

Attachment D

July 29, 2009

July 2009 Budget Package

LEGISLATIVE ANALYST'S OFFICE





Overview

General Fund Condition As of the July 2009 Budget Revisions			
<i>(Dollars in Millions)</i>			
	2008-09	2009-10	
		Amount	Percent Change
Prior-year fund balance	\$4,071	-\$3,379	
Revenues and transfers	84,097	89,541	6.5%
Total resources available	\$88,168	\$86,162	
Expenditures	\$91,547	\$84,583	-7.6%
Ending fund balance	-\$3,379	\$1,579	
Encumbrances	1,079	1,079	
Reserve	-\$4,458	\$500	
Budget Stabilization Account	—	—	
Special Fund for Economic Uncertainties	-\$4,458	\$500	

- On July 24, 2009, the Legislature passed amendments to the *2009-10 Budget Bill*, along with implementing legislation. On July 28, 2009, the Governor signed the budget package, while vetoing \$489 million in General Fund appropriations.
- The budget package projects \$89.5 billion of revenues and transfers to the General Fund, and authorizes total General Fund spending of \$84.6 billion. The plan leaves the General Fund with an estimated reserve of \$500 million at the end of the 2009-10 fiscal year. Year-to-year comparisons of both revenues and expenditures are difficult due to a variety of one-time budget actions.



Major General Fund Budget Solutions

(In Billions, 2008-09 and 2009-10 Combined)

Expenditure-Related Budget Reductions	
K-14 Education <ul style="list-style-type: none"> Reduces Proposition 98 appropriations for K-12 education by \$5.3 billion. Reduces Proposition 98 appropriations for community colleges by over \$800 million. Adjusts payments toward the Quality Education Investment Act program, resulting in \$450 million in General Fund savings. 	\$6.5
Health <ul style="list-style-type: none"> Assumes that future federal actions will reduce state Medi-Cal funding requirements by \$1 billion and additional state savings of \$323 million are achieved. Assumes \$284 million in savings in developmental services. Rejects proposal to eliminate Healthy Families Program, while reducing support by \$179 million. Reduces Proposition 36 substance abuse programs by \$90 million. Freezes cost-of-living adjustments for long-term care providers for savings of \$76 million. Various other reductions, including over \$250 million of gubernatorial vetoes. 	\$2.3
Higher Education <ul style="list-style-type: none"> Reduces by \$2 billion General Fund (to the minimum level required for federal stimulus funding) payments to UC and CSU. Rejects Governor's proposal to eliminate the CalGrant program. 	\$2.0
Local Government <ul style="list-style-type: none"> Shifts \$1.7 billion of local redevelopment funds to offset state General Fund spending for education and other programs. Suspends various noneducation local government mandates for spending reductions of \$66 million. 	\$1.8
Employee Compensation <ul style="list-style-type: none"> Delays by one day state payments related to June 30, 2010 payroll for state employees, thereby reducing 2009-10 costs by \$937 million. Assumes that the Legislature will not approve proposed agreements with largest state employee union, which will reduce currently budgeted costs by \$210 million. Accounts for \$150 million of reduced costs due to CalPERS actions concerning state employee and retiree health premiums Furloughs most state employees of executive agencies a third day each month, reducing employee compensation costs by an additional \$425 million. 	\$1.8
Criminal Justice <ul style="list-style-type: none"> Reflects a reduction of about \$800 million in General Fund support for CDCR. Assumes \$50 million in savings from limiting the reimbursement rates paid to private contractors that provide medical care to inmates outside of prison. Reduces court funding by 10 percent for \$169 million of savings. Assumes one-day-per-month court closures. 	\$1.0
	<i>Continued</i>



Major General Fund Budget Solutions

(Continued)

Expenditure-Related Budget Reductions	
Social Services	\$1.0
<ul style="list-style-type: none"> • Reduces CalWORKS costs by \$510 million by reducing funding to counties, temporarily exempting some families from work requirements, and other measures. • Reduces IHSS costs by \$264 million by eliminating some services for all but the most severely disabled, making the least disabled ineligible for all services, eliminating the share-of-cost buyout program, and implementing several antifraud activities. • Reduces funding to counties for Child Welfare Services by \$80 million. • Rejects Governor's proposals to eliminate CalWORKS, Cash Assistance Program for Immigrants, and the California Food Assistance program. • Eliminates requirements for statutory COLAs for CalWORKs and SSI/SSP beginning in 2010-11. 	
Transportation	\$0.9
<ul style="list-style-type: none"> • Assumes \$562 million of higher "spillover" gasoline sales tax and related revenues will be available for General Fund uses. • Shifts \$225 million of Home-to-School Transportation funds to pay for public transit bond debt costs. 	
Other	\$0.7
<ul style="list-style-type: none"> • Assumes reduced cash-flow borrowing costs of \$210 million by adjusting schedule of cash payments, including delaying billions of dollars of school payments to later in 2009-10. • Authorizes Chief Information Officer to renegotiate information technology contracts and other costs. Assumes this generates savings of \$100 million. 	
	\$18.0
Increases in Revenues and Transfers to the General Fund	
<ul style="list-style-type: none"> • Increases schedules for payroll withholding by 10 percent. \$1.7 • Assumes that parts of State Compensation Insurance Fund can be sold in 2009-10. 1.0 • Accelerates receipts of personal income and corporation tax estimated payments. 0.6 • Other revenue-related actions. 0.2 	
	\$3.5
Increases in Borrowing	
<ul style="list-style-type: none"> • Suspends Proposition 1A, borrowing local government property taxes to offset state General Fund spending for education and other programs. \$1.9 • Loans \$135 million from the State Highway Account to the General Fund and other special fund loans. 0.2 	
	\$2.2
Total Budget Solutions^a	
	\$23.7
<p>^a In addition to the \$23.7 billion of solutions listed, the administration's scoring reflected as solutions (1) a reduction in the targeted reserve by \$418 million compared to the legislative leaders' budget agreement and (2) \$118 million of reduced 2008-09 spending unrelated to the budget package.</p>	



Proposition 98

Proposition 98 Funding						
<i>(In Millions)</i>						
	2008-09			2009-10		
	February Enacted	July Package	Change	February Enacted	July Package	Change
K-12 education	\$44,660	\$43,062	-\$1,599	\$48,315	\$44,637	-\$3,677
California Community Colleges	5,972	5,934	-38	6,482	5,669	-813
Other agencies	106	106	—	107	112	5
Totals	\$50,738	\$49,102	-\$1,636	\$54,904	\$50,418	-\$4,485
General Fund	\$35,036	\$34,052	-\$983	\$39,461	\$35,032	-\$4,429
Local property tax revenue	15,703	15,050	-653	15,442	15,386	-56

- Proposition 98 Spending Reductions.** Reduces Proposition 98 spending by \$6.1 billion over the two-year period relative to the February budget package, including \$5.3 billion in K-12 education and \$850 million in community college reductions.
- Reversion of 2008-09 K-12 Categorical Funds.** Reduces 2008-09 Proposition 98 spending by reverting \$1.6 billion in K-12 categorical funds that had not been distributed to school districts at the close of the 2008-09 fiscal year. These funds are subsequently provided to school districts in 2009-10.
- Revenue Limits Reductions.** Reduces K-12 revenue limits by \$4 billion to achieve 2009-10 savings. The reductions include a \$1.6 billion reduction to offset the restoration of categorical funds reverted in 2008-09.



Proposition 98

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- Additional Payment Deferrals.** The package also defers \$1.7 billion in K-12 revenue limit payments and \$115 million in community college apportionment payments from 2009-10 into the following fiscal year.

 - Quality Education Investment Act (QEIA).** Suspends a statutorily required \$450 million General Fund payment for the QEIA program. Instead, provides ongoing Proposition 98 funding for QEIA in 2009-10 and the program is extended an additional year, to 2014-15. School districts that receive QEIA funding will receive a comparable reduction to their revenue limits payments, but are eligible to apply for additional federal Title I funds in 2009-10.

 - Future Proposition 98 Obligation.** Establishes a statutory obligation to make \$11.2 billion in future "maintenance factor" payments as a result of funding reductions in 2008-09. Payments would be required in future years until the obligation is paid in full.



Higher Education

- Unallocated Reductions to Universities.*** Reduces General Fund support for the University of California (UC) and the California State University (CSU) by an additional \$1 billion each. When combined with cuts approved in February, and adjusting for new federal funds and fee revenues, the universities will experience cuts of about 8 percent in base funding.
- Student Fee Increases.*** Increases 2009-10 enrollment fees at the California Community Colleges (CCC) by \$6 per unit, generating \$80 million in new revenue for CCC. Student fees also will increase 9.3 percent at UC (generating \$166 million for the university) and 32 percent at CSU (generating \$366 million). Roughly one-third of the revenue from university fee increases would be directed to campus-based financial aid.
- Rejection of Governor's Cal Grant Proposals.*** Fully funds the Cal Grant programs for 2009-10, with \$32 million in General Fund savings created by using a like amount of funding from the Student Loan Operating Fund. The Legislature thus rejected the Governor's proposal to eliminate Cal Grants, as well as his proposals to decentralize Cal Grant administration and to eliminate two state higher education commissions. The Governor, however, vetoed \$6 million in support for financial aid administration, with a promise to restore \$4 million if his proposed decentralization proposal is eventually adopted.
- Community College Funding Reductions and Deferrals.*** Reduces CCC's Proposition 98 funding by \$812 million. Of this amount, \$115 million is deferred to 2010-11. When combined with federal funds and fee revenues, CCC's base funding will be reduced by about 8 percent.



Social Services

- Short-Term California Work Opportunity and Responsibility to Kids (CalWORKs) Savings.** Achieves savings of approximately \$510 million in 2009-10 primarily from reducing county block grant allocations for welfare-to-work services and child care. To help counties achieve these savings, budget legislation exempts families with a very young child, or two or more children under age six, from work participation requirements through June 2011.
- Out-Year CalWORKs Policy Changes.** Effective July 1, 2011, budget legislation reduces from 60 to 48 the number of consecutive months an adult may receive a cash grant, requires adults to meet with county workers every six months regarding work requirements, and gradually increases the amount of the grant sanction for cases which do not meet those requirements.
- In-Home Supportive Services (IHSS) Reductions.** Assumes savings of approximately \$264 million primarily from eliminating domestic and related services for all but the most severely disabled IHSS recipients, making the least disabled ineligible for all services, eliminating the share of cost buy-out program, and implementing several antifraud activities.
- Supplemental Security Income/State Supplementary Payment (SSI/SSP) Grant Reductions.** Reduces grants by \$5 per month for individuals and \$72 per month for couples, resulting in General Fund savings of \$108 million beginning on October 1, 2009.
- Cost-of-Living Adjustments (COLAs).** Beginning in 2010-11, eliminates automatic COLAs for CalWORKs and SSI/SSP.
- Child Welfare Services Reduction.** A gubernatorial veto reduces funding to counties by \$80 million.
- Several Program Eliminations and Reductions Rejected.** Rejects the Governor's proposals to eliminate the CalWORKs program, the Cash Assistance Program for Immigrants, and the California Food Assistance Program.



Health

- Federal Fiscal Relief for Medi-Cal.** Assumes \$1 billion in General Fund savings from obtaining additional federal funds.
- Unspecified Medi-Cal Reductions.** Assumes \$323 million in General Fund savings. How these savings would be achieved has not yet been determined.
- Regional Center (RC) and Developmental Center Programs.** Makes a \$284 million reduction in General Fund spending to programs administered by the Department of Developmental Services (DDS). (These are in addition to \$100 million in General Fund reductions for RCs in the February budget plan.)
- Healthy Families Program (HFP).** Rejects the Governor's proposal to eliminate HFP, which provides health care coverage to low-income children. Instead reduces General Fund support for HFP by \$179 million from the level in the February budget plan. This reduction would result in longer waiting lists for enrollment and other actions that would further reduce the caseload.
- Proposition 36.** Rejects the Governor's proposal to eliminate all funding for Proposition 36 programs. Instead eliminates \$90 million from the trust fund established by Proposition 36 while maintaining \$18 million in funding for the Offender Treatment Program, which also serves Proposition 36 offenders.
- COLAs for Long-Term Care Providers.** Freezes COLAs for Medi-Cal long-term care providers, including skilled nursing facilities, to achieve about \$76 million in General Fund savings.
- Centralization of Eligibility Determinations.** Authorizes development of a plan to centralize eligibility determinations for the Medi-Cal, CalWORKs, and Food Stamps programs. Implementation of the plan would be subject to later legislative approval.



Health

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Gubernatorial Vetoes. Reduces health spending approved by the Legislature by about \$300 million, including elimination of certain HIV/AIDS local assistance funding; elimination of all General Fund support for certain maternal, child, and adolescent health programs; and Medi-Cal and clinic funding reductions in addition to DDS and HFP reductions included above.



Transportation

- Additional Spillover Revenues.** Uses \$562 million in additional spillover gasoline sales tax revenues projected to be available in 2009-10 to reimburse the General Fund for transportation debt service. This amount is in addition to \$90 million assumed in the February budget.

- Redirection of Home-to-School Funding.** Redirects \$225 million in Public Transportation Account money to the General Fund for transportation debt service. These funds were allocated in the February budget to pay for Home-to-School Transportation in 2009-10.

- State Highway Account (SHA) Loan.** Loans \$135 million from the SHA (mainly gas tax revenues) to the General Fund. The loan must be repaid in three years with interest.

- Unrestricted Motor Vehicle Account (MVA) Revenues.** Transfers \$70 million in MVA revenues to the General Fund. These revenues are not restricted by Article XIX of the State Constitution in their use, and can thus be used for general purposes.



Judiciary and Criminal Justice

- Adult Corrections.** Reflects a reduction of \$788 million in General Fund support, which is in addition to the Governor's February veto of \$400 million (for a total reduction of about \$1.2 billion).

- Adult Correctional Health Services.** Assumes \$50 million in savings from limiting the reimbursement rates paid to private contractors that provide medical care to inmates outside of prison.

- Judicial Branch.** Reduces General Fund support for trial courts by an additional \$169 million, which would be accommodated primarily through implementation of a one day per month furlough, increased court fees, and the redirection of various special funds. Also eliminates the statutory requirement that trial courts automatically receive an inflationary adjustment each year based on the state appropriations limit.



Local Government

- Proposition 1A (2006) Suspension.** Borrows \$1.9 billion of city, county, and special district property taxes. Uses the funds to offset state General Fund spending for education and other programs. Establishes a state-financed loan repayment securitization program to offset the local fiscal effect of the borrowing.
- Redevelopment Shift.** Requires redevelopment agencies to shift \$1.7 billion (2009-10) and \$350 million (2010-11) into a new fund. Uses the resources to offset state General Fund spending for education and other programs. Allows agencies to extend the life of their redevelopment projects by one year.
- Mandates.** Suspends for one year the requirements of most mandates, with the exception of mandates relating to public safety, elections, or tax collection. Results in savings of \$66 million.
- Williamson Act Program Suspension.** The Governor vetoed essentially all funding for this program, which backfills property tax revenues that local governments forego when property owners agree to preserve land for agriculture or open space.



Resources and Environmental Protection

- State Parks Funding.** Does not include Governor's proposal to close most state parks or legislative proposal for a vehicle fee to support state parks system. Reduces instead General Fund support for state park operations by \$14 million (including \$6 million in gubernatorial vetoes)—from \$142 million to \$128 million. Reduction in General Fund support is unallocated and may result in the closure of some state parks. In a related action, \$62 million in loans from resources-related special funds were made to the General Fund.

- Emergency Response Initiative.** Rejects Governor's May proposal for a surcharge on property insurance policies statewide to partially fund emergency response activities (including wildland firefighting) and supplant \$76 million of General Fund support for CalFire in the budget year.

- California Integrated Waste Management Board (CIWMB).** Eliminates the CIWMB and consolidates the board's functions with other recycling programs under the Natural Resources Agency.



General Government

- Payday Deferral.** Defers over \$900 million of state employee paychecks to the next fiscal year by moving the June 30, 2010 pay-day to July 1, 2010.
- State Employee Pay and Benefit Costs.** Counts \$425 million in additional cost reductions related to the Governor's imposition of a third monthly furlough day for executive branch employees. A gubernatorial veto also reduces departmental funding for scheduled increases in pay and benefit costs by \$55 million (\$25 million General Fund), thereby requiring departments to "absorb" these costs. Rejects Governor's proposal to reduce state employee base salary by 5 percent.
- State Employee Health Benefits.** Scores \$150 million in savings to conform with announced changes in California Public Employees' Retirement System rates and fees.
- Information Technology (IT) Budgets.** Authorizes the administration to reduce IT budgets by \$100 million across state agencies by reviewing and renegotiating IT contracts.
- Board Eliminations and Consolidations.** Assumes \$50 million in savings from various board eliminations and consolidations.



Revenues

- Lowers Anticipated Revenue.*** Reduces projected General Fund revenues by \$3.5 billion due to the state's economic condition. This change reduces prior-year revenues by a net of \$0.5 billion and 2009-10 revenues by \$3 billion.
- Increases Withholding Rates.*** Increases by 10 percent the amount withheld from individual paychecks under the Personal Income Tax (PIT) program. This change is effective November 1, 2009, and increases General Fund revenues by an estimated \$1.7 billion in 2009-10.
- Revises Estimated Payment Schedules.*** Alters the amount of estimated taxes that individuals and corporations must submit to the state each quarter. This change accelerates the collection of these payments in the first half of 2010, thereby increasing General Fund revenues by \$610 million in 2009-10.
- Sale of State Compensation Insurance Fund (SCIF).*** Assumes that a portion of SCIF will be sold, resulting in General Fund revenue of \$1 billion in 2009-10.
- Rejects Tax Increases.*** Does not include legislative proposals to (1) raise cigarette taxes, (2) impose a severance tax on oil produced in the state, and (3) establish PIT withholding on payments to independent contractors.