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Agenda
February 3, 2010
Room 4203
1:30 p.m.

*Governor's Special Session budget proposals not previously heard, and
alternatives to the Governor's proposals, including revenues.*

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1100 California Science Center

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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1100-001-0001 California Science Center

Admissions Fee Collection.

The Governor proposes trailer bill language to require the California Science Center to collect an admissions fee that would be deposited into a new Science Center Fund.

The admissions fee would replace \$12 million of the Science Center's current General Fund support budget of \$21.1 million. Of this amount, \$4.8 million is for bond repayments.

The trailer bill language does not specify the fee level that would be collected.

TBL \$12 million
GF

The Science Center is located in South Los Angeles. 57 percent of visitors to the Science Center are Latino, African-American, and Asian-American.

The Science Center receives an average of 1.2 million visitors annually. School groups make up approximately 33 percent of these visitors.

The Science Center has an annual budget of \$23 million, of which \$21.1 million is General Fund. The non-profit California Science Center Foundation, which assists in the operation of the Science Center, has a budget of about \$17.8 million.

The Science Center already charges for parking and IMAX movie tickets.

Museums similar to the Science Center that collect an admissions fee receive gross admissions fee revenues between \$600,000 and \$4 million annually.

3600 Department of Fish and Game

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
<p>General Fund Reduction to Hunting, Fishing, and Public Use.</p> <p>The Governor proposes a \$5 million GF reduction to recreational hunting and fishing programs.</p> <p>Including this proposal, the 2010-11 Governor's Budget provides the Hunting, Fishing, and Public Use Program with approximately \$73 million in support from various funds, including approximately \$10 million GF, \$37 million non-dedicated Fish and Game Preservation Fund, and \$18 million federal funds. The program conducts various wildlife and fish management activities, including but not limited to:</p> <ul style="list-style-type: none"> • Monitors and manages fisheries, including implementation of the Marine Life Management Act • Manages private lands for hunting • Surveils waterfowl for avian flu • Responds to nuisance wildlife incidents 		-5,000	<p>The Administration is unable to provide detail on the programmatic impacts associated with this proposal; however, the stated intent is to focus cuts on discretionary expenditures associated with recreational programming, as opposed to activities associated with protection of endangered or threatened species, or other federal or state mandates.</p> <p>Due to the fact that the department's recreational programs tend to leverage significant federal dollars, this proposal would likely reduce the amount of federal funds the state is able to pull down.</p>

0250 Judicial Branch

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
<p>Automated Speed Enforcement. The Governor proposes to allow cities and counties to institute automated speed enforcement systems through the use of devices similar to red light cameras currently used at intersections.</p> <p>There would be a tiered penalty structure with a total fine of \$225 for up to 15 miles/hour above the speed limit and \$325 for anything greater than 15 miles over the speed limit.</p> <p>The administration estimates total revenues of \$397.5 million to be allocated among the following:</p> <ul style="list-style-type: none"> • \$337.9 million (85 percent) to the Trial Court Trust Fund, with \$296.9 million for General Fund relief and \$41 million to augment the Branch's budget for court security. • \$59.6 million (15 percent) to be retained by cities or counties. 	<p>TBL</p>	<p>\$337,875 Trial Court Trust Fund</p> <p>\$59,625 City and County General Funds</p>	<p>Local governments will have the option to negotiate with vendors to install new or modify existing cameras for use in speed enforcement. The administration's revenue estimate assumes that about 83 percent of all existing red light cameras in California will be modified for speed enforcement use within six months.</p> <p>Under this proposal, the amount collected for a speeding citation issued by a camera and the distribution of the revenue collected would differ from current practice. Currently, the base fine for speeding is lower, but other fees and penalties are added to bring the total cost to a level similar to what is proposed. Current law also provides for a different distribution of the fines, fees, and penalties collected.</p> <p>The administration proposes BBL allowing DOF to augment any shortfall in revenues with General Fund. The TBL specifies that 85 percent of all revenues go to the Trial Court Trust Fund, not the General Fund, including any revenues in excess of projections.</p>

0250 Judicial Branch

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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Delay of Conservatorship and Guardianship Act. The Governor's budget reflects savings associated with the one-year delay of implementation of the Conservatorship and Guardianship Reform Act of 2006.

0 -\$17,377

The funding for this program was removed in fiscal years 2007-08, 2008-09, and 2009-10.

The funding was to be used for increased court oversight of the conservatorship and guardianship system.

5225

California Department of Corrections and Rehabilitation

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**Division of Juvenile Justice
Population Management Solutions.**

The Governor proposes to reduce the population of wards in state facilities by 398 through three policy changes:

- Reduction of the maximum age of jurisdiction from 25 to 21.
- Elimination of time adds.
- Transfer of wards over the age of 18 to state prison.

The Governor proposes trailer bill language to change the age of jurisdiction. The elimination of time adds and transfers can be achieved administratively.

The administration estimates savings of \$48 million in 2010-11, growing to \$65 million in subsequent years.

0 -\$48,000

TBL County jurisdiction in California ends at age 21.

Wards are sent to DJJ with indeterminate terms. Staff use time adds to increase a ward's term based on violations of disciplinary rules. On average, every ward spends an additional 7 months in a DJJ facility because of time adds.

It costs an average of about \$250,000 to house a ward in a DJJ facility for one year.

5225

California Department of Corrections and Rehabilitation

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
<p>Receiver Solution. The Governor proposes a reduction of \$811 million in the budget for inmate medical care. This would bring the average amount spent on medical care per inmate to \$5,740, a level similar to that spent in the state of New York.</p>	0	-\$811,000	<p>Under the Receivership, inmate medical costs have increased from about \$883 million in 2005-06 to \$1.8 billion in 2009-10. The proposal would leave \$967 million for inmate medical expenditures.</p> <p>The administration does not offer a specific plan for how these savings would be achieved, but options might include staff and salary reductions, reduced reliance on outside health care providers, contracting out for certain services, and expanded use of telemedicine.</p>

8910 Office of Administrative Law (OAL)

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
<p>Conversion to Billable Services. The Governor proposes to shift OAL to a fee-for-service model wherein OAL will bill client departments directly for its regulatory oversight responsibilities and all associated costs.</p> <p>Operationally, the Governor proposes to eliminate OAL's GF appropriation and its Central Service Cost Recovery Fund (CSCRF) appropriation to be replaced with an appropriation from the newly created Regulatory Oversight Revolving Fund (RORF). OAL will maintain a small amount of reimbursement authority in order to collect for training provided to state agencies, local entities, and interested members of the public.</p>	<p>TBL</p> <p>-\$1,670 GF</p> <p>-\$1,000 CSCRF</p> <p>\$2,800 RORF</p> <p>\$61 rembrsmnts</p>		<ul style="list-style-type: none"> • OAL reviews proposed administrative regulations and alleged “underground regulations” and maintains the CA Code of Regulations. • The new OAL funding model is modeled after DOJ’s Legal Services Revolving Fund. • The Administration proposes that the OAL will bill client agencies for services, likely through an Interagency Agreement. • In order to avoid cash flow issues associated with OAL’s dependence upon payments from other agencies, the OAL will have the ability to recover costs directly from client departments’ items of appropriations via a request to the State Controller’s Office. • Departments utilizing OAL will be expected to absorb the costs associated with the fee-for-service model. • In FY 2008-09, the most frequent users (500 pro-rata hours or more on an annual basis) of OAL were: CDCR, Consumer Affairs, Food & Agriculture, Fish & Game, DIR, ARB, Water Resources Control Board, and Mental Health.

7100 Employment Development Department/Employment Training Panel (EDD/ETP)

Governor’s Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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OVERSIGHT: Expenditure of Federal Stimulus, or ARRA, funds.

California has received nearly \$540 million in ARRA funds directed at job training and employment services:

- \$47 million in Employment Service/Wagner-Peyser funds.
- Of the \$489 million received under the federal Workforce Investment Act (WIA), approximately \$360 million was passed-through to local entities. Of the remaining WIA funds, EDD is responsible for \$56 million for dislocated worker rapid response activities and \$73 million for State WIA Discretionary Funds (15 percent) expenditures.

EDD and ETP recently entered into interagency contracts totaling \$20 million with the Energy Commission for a Green Jobs Training Initiative.

- The ARRA funds represent augmented funding to preexisting federal programs administered by EDD.
- The ES/Wagner-Peyser funds are administrative in nature and fund employment services staff in EDD One-Stop Centers; these funds are on-track to be expended by the end of the 2010-11 FY.
- Of the \$56 million in WIA funds for dislocated worker rapid response, \$4.2 million has been expended. These funds are provided by EDD to local WIAs that identify a specific need for additional funding due to a mass layoff of employees or the closure of a plant.
- Of the \$73 million in State WIA Discretionary Funds expenditures, \$21.2 million has been awarded but only \$1.6 million has been spent. In total, the \$73 million represented a year-to-year doubling of WIA 15 Percent funds.
- The EDD’s \$15 million contract under the CEC Green Jobs Training Initiative is nearing final stages, as subgrants are currently being issued.
- The ETP plans to award \$4.5 million in contracts under the CEC Green Jobs Training Initiative at its panel meetings on January 29 and February 26.
- EDD also received federal ARRA funds to pay additional unemployment insurance benefits.

7100 Employment Development Department – Employment Training Panel (EDD/ETP)

Governor’s Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
<p>Jobs Initiative. The Governor proposes to expand ETP grants and provide incentives to employers to hire and retain unemployed individuals for a specified period of time. The training reimbursement is \$1,400 per employee after three months worked; the employer incentive payment is \$3,000 per employee after additional six months worked.</p>	<p>\$32,000 special fund TBL</p>	<p>\$230,000 special fund</p>	<ul style="list-style-type: none"> • According to the Administration, the Jobs Initiative will create 100,000 new jobs and train an additional 140,000 Californians. • The UCDF is funded entirely by employees and finances a disability insurance system designed to compensate, in part, for wage losses sustained by individuals unemployed due to sickness or injury. • All total, \$500 million would be loaned from the UCDF to EDD/ETP over the next two and a half FYs; repayment could take as long as ten FYs because eliminating the ETT for negative reserve employers is estimated to generate only \$54 million per year.
<p>The budget proposes to fund the Jobs Initiative by a series of loans from the Unemployment Compensation Disability Fund (UCDF) to the EDD/ETP.</p>	<p>BBL</p>	<p>BBL</p>	<ul style="list-style-type: none"> • The ETT is capped at \$7/year per employee. Exempt employers are those with large seasonal workforces and high unemployment, such as agriculture, food processing, and construction.
<p>The budget proposes to repay the loans by permanently eliminating the Employment Training Tax (ETT) exemption for negative reserve employers.</p>	<p>TBL</p>	<p>\$54,000 special fund</p>	<ul style="list-style-type: none"> • The CY proposal consists of a \$32 million loan from the UCDF to EDD/ETP: (1) \$2 million would be used to hire three new PYs in the CY and (2) \$30 million would be used by ETP for training cost payments. • The \$230 million in the BY is split \$140 million for training cost payments and \$90 million for employer incentive payments. • The trailer bill would also expand the authority of the ETP to enter into partnerships to receive funding by a transfer rather than direct appropriation to the Employment Training Fund.

7100 Employment Development Department – Employment Training Panel (EDD/ETP)

Governor’s Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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Jobs Initiative - Tort Reform. The Governor proposes to: (1) Eliminate a seller’s strict liability for harm resulting from a consumer’s use of a defective product bought from the seller; (2) Cap punitive damage awards at no more than three times the award for compensatory damages; further, exempt manufacturers, distributors and sellers from product liability if their product was approved by or in material compliance with federal and state requirements and apply this exemption going forward as well as retroactively to all pending cases; and, (3) Cap noneconomic damage awards at \$250,000.

The Governor also proposes to adopt statutory rules for class action lawsuits including, but not limited to, allowing defendants to appeal class action certifications and requiring plaintiffs rather than defendants to pay for notification to other potential class members.

TBL

- According to the Administration, the proposals are intended to eliminate frivolous lawsuits and to foster an atmosphere where businesses can thrive.
- Existing law holds both sellers and manufacturers strictly liable for the injuries which result from defective products they have put in the marketplace; e.g., a claimant does not need to establish (1) that the seller acted unreasonably in placing the defective product into the market, or (2) whether or not the seller knew of the defect. Holding sellers strictly liable incentivizes them to choose carefully the products they sell and also spreads the losses among all those responsible for the product, rather than placing all responsibility on one company.
- Existing law caps only medical negligence noneconomic damage awards at \$250,000.
- According to the Administration, the proposed rules for class action guidelines are modeled on Rule 23 of the Federal Rules of Civil Procedure and intended to provide judges with adequate guidance and tools for the fair and efficient oversight of these actions.
- Legislation that is substantially similar, if not identical, to the trailer bill has been introduced in recent sessions; those measures all failed passage.
- The Jobs Initiative also proposes CEQA exemption trailer bill which was heard at the January 21 SBFR hearing; the remaining trailer bill, pertaining to Clean Tech Manufacturing and Homebuyers Tax Credits, will be heard on today’s agenda.

2660 California Department of Transportation

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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Transfer of tribal gaming compact revenues to the General Fund.

(Governor's proposal for regular-session)

The Administration proposes to shift \$95 million in tribal gaming compact money to the GF, instead of the current-law allocation to transportation funds. The February 2009 budget package enacted this shift for 2008-09 and 2009-10 – this proposal would extend the shift through 2010-11.

\$95,000
GF Revenue

Background on this issue:

The 2001 and 2002 budgets loaned about \$1.2 billion from the Traffic Congestion Relief Fund (TCRF) to the General Fund. Secondary loans were made from the State Highway Account (SHA) and the Public Transportation Account (PTA) to partially backfill the TCRF for the loan to the GF.

In 2004, AB 687 enacted new tribal-state gaming compacts that direct a portion of the compact revenue to the repayment of the above loans. The compacts generate revenue for this purpose of about \$95 million per year.

8885 Commission on State Mandates

Governor’s Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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Suspend certain mandates and defer payment on pre-2004 mandate claims. (Governor’s proposal for regular-session)

-\$232,184 Background on this issue:

Suspend mandates: The Administration proposes to extend the suspension of mandates that are currently suspended for 2009-10. This would generate GF savings of \$134 million.

Suspend mandates: As part of the 2009 Budget Act, most local non-education mandates were suspended for 2009-10, with the exception of certain mandates related to law enforcement, election procedures, open meeting requirements, and tax collection. Suspension makes the activity optional for locals, and the State does not incur any new costs for the year of the suspension. Additionally, the State can defer the payment of past mandate claims in the year of the suspension.

Defer payment of pre-2004 mandates: These payments were also deferred in 2008-09 and 2009-10. This would generate GF savings of \$95 million.

Defer payment of pre-2004 mandates: The State owes local governments approximately \$1.0 billion from pre-2004 mandate claims. Proposition 1A of 2004 requires repayment, but allows the state to repay over time.

Suspends two newly-determined mandates: (1) local recreational background checks (\$3.0 million); and (2) California fire incident report system (\$220,000).

Rev Revenue Issues

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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Governor's new tax expenditures (reductions in tax revenue).
 The Governor proposes two new tax credits/exemptions that would reduce GF revenue by approximately \$89 million in 2010-11. Note, the Governor's Budget scores no revenue loss, but the tax-collection entities have provided the following estimates of revenue loss.

Homebuyers Tax Credit. A total of \$200 million in credits is proposed with the limit for any individual taxpayer of \$10,000 to be applied in equal amounts over three successive taxable years. 2010-11 GF revenue loss is estimated at \$75 million.

Green manufacturing equipment sales tax exemption. A total of \$100 million, or more, annually ongoing is proposed in credits. 2010-11 GF revenue loss is estimated at \$14 million.

Homebuyers Tax Credit. This proposal is similar to a limited-term credit enacted as part of the February 2009 budget package – SB2X 15 (Chapter 11, Ashburn). However, that proposal was capped at \$100 million and this proposal is capped at \$200 million. This proposal is also broader – it allows the credit for an existing home if purchased by a first-time homebuyer.

Homebuyers
 \$75,000
 GF
 revenue loss

Green manufacturing equipment sales tax exemption. The Administration language for this proposal is AB 1111 as amended May 13, 2009 (Blakeslee). The credit would be granted by the California Alternative Energy and Advanced Transportation Financing Authority. If the credit grants exceed \$100 million in a single year, the Authority must notify the Legislature prior to making additional grants.

Green
 \$14,000
 GF
 revenue loss

Rev Revenue Issues

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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Governor's revenues related to the federal trigger.

The Governor proposes to delay the implementation of certain new tax breaks and extend the suspension of other tax breaks *only if* new federal revenues are less than \$6.9 billion.

Net Operating Loss (NOL) – extend the suspension through the 2010 tax year for GF savings of \$1.2 billion.

NOL carry back – limit new carry-back loss to 30 percent for GF savings of \$20 million.

Dependent credit – extend the reduction in the credit through the 2011 tax year for GF savings of \$504 million.

Credit sharing within unitary groups – delay until 2011 tax year for GF savings of \$315 million.

Elective single sales factor – delay until 2011 tax year for GF savings of \$300 million.

The revenue numbers at left are those DOF cited in the *Governor's Budget Summary*. In some cases, FTB or BOE have different estimates.

NOL – As part of the 2008 Budget Act, NOL was suspended for 2008 and 2009. However the carry-forward period was extended from 10 to 20 years, and a 2-year carry-back was added.

Dependent credit – As part of the February 2009 budget package, the dependent credit was reduced from about \$309 to about \$99 for 2009 and 2010.

Credit sharing within unitary groups – As part of the 2008 Budget Act, business credits were limited to 50 percent of liability for 2008 and 2009. However the credit sharing was liberalized.

Elective single sales factor – As part of the February 2009 budget package, business income apportionment was revised to allow businesses to choose to divide multi-state income by sales in each state, or using a combination of sales, employment and property – whichever minimizes tax obligation.

Rev Revenue Issues

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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REVENUE ALTERNATIVES – tax administration options.

- **Independent contractor withholding** – contract purchasers would withhold 3 percent of payment similar to wage withholding for employees (\$1.4 billion in revenue acceleration, largely one time).
- **Financial Institution Record Match (FIRM)** – financial institutions would be required to share account information on delinquent taxpayers to facilitate collection (\$31 million & growing)
- **Abusive tax shelter definition** – tighten definition (\$2 million)
- **Professional License Revocation** – when delinquent taxpayers do not agree to payment plan (\$19 million)
- **Sales tax nexus** – revise nexus to compel internet sellers to collect sales tax (\$107 million).

The tax administration options listed in this item were adopted by the Budget Conference Committee last year, but were not part of the final 2009 Budget Act. These changes to the administration of taxes would not raise taxes, but would accelerate revenue and/or increase collection of taxes owed. Because these options do not raise taxes, they can be enacted on a majority vote.

The revenues at left are updated numbers from the Board of Equalization (BOE) and the Franchise Tax Board (FTB).

Rev Revenue Issues

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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REVENUE ALTERNATIVES – tax increases.

(2010-11 revenue benefit is listed)

- **Oil severance** - impose an oil severance tax at 9.9 percent rate (\$1.3 billion).*
- **Sales tax** - broaden sales tax to certain services (\$1.1 billion).*
- **Alcohol tax** - increase alcohol excise taxes by 5 cents per drink (\$736 million).*
- **Cigarette tax** - increase cigarette tax by \$1.50 per pack (\$1.2 billion).**
- **Fuel tax** - increase fuel excise tax by 12 cents (\$2.0 billion).***

* January 2009 Governor's Budget

** Conference Committee budget

*** February 2009 Big Five proposal

The tax-increase options listed in this item were proposed by the Governor last year, and/or were part of a failed budget package.

The LAO can present these options and comment on any other tax increases it feels should be considered.

The revenues at left are updated numbers from the Board of Equalization (BOE).

Rev Revenue Issues

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**REVENUE ALTERNATIVES –
reduce tax expenditures.**

The following tax expenditures are LAO options.

- Phase out enterprise zone subsidies (\$400 million).
- Eliminate like kind real estate exchanges (\$350 million).
- Conform senior exemption to personal exemption (\$154 million).
- Eliminate exemption for employer-provided life insurance (\$105 million).
- Tax Social Security income (\$100 million).
- Eliminate exemption for employer-provided parking (\$100 million).
- Eliminate small business stock exclusion (\$20 million).
- Doctor and veterinarian sales – tax markup (\$80 million).

The revenue numbers at left are those LAO is using in their handout. In some cases, FTB or BOE have different estimates.

Rev Revenue Issues

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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**REVENUE ALTERNATIVES –
Panel discussion on additional
revenue options.**

The follow panelists represent organizations that have advocated for revenue increases as part of the budget solution. They can present other alternatives, comment on the revenue options in this agenda, and discuss the relative impacts of these revenues on economic activity.

Jean Ross
Executive Director
California Budget Project

Lenny Goldberg
Executive Director
California Tax Reform Association