



Senate Budget and Fiscal Review Committee
Senator Denise Moreno Ducheny, Chair
State Capitol, Room 5019
651-4103

SUMMARY OVERVIEW

PROPOSED 2008-09 SPECIAL SESSION PACKAGE

On November 6, 2008 the Governor called the Fourth Extraordinary Session due to the sudden and massive drop in revenues, which saw revenue projections drop by \$11.2 billion for 2008-09 and \$13 billion for 2009-10. The Legislative Analyst then announced they projected a budget shortfall – including reduced revenues and increased expenditure requirements – totally \$28 billion over the next 19 months.

Both the Governor and the LAO have made clear the following:

- ◆ The Legislature must act to both raise revenues and to cut expenditures.
- ◆ The Legislature must act quickly.

The Special Session Package now before the Legislature meets both of these requirements: within weeks of the Governor's call of the Special Session, a balanced package of \$17.1 billion of General Fund solutions is now before the Legislature.

The package consists of \$8.1 billion in spending cuts, \$8.1 billion in tax increases, and about \$800 million of other solutions, such as fund shifts. There is no borrowing, there are no gimmicks – only real, ongoing solutions that make real progress toward resolving the \$28 billion shortfall.

The package is based on the direction of cutting \$1 of spending for every \$1 of tax increase. The following chart summarizes the \$17.1 billion of solutions:

(in billions)

Type of Solution:	2008-09	2009-10	Total
Budget Cuts	\$3.605	\$4.533	\$8.138
Revenue Increases	\$2.820	\$5.295	\$8.115
Other Solutions	\$.372	\$.451	\$.823
Total Solutions	\$6.797	\$10.279	\$17.076

Under this package, the current year is nearly brought into balance and the budget year deficit is reduced from -\$27.8 billion to -\$10.7 billion. While a lot of work needs to be done, this package is an important first step.

The following provides a summary of the key areas of the Special Session Package.

Revenue Increases:

- ◆ **Personal Income Tax Brackets.** Maintains the 2007 Personal Income Tax brackets for 2008, rather than allowing them to adjust based on a formula that would adjust beyond inflation levels for the year. Under this, taxpayers will pay the same amount of taxes on the same level of income in 2008 as they did in 2007. This generates \$1.4 billion for 2008-09 and \$1 billion for 2009-10.

This will result in a modest tax increase in accordance with the following:

- \$79 average tax increase for taxpayers with Adjusted Gross Incomes (AGI) between \$40,000 and \$50,000.
- \$127 average tax increase for taxpayers with AGI between \$50,000 and \$100,000.
- \$200 average tax increase for taxpayers with AGI above \$100,000.

The additional taxes paid are federally deductible for those that itemize their federal deductions.

- ◆ **Vehicle License Fee.** Restores the Vehicle License Fee (VLF) to two percent of a car's value – the same level that was in place from 1948 until the late 1990s. This generates \$1.4 billion in 2008-09 and \$4.3 billion in 2009-10.

The VLF is calculated based on the purchase price of the car, with an annual depreciation of 10 percent. So a car purchased five years ago for \$20,000 would be valued at \$10,000. Under this proposal, this car's VLF would increase by \$135.

The additional VLF paid are federally deductible for those that itemize their federal deductions.

Education Solutions:

- ◆ **Current Year Reductions.** Reduces Proposition 98 spending by the \$2.5 billion level proposed by the Governor. However, this package of reductions does not follow the Governor's proposal to cut school district revenue limits, and instead targets specific programs that mitigate direct impacts on classroom instruction.
- ◆ **Settle-Up Solutions.** Adopts a variation of the LAO's proposal to count a portion of current year spending as "settle-up" dollars rather than Proposition 98 dollars. This does not reduce current year education spending, but does provide additional Proposition 98 flexibility in the budget year.
- ◆ **CSU and UC Reductions.** Adopts the Governor's proposal to cut \$132 million from the UC and the CSU.

Health and Human Services Solutions:

- ◆ **SSI/SSP.** Reduces SSI/SSP grants in 2009 back to the 2008 level and suspends the budget year state COLA. Together these actions will save about \$156 million in the current year and about \$500 million in the budget year. However, this ultimately means that the state's neediest elderly and disabled individuals will lose more than \$700 per year (and couples more than \$1,300).

- ◆ **CalWORKS.** Suspends the budget year CalWORKS COLA to save about \$100 million.
- ◆ **Regional Centers.** Reduces, by three percent, certain payments for services delivered to individuals with developmental disabilities for the period from December 1, 2008 to June 30, 2010, as proposed by the Governor. This results in a reduction of \$33.3 million General Fund for 2008-09 and \$60 million in 2009-10.

Also reduces the Regional Center Operations' budget by \$6.5 million General Fund in 2008-09 and \$12.2 million in 2009-10 by suspending certain case management ratios and administrative requirements.

Local Government Solutions:

- ◆ **Local Public Safety Programs.** Approves the Governor's proposal to eliminate General Fund support for various local law enforcement programs which saves approximately \$250 million in the current year and \$500 million in the budget year. These cuts are mitigated by reallocating Vehicle License Fee revenues (\$150 million in the current year and \$359 million in the budget year) to support these local programs.
- ◆ **Williamson Act Local Backfill.** Approves the Governor's proposal to eliminate the \$34.7 million backfill to counties. This does not, however, make any changes to the underlying program to preserve agricultural land.

Transportation Solutions:

- ◆ **State Transit Assistance.** Reduces annual funding for the State Transit Assistance (STA) from \$306 million to \$150 million. The Governor had proposed to eliminate the program entirely.
- ◆ **Fund Shifts.** Achieves \$185 million in General Fund solutions by shifting eligible Motor Vehicle Account funds and Tribal Compact revenues to the General Fund.

Various Other Solutions:

- ◆ **Judicial Branch Solutions.** Achieves \$91 million in solutions from the Judicial Branch with a reduction to the 2008-09 COLA for the trial courts and a one-time transfer from the Trial Court Improvement Fund to the General Fund.
- ◆ **Office of Emergency Services.** Eliminates \$30 million in funding for the gang initiative and various other programs.
- ◆ **Office of Planning and Research.** Eliminates \$2.5 million in funding for the Cesar Chavez grants.
- ◆ **Employee Compensation.** Reduces funding for employee compensation by \$240 million in the current year and \$417 million in the budget year, however, the savings is required to be negotiated through the collective bargaining process.