually saving the state almost \$1 billion by 2014. This action takes the place of the Governor’s proposed transfer of non-violent, non-serious criminal offenders to counties.

**State Employees:** The Conference budget reduces spending for state employees by about \$1.5 billion (compared to about \$2 billion under the Governor’s proposal), consistent with collective bargaining agreements that have already been reached or are under negotiation.

**Federal Funds:** The budget assumes receipt of additional federal funds, consistent with the Governor’s proposal. The amount assumed by the Conference Committee is somewhat higher than the Governor’s level because conference actions to preserve major health and human services programs will actually result in the state receiving more federal money to reduce our budget deficit.

**Revenue:** The budget includes additional revenues from a variety of sources:

- **Assumes LAO Revenue Projection:** The budget adopts the LAO’s revenue projections, which are higher than the Governor’s estimates by \$360 million in 2009-10 and \$1 billion in 2010-11. The actual figures for 2009-10 were very close to the LAO’s estimates.
- **Tax Reform:** The budget adopts a major tax reform proposal that *raises* taxes that are deductible from federal personal income taxes (State Personal Income Tax and Vehicle License Fee) and reduces the state sales tax that is not deductible on federal personal income tax forms. Under this tax proposal, all income groups would, after deductibility, experience a net tax reduction. The tax reform will generate \$1.8 billion in additional General Fund revenue in 2010-11, growing to about \$3.3 billion in future years. [See separate document that describes the tax reform package.]
- **Delays New Corporate Tax Breaks.** The budget delays for two years the start of new business tax breaks scheduled to take effect in 2010-11. Delaying these new tax breaks will preserve about \$2.1 billion in General Fund revenues for 2010-11 that would otherwise be lost.
- **Closes Oil Severance Tax Loophole.** The budget closes the Oil Severance loophole that will generate \$600 million in the budget year, and \$1.2 billion ongoing.

*A more detailed report on the Conference budget package will be available later this week.*