



COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
Sacramento, CA 95814

SENATOR DENISE MORENO DUCHENY, CHAIR

MAY REVISION HIGHLIGHTS

May 15, 2007

Staff of the Senate Budget and Fiscal Review Committee prepared the attached overview of the May Revision which includes a summary of the General Fund.

Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analysis for subcommittee hearings that are scheduled to be concluded the week of May 21.

OVERVIEW OF GOVERNOR'S MAY REVISION

On May 14, the Governor released his May Revision. Total budget expenditures proposed in the May Revision from all sources (General Fund, special funds, and bond funds) are approximately \$145.9 billion. Total revised General Fund (GF) expenditures for 2007-08 are anticipated to be approximately \$103.8 billion.

The May Revision makes significant changes to the administration's proposals as presented in January. The key elements of the changes are as follows:

- Overall General Fund. The May Revision expect GF revenues of \$101.3 billion for 2007-08, when combined with a prior-year carryover balance of a little under \$4 billion, this provides a total of \$105.2 billion in available resources. General Fund expenditures are estimated at \$103.8 billion. The General Fund reserve is estimated at \$2.2 billion (this is a combination of the "traditional" GF reserve of \$704 million and \$1.5 billion in the Budget Stabilization Account).
- General Fund Reserve. In January, the General Fund reserve was estimated at \$2.1 billion for fiscal year 2007-08. Due to a combination of increased expenditures and reduced revenues, the reserve would have declined to approximately \$500 million. The following are major negative changes to the overall GF condition:
 - Proposed tribal gaming revenues have been lowered by \$192 million. Revenues are now expected to be \$314 million in the budget year.
 - Revenues from the General Fund's major tax sources (personal income tax, corporation tax, etc.) are projected to be up by \$564 million in the current year, but down by \$856 million in the budget year, for a combined two-year reduction of \$243 million.
 - Proposition 98 General Fund expenditures have increased by \$809 million over a three-year period beginning in 2005-06.
 - Pension Obligation Bonds (\$525 million) are no longer anticipated to be sold in 2007-08, and therefore require an equivalent backfill of GF.

The Governor's May Revision proposes to build-up the GF reserve with numerous proposals, the most significant are:

- Selling of the EdFund, estimated to generate \$1 billion in one-time revenues. The EdFund is an auxiliary agency of the Student Aid Commission that administers federal student loan programs for both in-state and out-of-state students in higher education, and is exempt from certain state employment and procurement laws.
 - Transferring \$600 million of the Tobacco Settlement securitization revenues that had been set aside to make future payments pursuant to the Proposition 98 Settlement agreement from 2006.
 - Eliminating the January 1, SSI/SSP state COLA for a savings of \$185 million.
 - Shifting an additional \$200 million of the transportation “spillover” to reimburse the General Fund for home-to-school transportation cost in the current year. The “spillover” is a portion of the gasoline sales tax that is received on top of Proposition 42 revenue. Spillover revenues increase in years when gasoline prices increase faster than the prices of other goods.
 - Eliminating the Williamson Act subvention to counties, for a savings of \$40 million.
- Long-term Leasing of the California Lottery. The Administration indicates the Lottery is underperforming on a per capita basis when compared to ten other states. This proposal has no direct impact in the budget year; and the Administration is not, at this time, proposing a detailed plan for utilizing proceeds from such a lease. However, the Governor did indicate that early repayment of Economic Recovery Bonds could be one of many possible uses of any proceeds.
- K-14 Education funding. The May Revise increases Proposition 98 funding by \$809 million over a three-year period to reflect the Administration’s revenue estimate. These proposed increases would provide \$316 million in 2005-06; \$380 million in 2006-07; and \$113 million in 2007-08.

The May Revise includes an additional \$227 million for revenue limit and categorical program cost-of-living adjustments (COLAs). This increases the COLA to 4.53 percent from the 4.04 percent initially provided in the January

Budget. Funding for COLAs is offset by enrollment funding reductions of \$293 million; this savings reflects a negative growth in average daily attendance of almost 0.48 percent.

The May Revision adds several new program expansions for K-12 education – specifically in the areas of career technical education, school nutrition, school information/data, preschool expansion, school safety, teacher/administrator retention and recruitment, and English language learner programs. However, it seems that the Administration has failed to account for equalization funding in the 2007-08 base revenue limit. So, it remains to be seen if Proposition 98 can sustain funding for all competing programs.

- Transportation. The Administration proposes to increase overall appropriations from Proposition 1B bond funds from \$7.6 billion to \$11.5 billion over a three-year period (rather than the typical one-year appropriation).
- Health Services. The May Revision proposes an increase of \$214 million (\$107 million GF) for a new rate method for Medi-Cal managed care.

In addition, provides \$8.3 million GF for salary increases to employees in job classifications, within the Departments of Developmental Services and Mental Health, affected by the *Coleman* and *Perez* court cases.

- Human Services. The Administration proposes to eliminate the January 2008 state portion of the cost-of-living adjustment (COLA) for the Supplement Security Income/State Supplemental Program (SSI/SSP) for a savings of \$185 million. The SSI/SSP provides cash assistance to eligible aged, blind, and disabled persons.

In addition, the May Revision maintains all proposed reductions to CalWORKs programs initially proposed in January, including: (1) imposition of full family sanctions, (2) elimination of safety net grants; and (3) elimination of grants for children due to parental ineligibility.

- Natural Resources and Environmental Protection. The May Revision proposes \$111 million from bond funds for the Air Resources Board (ARB) to implement its Trade Corridors Emission Reduction Incentive Program. According to the May Revision, the ARB will give priority to projects that

provide the greatest lifetime emissions reduction in each corridor for each state dollar invested.

- Corrections and Rehabilitation. The May Revision includes an overall increase of \$113 million GF based on various interactions within the California Department of Corrections and Rehabilitation (CDCR) budget, including, but not limited to: (1) savings of \$46 million from slower than expected adult population growth; (2) additional funding, \$9.6 million, for out-of-state transfers; (3) an additional \$25 million, for a total of \$175 million, to be expended by the federal Receiver for healthcare costs; and (4) \$18.7 million to augment peace officer recruitment efforts.

The May Revision contains funding for three anti-gang programs within CDCR: (1) \$3.3 million to implement a more sophisticated gang intelligence gathering unit within one prison; (2) \$3.3 million for three pilot programs to work with local law enforcement to disrupt gang activity; and (3) \$820,000 to expand Project IMPACT that involves former gang members talking to juveniles about leaving gang life.

- Judicial Branch. The May Revision includes an increase of \$37 million GF for Trial Court security. The funding is to support courtroom security, monitor screening stations, and transport prisoners within court facilities.
- Department of Justice. The Administration includes \$11.2 million GF to support the provision of Proposition 69, the DNA Fingerprint, Unsolved Crime and Innocence Protection Act.
- Office of Emergency Services / Office of Homeland Security. The May Revision includes \$76.1 million in transportation bonds to establish a California Port Security Grant Program to purchase security equipment. In addition, the May Revision provides \$101.5 million for the Transit Security Grant Program to be allocated to various mass transit systems to purchase security equipment.

In addition, the May Revision proposes \$7.4 million GF for local anti-gang suppression, intervention, and prevention grant programs. These funds would be available on a competitive basis to eligible local governments.

**2007-08 Governor's May Revision
General Fund Summary
(in millions)**

	Revised <u>2006-07</u>	Proposed <u>2007-08</u>
PRIOR YEAR BALANCE	\$10,540	\$3,961
Revenues and transfers	95,685	101,253 ^a
TOTAL RESOURCES AVAILABLE	\$106,225	\$105,214
Non-Proposition 98 Expenditures	\$61,072	\$61,836 ^a
Proposition 98 Expenditures	<u>41,192</u>	<u>41,929</u>
TOTAL EXPENDITURES	\$102,264	\$103,765
FUND BALANCE	\$3,961	\$1,449
Encumbrances	\$745	\$745
Special Fund for Economic Uncertainties	\$3,216	\$704
Budget Stabilization Account (BSA)	\$472	\$1,495
TOTAL AVAILABLE RESERVE	\$3,688	\$2,199

^a A total of \$2.046 billion will be transferred to the BSA consistent with Proposition 58. Of this amount, one-half will remain in the BSA for future purposes (shown as a reduction in revenue) and one-half will be transferred to accelerate the retirement of Economic Recovery Bonds (shown as an increase in expenditures).

**2007-08 May Revision
General Fund Revenue
By Source
(in millions)**

Source	Gov. Budget Jan. 10 Amount	Jan. 10 % of Total	May Revision Amount	May Revision % of Total
Personal Income Tax	\$55,598	54.9%	\$55,236	54.6%
Sales Tax	\$29,347	29.0%	\$28,841	28.5%
Corporation Tax	\$10,816	10.7%	\$11,053	10.9%
Other	\$5,516	5.4%	\$6,123	6.0%
<i>Total</i>	\$101,278	100%	\$101,253	100%

**2007-08 May Revision
General Fund Expenditures
By Major Program Area
(in millions)**

Major Program Area	Jan. 10 Amount	Jan. 10 % of Total	May Revision Amount	May Revision % of Total
K-12 Education	\$40,512	39.3 %	\$41,367	39.9 %
Health and Human Services	\$29,875	29.0 %	\$29,907	28.8 %
Higher Education	\$12,002	11.6 %	\$11,994	11.6 %
Corrections and Rehabilitation	\$10,043	9.7 %	\$9,969	9.6 %
Resources	\$1,472	1.4 %	\$1,687	1.6 %
Environmental Protection	\$86	0.1 %	\$90	0.1 %
Business, Transportation & Housing	\$1,588	1.5 %	\$1,650	1.6 %
Legislative, Judicial, Executive	\$3,793	3.7 %	\$3,864	3.7 %
General Government	\$3,077	3.0 %	\$2,543	2.5 %
State and Consumer Affairs	\$575	0.6 %	\$576	0.6 %
Labor and Workforce Development	\$118	0.1 %	\$118	0.1 %
<i>Total</i>	\$103,141	100%	\$103,765	100%