



2009-10 MAY REVISION GENERAL FUND PROPOSALS

INTRODUCTION

In February, the Governor signed a budget for 2009-10 five months before the constitutional deadline. That budget included spending cuts and revenue increases totaling \$41.6 billion and eliminated the largest budget gap in the state's history.

As the global recession has deepened, the budget has again fallen out of balance. Specifically, the May Revision projects spending this year and next will exceed available funds by \$15 billion in the absence of any corrective action. Moreover, the budget assumes the passage of propositions 1A, 1B, 1C, 1D and 1E on the May 19 ballot. Should these measures all fail, the budget will be an additional \$5.8 billion out of balance in 2009-10. Out-year deficits would also be higher given a revenue loss of \$16.2 billion. INT-01 displays the changes in estimates that result in the new budget shortfall.

May Revision Budget Shortfall (Dollars in Millions)

	Total Reserve
June 30, 2010 Reserve Projected as of 2009 early Budget Act	\$2,103
Workload Adjustments:	-\$15,546
Revenues	-12,401
Proposition 98 Expenditures (Mainly Property Tax Revenue Loss)	-1,090
Non Proposition 98 Expenditures	-2,317
Federal Stimulus Funds General Fund Offset	262
Rebuild Reserve	-2,000
Budget Shortfall Assuming Passage of the Propositions	-\$15,443
Budget Shortfall if the Propositions Fail on May 19	-\$21,279

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

The May Revision proposes solutions to restore the 2009-10 budget to balance, offsetting the revenue losses and caseload-driven cost increases resulting from the global recession. These solutions, however, assume that propositions 1A, 1B, 1C, 1D and 1E are approved on May 19. Recognizing that the propositions may fail, the May Revision also proposes a set of contingency solutions to offset the additional budgetary gap that would result. The two tables below summarize the May Revision proposals and the May Revision Contingency proposals.

MAY REVISION PROPOSALS

Figure MPA-01 displays General Fund primary solutions for 2008-09 and 2009-10 proposed in the May Revision.

Figure MPA-01

Recap by Category of May Revision Proposals

(Dollars in Millions)

	Impact on GF Reserve			Percent to Total
	2008-09 and Prior	2009-10	Two-Year	
Reorganization/Consolidation	\$0.0	\$50.0	\$50.0	0.3%
Program Savings	2,020.0	3,539.6	5,559.6	38.2%
Cuts Requiring Federal Waivers	0.0	750.0	750.0	5.2%
Revenue Accelerations/Fees	0.0	988.9	988.9	6.8%
Fund Shifts	12.5	92.9	105.4	0.7%
Other	0.0	1,100.0	1,100.0	7.6%
Borrowing	0.0	6,000.0	6,000.0	41.2%
Total	\$2,032.5	\$12,521.4	\$14,553.9	100.0%
Change in Reserve (from \$2 billion)		889.0	889.0	
Total with Change in Reserve	\$2,032.5	\$13,410.4	\$15,442.9	

**REORGANIZATION, CONSOLIDATIONS AND CAPITALIZING ON STATE ASSETS
—CONTINUING THE WORK OF THE CALIFORNIA PERFORMANCE REVIEW**

Over the past five years, the Administration has worked to eliminate outdated functions, become more efficient, eliminate redundancy and reduce costs. The state's unprecedented budget shortfall presents an opportunity for state government to increase efficiency, spend less and eliminate duplication and functions that are not absolutely critical.

The Administration proposes to follow up on the work of the California Performance Review (CPR) conducted in Governor Schwarzenegger's second year in office. Many of the CPR's recommendations have already been implemented. The May Revision builds on the Governor's Budget to include additional reorganization proposals to achieve savings of at least \$50 million General Fund in the budget year. The Administration will submit the following proposals to promote efficiency:

- Streamline and realign energy functions by consolidating and reorganizing functions from twelve different entities into a single Department of Energy to help California meet greenhouse gas reduction and renewable energy goals.
- Consolidate and realign recycling and cleanup, spill prevention and pollution prevention programs, and eliminate the Integrated Waste Management Board.
- Consolidate the Department of Corporations, Department of Financial Institutions, Department of Real Estate and Department of Real Estate Appraisers.
- Eliminate duplication and improve tax collections by merging tax collection operations currently split between the Franchise Tax Board (FTB), the Board of Equalization (BOE), and Employment Development Department (EDD).
- Eliminate the Department of Boating and Waterways and transfer its functions to the Department of Parks and Recreation.
- Consolidate the Postsecondary Education Commission and the Student Aid Commission.
- Eliminate the Office of Environmental Health Hazard Assessment and transfer its duties to the Department of Public Health.
- Eliminate the Department of Community Services and Development and transfer its functions to the Department of Social Services and to the new Department of Energy.

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

- Transfer operations of the Science Center to a not-for-profit entity or to an appropriate governmental entity and ensure this center remains viable during these difficult budget times.
- Eliminate the San Francisco Bay Conservation and Development Commission as a state department and realign its functions to a regional entity.
- Eliminate the Bureau of Naturopathic Medicine.
- Eliminate the Telephone Medical Advice Services Bureau.
- Consolidate the Board of Geologists and Geophysicists with the State Mining and Geology Board.
- Consolidate the Professional Fiduciaries Bureau under the Board of Accountancy.
- Consolidate the Board of Behavioral Sciences, the Board of Psychology, the the duties of the Board of Vocational Nurses and Psychiatric Technicians to oversee psychiatric technicians, into a new Board of Mental Health.
- Consolidate the Hearing Aid Dispensers Bureau under the Speech-Language Pathology and Audiology Bureau.
- Consolidate the nursing oversight functions of the Board of Vocational Nursing and Psychiatric Technicians with the Board of Registered Nursing.
- Elimination of the Court Reporters Board.
- Elimination of the Inspection and Maintenance Review Committee and transfer its functions to the Bureau of Automotive Repair.
- Elimination of the Landscape Architects Technical Committee and transfer its licensing duties to the Architects Board.

In addition to presenting an opportunity for state government to increase efficiency and spend less, this economic crisis and resulting budget shortfall demands that the state explore every opportunity to raise revenues, without increasing taxes, to protect vital program services. To that end, the Administration will be pursuing legislation to capitalize on California's real estate – one of the state's greatest assets. The proposed legislation and associated administrative actions will increase the amount of money the state raises from state property through long-term leasing of unused properties, the sale of high-value property, refinancing of state-owned buildings, and the accelerated sale of surplus property. Improvements to the state's management of properties can help better position California for the future.

PROGRAM SAVINGS

Major proposals previously included in the Governor's Budget but not adopted as part of the 2009 Budget Act are as follows:

- \$34.7 million—**Payments to Counties for Agricultural and Open Space Land Preserves.** The May Revision proposes to eliminate state subventions to local governments for open space and agricultural land under the Williamson Act. Currently, the State backfills a portion of the revenue lost by local governments when they enter into voluntary agreements with land owners for lower property tax assessments when those land owners agree to use the land only for agricultural or open space purposes.
- \$120.2 million—**Eliminate the Cash Assistance Program for Immigrants (CAPI) and the California Food Assistance Program (CFAP).** The CAPI allows approximately 12,000 aged, blind, and disabled legal immigrants, who would be eligible for the SSI/SSP program but for their immigration status, to receive cash assistance. The CFAP provides benefits to more than 22,000 low-income legal non-citizens between the ages of 18 and 65, who meet all the eligibility requirements for the federal Food Stamp program but have resided in the United States for less than five years. This proposal, which would become effective October 1, 2009, would eliminate these state-only programs.
- \$132.2 million—**Lower Cost Health Plan.** Decrease health care costs beginning in January 2010 by contracting for lower cost health care coverage either through CalPERS or directly from an insurer. Savings beginning in 2010-11 will prefund Other Post-Employment Benefit (OPEB) costs.
- **25-Year Health Benefits Vesting for New Employees**—Reduce the OPEB, unfunded actuarial accrued liability (UAAL) by 38 percent over 30 years, by requiring that new employees work for 25 years or more before becoming eligible for free lifetime health benefits.
- \$125 million—**Medi-Cal—Reducing Services for Newly Qualified Legal Immigrants and for those Permanently Residing under Color of Law.** Effective October 1, 2009, this proposal would limit benefits for newly qualified immigrants (over the age of 20 and excluding pregnant women) and immigrants permanently residing under the color of law to emergency services only.
- \$2.8 million—**Science Center Phase II Delay.** Delay the opening of the Science Center World of Ecology by one year. New opening date would be spring 2011.

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

- \$40.8 million—**Limit In-Home Supportive Services (IHSS) Domestic and Related Services to the Most Functionally Impaired.** This proposal, which would become effective October 1, 2009, would limit the provision of domestic and related services to individuals with the highest levels of need.
- \$38.2 million—**Limit IHSS Share-of-Cost Buyout to the Most Functionally Impaired.** This proposal, which would become effective October 1, 2009, would target the state buyout program, which reduces the costs IHSS recipients whose Medi-Cal share of cost is higher than their IHSS share of cost must incur before receiving subsidized services to persons with the most severe needs.
- \$114.1 million—**Limit State Participation in IHSS Wages.** This proposal, which would become effective October 1, 2009, would reduce state participation in the wages of IHSS workers to the state minimum wage of \$8.00 per hour, plus \$0.60 per hour for health benefits.
- \$248.5 million—**Reduce Supplemental Security Income/State Supplementary Payment (SSI/SSP) Grants.** This proposal would reduce maximum monthly grants to the minimum federally allowed levels for individuals and couples. This proposal, which would become effective September 1, 2009, would reduce the maximum SSI/SSP grant for an aged/disabled individual to \$830 per month and the maximum grant for aged/disabled couples to \$1,407 per month.
- \$156.7 million—**CalWORKs Reforms and Cost Containment.** This proposal, which would become effective October 1, 2009, would: (1) modify the Safety Net program by continuing benefits for families beyond their 60-month time limit only if they meet federal work participation requirements, (2) provide cash aid for families receiving child-only benefits in a manner consistent with other CalWORKs families, (3) institute a face-to-face self-sufficiency review every six months with a county worker for CalWORKs families who are not meeting work requirements, and (4) reduce the CalWORKs maximum aid payment standard by six percent.
- \$87.5 million—**Various CalGrant Cost Containment Measures.** This solution includes elimination of new awards for the Competitive CalGrant program (\$52.9 million), freezing income eligibility (\$7 million); reducing maximum awards for students attending private institutions from \$9,708 to \$8,322 (\$11 million), and partially decoupling award levels from UC and CSU fee increases (\$16.6 million).

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

MAJOR NEW PROPOSALS:

- \$6.6 million—**No State Capitol Repairs in 2009-10.** Delay repairs of the State Capitol provided by the Department of General Services for one year.
- \$234 million—**Increase Savings Target for Developmental Services.** This proposal would require a Developmental Services savings target of an additional \$234 million. The Regional Centers (RC) are already required to identify program changes to achieve \$100 million in General Fund savings pursuant to the early 2009 Budget Act. The Department of Developmental Services has worked with stakeholders to develop proposed changes to RC services to achieve required savings. This collaborative process should continue to achieve the new savings target.
- \$75 million—**Medi-Cal—Pharmacy Reforms.** Implement new federal and state drug pricing policies aimed at lowering costs and retaining quality care. Effective October 1, 2009, these reforms would require federal Drug Pricing providers to dispense only drugs purchased through the program, would require manufacturers of HIV/AIDS/cancer drugs to pay particular rebates subject to a penalty of non-compliance, establish upper billing limits for drugs, and would require the state to perform therapeutic category review of antipsychotic drugs.
- \$47.9 million—**Medi-Cal—Anti-Fraud Initiative.** More aggressively target fraud in adult day health care centers, pharmacy, physicians, durable medical equipment, and transportation. These efforts would require 62 new positions and \$3.4 million General Fund in 2009-10. Savings would increase significantly after startup in 2009-10 and rise from \$47.9 million to approximately \$87.0 million in the out years.
- \$20 million—**Medi-Cal—Reduce Payments to Private Hospitals by ten percent.** This proposal would achieve necessary savings by reducing General Fund support for private hospitals by ten percent, a commensurate reduction as public hospitals received in the enacted 2009 Budget Act.
- \$36.8 million—**Medi-Cal—Roll back Rate Increase for Family Planning Services.** Reduce the rates for family planning services to the pre-January 2008 level. Chapter 636, Statutes of 2007, increased the reimbursement rates for services by approximately 90.9 percent.
- \$2.7 million—**Eliminate Certified Application Assistance.** Eliminate certified application assistance which provides up to \$60 to contractors for helping individuals enroll and remain in the subsidized children's health insurance coverage.

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

- \$15.8 million—**IHSS Anti-Fraud Initiative**. This proposal would significantly increase the prevention and detection of fraud within the IHSS program, thereby ensuring that scarce resources are being used to serve eligible people and to pay for actual services rendered rather than misdirected.

Funding for the University of California and for the California State University:

- \$1.020 billion (current year only)—**Reduce Funding to UC and CSU without Violating the Federal Stimulus MOE Requirement**. The 2009-10 February enacted budget reflects \$742 million in General Fund policy reductions from the September 2008 Budget Act for the University of California and California State University combined (net of standard base adjustments and replacement of Lottery revenue associated with the securitization proposal). Those reductions reflected: (a) an ongoing reduction enacted in the special session amendments to the 2008 Budget Act to achieve the 10-percent reduction initially proposed in the January, 2008 Governor’s Budget (\$132.2 million), and (b) an unallocated reduction of \$610 million.

The May Revision now proposes the following significant additional adjustments for UC and CSU which are necessary to address the deterioration in revenues. This proposal would reduce both segments by \$510 million each in the current year. This amount is anticipated to be fully offset with State Fiscal Stabilization Fund allocations based on the formulas prescribed in federal law, of which \$537 million (\$268.5 million each) was allocated in April.

- \$1.0 billion in 2008-09 and \$2.0 billion in 2009-10—**Reduce Proposition 98 Funding**. The 2009-10 Budget Act adopted in February reduced Proposition 98 by \$7.3 billion, to \$50.7 billion, in 2008-09 and by \$2.9 billion, to \$56 billion, in 2009-10. Of these reduction amounts, \$5 billion and \$404 million respectively, consisted of deferrals and fund shifts. In addition, to help school districts minimize impacts to essential classroom instruction, the budget package provided relief from a variety of strings attached to 42 categorical programs, thereby, allowing them to shift funds to meet their highest priority needs. The package also significantly reduced the penalties associated with K-3 Class Size Reduction by allowing districts to retain up to 70 percent of funding even if pupil-to-teacher ratios increase more than 25 to 1, which provides greater budget flexibility. However, due to the continued precipitous decline in revenue, the Proposition 98 guarantee drops substantially, necessitating further reductions. As a result, the May Revision will include a variety of additional flexibility proposals to minimize the impact of the revenue shortfall on schools.

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

Proposition 98 funding would be reduced to \$49.7 billion from \$50.7 billion in 2008-09 and to \$53.7 billion from \$55.9 billion in 2009-10. However, we note that these reductions would be largely offset by the \$3.3 billion in federal State Fiscal Stabilization Fund and the \$2.8 billion in other federal funding increases which are being provided to schools through the federal American Recovery and Reinvestment Act in 2008-09 and 2009-10. Specific proposals include:

- A reduction of \$114 million in 2008-09 for eliminating the High Priority Schools Program.
- A reduction of \$694.3 million in 2008-09 for a one-time school district apportionment (revenue limit) reduction.
- A reduction of \$85 million in 2008-09 from Community College categorical funding.
- A deferral of \$115 million in Community College apportionments from the 2008-09 fiscal year to the 2009-10 fiscal year.
- An increase of \$8.3 million in 2008-09 to reflect a base adjustment to Charter School Economic Impact Aid funding.
- A reduction of \$950 million in 2009-10 to school district apportionments (revenue limits).
- Other adjustments in 2009-10 including \$36 million in child care savings associated with reducing the high incidence of overpayments to providers in voucher-based programs.
- Flexibility that provides school districts the option to reduce up to one week of instructional time at local discretion, limited to no more than three years. We note that this proposal was included in the Governor's Budget proposal in January, but not adopted by the Legislature. However, school district superintendents and others have requested that the Administration reintroduce this option to minimize the impact of budget reductions. Additionally, the Administration will propose several other broad statutory and regulatory flexibility options, such as contracting out, to assist districts in making ends meet while maintaining quality instruction to the extent possible.
- A deferral of \$640.3 million in school district apportionment payments from the 2009-10 fiscal year to the 2010-11 fiscal year.

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

- A reduction of \$221.6 million in 2009-10 to Community College categorical programs, which will be accompanied by flexibility reforms similar to those included in the February budget package for K-12 categorical programs.
- A reduction of \$58.4 million in 2009-10 to enrollment growth for Community College apportionments.
- A reduction of \$120 million in 2009-10 to Community College apportionments by reducing the funding rate for credit physical education and recreational courses to the regular non-credit rate.
- Additionally, it is noted that community colleges are projected to absorb a \$42.1 million 2008-09 property tax shortfall and another \$116.7 million in 2009-10.
- An increase of \$940.3 million in 2009-10 to reflect property tax, attendance and other adjustments.
- Due to state cash flow shortfalls, it may be necessary to move certain K-12 payments from the scheduled payment dates to a different date such as moving K-12 program payments from the beginning of July to the end of the month and some portion of the July and August payments may be shifted to October of 2009.

CUTS REQUIRING FEDERAL WAIVERS

Major new proposals:

- \$750 million—**Federal Medi-Cal Flexibility and Stabilization.** During this time of financial crisis, California requires flexibility to manage its Medi-Cal program within available state resources. The federal government has provided California significant fiscal relief under the federal stimulus. However, the current trajectory of Medi-Cal growth is unsustainable. California faces unique challenges because of the effective cost control mechanisms that have been the hallmark of the program for decades. The low cost of the program has allowed the state to extend coverage to many populations not covered in other states.

The state cannot afford its Medi-Cal program as currently structured and governed by federal rules and regulations. The Administration has reluctantly proposed eligibility reductions previously and continues to believe such roll-backs are necessary for California to manage the program within available resources. Under the new federal requirements of the ARRA, such reductions are no longer permitted. Relief from federal requirements is essential. To the extent relief from ARRA restrictions is not permissible, the state will need to secure additional federal program flexibility and implement reductions to manage

the program within available resources. Legal constraints associated with the rates paid in this program represent further limitations on the state's ability to contain Medi-Cal costs. Strict federal rules that govern state Medicaid program administration constrain states' ability to reduce overall program expenditures.

Consequently, the Governor will petition the Obama Administration to work with California to secure essential program flexibilities to slow the rate of program growth and manage Medi-Cal within available resources, support the state's authority to determine eligibility, the adequacy of provider rates and scope of benefits, and recognize the state's long-standing record of cost-containment. In addition, the Administration will work with Congress and other states to resolve longstanding, unreimbursed Medicaid claims owed to states associated with the delayed federal classification of certain permanent disability cases. Taken together, this federal support will help stabilize the nation's largest Medicaid program and its ability to preserve essential health services to low-income Californians.

REVENUE ACCELERATIONS/FEES

Major proposal previously included in the Governor's Budget but not adopted as part of the 2009 Budget Act is as follows:

- \$2.8 million—**Veterans Homes Resident Fees**. An increase of \$2.8 million in fees collected from the residents of the Veterans Homes. Currently, residents pay fees on a percentage of income, up to a dollar cap, based on the level of care. This proposal would increase fees by removing the dollar cap, increasing the percentage for the Residential Care for the Elderly, and revise the fee structure for non-veteran spouses to more accurately reflect their share of cost.

Major new proposals:

- \$610 million—**Accelerate Estimated Payments**. The May Revision proposes to accelerate payments into the 2009-10 fiscal year by increasing the amount of the estimated payment due for individuals and corporations in June from 30 percent of liability to 40 percent.
- \$40.1 million—**Shift Department of Industrial Relations Major Programs to Fees**. Increase employer fees to fund the Occupational Safety and Health program and the Labor Standards Enforcement program. The 2010-11 and ongoing General Fund cost reduction will be \$61.8 million annually. Shifting these DIR programs to fee-support will enable the programs to receive the appropriate level of resources on a long-term basis to enhance enforcement efforts. As such, the Administration will submit legislation to repeal existing statutes that encourage frivolous lawsuits and inhibit job creation.

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

- \$336 million—**Transit Debt Service.** “Spillover” revenues occur when revenue derived from sales taxes on gasoline is proportionately higher in relationship to revenue derived from all taxable sales, and generally reflect higher gas prices. Thus, this funding source would have otherwise gone to the State’s General Fund. The May Revision includes an increase of \$336 million in 2009-10, which will fund transit bond debt service costs.

FUND SHIFTS

Major new proposals:

- \$31 million—**Child Welfare Services.** Federally Subsidized Kinship Guardianship Assistance Payment Program. The recently enacted federal Fostering Connections to Success and Increasing Adoptions Act makes federal funding available for certain guardianship agreements that provide children who would otherwise be in the foster care system with a permanent and stable living arrangement with a relative family member. The Administration wrote to federal Health and Human Services Secretary Sebelius on May 13, 2009 requesting that federal guidance on this legislation be amended to allow California’s 16,000 existing guardianship agreements in the Kinship-Guardianship Agreement Payment (KinGAP) program to also be eligible for federal funding. General Fund savings of up \$31 million would result in 2009-10 if all cases are ultimately eligible for federal support.
- \$30 million—**Fund Shift from the Fish and Game Preservation Fund.** The May Revision proposes to offset General Fund expenditures by utilizing the balance in the Fish and Game Preservation Fund to support the Department of Fish and Game’s programs. This proposal will provide one-time savings to the General Fund.
- \$24.9 million—**CAL FIRE Interagency Agreement with the Legislature.** The May Revision proposes to reflect General Fund savings of \$12.5 million in 2008-09 and \$24.9 million in 2009-10 in the Department of Forestry and Fire Protection’s baseline fire protection program. These savings are anticipated based on interagency agreements with the Legislature.
- \$7 million—**Shift Flood Protection Activities to Proposition 1E.** The May Revision proposes to shift funding for floodplain evaluations and mapping and support for Delta levees to Proposition 1E. General Fund support for these ongoing programs will need to be restored when bond funds become unavailable.

OTHER

Major new proposal:

- \$1 billion—**Sell a Portion of the State Compensation Insurance Fund (SCIF)**. Seek a private entity to purchase a portion of SCIF’s Book of Business, with the SCIF remaining as the insurer of last resort.
- \$100 million—**Tranquillon Ridge Lease Approval**. The May Revision proposes legislation authorizing the state to enter into a lease for the extraction of oil or gas from state-owned tide and submerged lands in the California Coastal area off the Santa Barbara coast known as Tranquillon Ridge. It is estimated that this proposal will generate \$1.8 billion in advanced royalties over the next 14 years.

BORROWING

Major new proposal:

- \$6 billion—**Issuance of Registered Reimbursement Warrants (RAWs)**. External cash borrowing will be needed during the 2009-10 fiscal year to cover the shortfall of cash due to the imbalance of spending and revenue collections. The May Revision proposes to cover \$6 billion of this cash borrowing need through issuance of RAWs. This amount will be treated as an offset of 2009-10 expenditures on a budgetary basis. The total cash borrowing need, however, will be substantially more than \$6 billion. Over the next few weeks, the Department of Finance will work with the State Controller and the State Treasurer to quantify the additional cash borrowing need and develop a strategy for addressing it.

Assuming the passage of the budget balancing Propositions before the voters on May 19, the effect of the proposals listed above will address the budget gap and provide a modest reserve. Figure MPA-02 provides a budget summary with these proposals.

MAY REVISION CONTINGENCY PROPOSALS

Figure MPA-03 displays the contingency General Fund solutions for 2008-09 and 2009-10 proposed in the May Revision in the event that Propositions 1A, 1B, 1C, 1D and 1E fail on May 19.

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

Figure MPA-02
2009-10 May Revision Proposals
General Fund Budget Summary
With Budget Solutions
(Dollars in Millions)

	2008-09	2009-10
Prior Year Balance	\$2,308	-\$4,248
Revenues and Transfers	\$85,947	\$90,518
Total Resources Available	\$88,255	\$86,270
Non-Proposition 98 Expenditures	\$58,195	\$44,769
Proposition 98 Expenditures	\$34,308	\$39,311
Total Expenditures	\$92,503	\$84,080
Fund Balance	-\$4,248	\$2,190
Reserve for Liquidation of Encumbrances	\$1,079	\$1,079
Special Fund for Economic Uncertainties	-\$5,327	\$1,111

Figure MPA-03
Recap by Category, May Revision Contingency Proposals
(Dollars in Millions)

	Impact on GF Reserve			Percent to Total
	2008-09 and Prior	2009-10	Two-Year	
Reorganization/Consolidation	\$0.0	\$0.0	\$0.0	0.0%
Program Savings	617.0	2,822.8	3,439.8	50.8%
Cuts Requiring Federal Waivers	0.0	0.0	0.0	0.0%
Revenue Accelerations/Fees	0.0	1,776.5	1,776.5	26.2%
Fund Shifts	0.0	0.0	0.0	0.0%
Other	0.0	78.3	78.3	1.2%
Borrowing	0.0	1,482.0	1,482.0	21.9%
Total	\$617.0	\$6,159.7	\$6,776.7	100.0%
Change in Reserve (from \$2 billion)		-941.0	-941.0	
Total with Change in Reserve	\$617.0	\$5,218.7	\$5,835.7	

PROGRAM SAVINGS

Major proposals previously included in the Governor’s Budget but not adopted as part of the 2009 Budget Act are as follows:

- \$8.8 million—**10-Percent Rate Reduction for All Drug Medi-Cal Treatment Modalities.** This program funds substance abuse treatment services for Medi-Cal eligible individuals.

Major new contingency proposals:

- \$182.1 million—**Targeted Reductions in Prison Population.** The Federal Government’s State Criminal Alien Assistance Program (SCAAP) has historically underfunded the state’s cost to incarcerate undocumented inmates housed in California’s state prisons. Additionally, the new Administration is proposing to eliminate funding for the SCAAP and instead augment resources to enhance border security. In light of these factors, and given the continued and ever-growing fiscal difficulty facing the state, it is becoming progressively more challenging for the state to afford to incarcerate the number of inmates in state prison, including the approximately 19,000 undocumented immigrants in our prison system. As such, unless the state can begin receiving an appropriate amount of reimbursement from the SCAAP, the state will have to begin approving, as appropriate, applications for commutation of sentences submitted by undocumented immigrants in our prison system and having them immediately deported by Federal Immigration and Customs Enforcement. Targeted commutations would provide necessary savings during this unprecedented fiscal crisis.
- \$99.9 million—**Change Sentencing Options for Low-Level Offenders.** Eliminate the current sentencing options for specified crimes that may be treated either as felonies or misdemeanors, making them punishable by a jail term rather than state prison. This is proposed as a necessary cost savings measure that prioritizes the incarceration and rehabilitation of the most serious offenders.
- \$108 million—**Eliminate Funding for Substance Abuse Treatment and Crime Prevention.** As enacted, the Substance Abuse and Crime Prevention Act (SACPA) (Prop. 36) guaranteed state funding for only the first 5 years, 2001 through 2006. This proposal eliminates \$108 million General Fund for SACPA (\$90 million) and the Substance Abuse Offender Treatment Program (\$18 million).
- \$24.6 million—**HIV Education and Prevention.** This program provides \$24.6 million General Fund to local health jurisdictions to prevent HIV transmission, change attitudes and behavior related to HIV, and promote risk-reduction skills.

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

- \$10 million—**Maternal, Child and Adolescent Health Grants.** This program provides \$10 million General Fund to local health jurisdictions for services and programs to improve the health of mothers, infants, children, adolescents, and families.
- \$20.4 million—**Domestic Violence Program.** This program provides \$20.4 million General Fund for 94 domestic violence shelter/centers providing emergency and other services to domestic violence victims and their children. Services include emergency shelter, transitional housing, legal advocacy, assisting with temporary restraining orders, counseling, and other support services.
- \$301.5 million—**IHSS Cost Containment.** This proposal would target services to the most vulnerable beneficiaries. Specifically, effective October 1, 2009, individuals who require minimal physical assistance from another person to perform an activity would no longer receive domestic and related services, and individuals needing only supervision from another person to perform an activity would no longer be eligible for IHSS services.
- \$13.9 million—**Child Welfare Services—Reduce Certain Rates by Ten Percent.** Reduce Group Home, Foster Family Agency, and Specialized Care and Clothing Allowance Rates by ten percent.
- \$70 million—**Child Welfare Services—Reduce Program Funding by Ten Percent.** Reduce the General Fund allocation to counties for Child Welfare Services by ten percent. Under this proposal, counties could prioritize remaining funds to protect the health and safety of children and their families, and appropriately address federal outcome requirements.
- \$49.9 million—**Eliminate UC and CSU Outreach.** This solution would eliminate \$31.3 million for academic preparation and education programs at UC and \$18.6 million for the CSU. These reductions would not impact core educational delivery to students.
- \$150 million—**Unallocated Reduction to UC and CSU.** This solution would reduce funding by \$100 million for the CSU and by \$50 million for the UC. These additional reductions are necessary to help balance the budget, but provide the segments the maximum flexibility to balance quality and access objectives.
- \$617 million in 2008-09 and \$2.660 billion in 2009-10, which represents an overall incremental change of \$2.3 billion over the two year period—**Further Reduce Proposition 98 Funding.** Proposition 98 funding would be reduced further to \$49.1 billion in 2008-09 and \$51.1 billion in 2009-10. However, we note that these

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

reductions would increase the federal State Fiscal Stabilization Fund provided to schools by \$184 million. Specific proposals include:

- An additional one-time reduction of \$617.3 million in 2008-09 to school district apportionments (revenue limits).
- An additional reduction of \$475 million in 2009-10 to school district apportionments (revenue limits).
- Flexibility to reduce up to an additional two days beyond the initial five days of reduction of instructional time at local discretion, for a period of no more than three years.
- An additional deferral of \$1.038 billion in revenue limit payments from the 2009-10 fiscal year to the 2010-11 fiscal year.
- An additional reduction of \$112.4 million in 2009-10 to Community College categorical programs.
- An additional reduction of \$68.7 million in 2009-10 to enrollment growth for Community College apportionments and categorical programs.
- If Proposition 1C is not enacted, the \$965.6 million General Fund appropriation included in the measure would not be added to the Proposition 98 Guarantee in 2009-10 and education would continue receiving a share of lottery proceeds.
- \$54.5 million—**Healthy Families—Roll Back Eligibility to 200 Percent of Federal Poverty Level.** Roll back eligibility for Healthy Families to 200 percent of the federal poverty level (or the 1999-2000 level). Approximately 225,000 children would no longer receive health coverage through the program.
- \$25.5 million—**Medi-Cal—Reduce Adult Day Health Care Program.** Reduce the Adult Day Health Care optional benefit by limiting benefits to three days per week.
- \$2.9 million—**Suspend Children’s Dental Disease Prevention.** This program offers \$2.9 million General Fund for a comprehensive school-based prevention program based on need. The program operates in 31 counties serving approximately 300,000 California preschool and elementary school children annually. Need is based on the proportion of Free and Reduced School Lunch Program participation for each county.
- \$5.9 million—**Eliminate State Funding for the California Poison Control System.** This funding supports a statewide network of trained experts providing immediate free treatment advice and assistance to California citizens over the telephone in cases involving exposure to poisonous or hazardous substances.

REVENUE ACCELERATIONS/FEES

Major new contingency proposals:

- \$1.7 billion—**Increase Withholding**. The May Revision contingency plan proposes to accelerate payments into the 2009-10 fiscal year by increasing suggested withholding amounts by 10 percent.
- \$76 million—**Partially Fund CAL FIRE and Local Response Agencies with Emergency Response Initiative Fee**. The Governor’s Budget proposed a 2.8 percent surcharge on all residential and commercial property insurance statewide to enhance the state’s emergency response capabilities. The May Revision contingency plan proposes to increase the insurance surcharge to 4.8 percent to fund a portion of the Department of Forestry and Fire Protection’s baseline firefighting operations and provide assistance to local first response agencies in support of the state’s mutual aid system. Proposed enhancements to the state’s emergency response capabilities will be delayed until 2010-11. It is estimated that the surcharge would average approximately \$48 per insurance policyholder.
- \$0.5 million—**Fee Increases at State Parks**. This proposal would increase existing fees in popular parks and establish new fees in Old Town San Diego and Sonoma Coast State Beaches, which will be used to offset General Fund expenditures. When fully implemented, these fee increases will achieve \$5.6 million in ongoing General Fund savings.

OTHER

Major new contingency proposals:

- \$18.3 million—**Medi-Cal—Expand Revenue Base for Skilled Nursing Facility Rates**. This proposal, would expand the amount of revenue on which the AB 1629 fee is assessed to include Medicare revenues. Under current law, skilled nursing facilities pay a fee to the state based on their revenues. The state uses the fee to draw down a like amount of federal funds, a portion of which is provided to nursing homes through Medi-Cal rate payments. The balance remains with the state.
- \$60 million—**Shift Cigarette and Tobacco Products Surtax Funds to Medi-Cal**. Redirect \$60 million in Proposition 99 funds from county health, clinic, Breast Cancer Early Detection, Asthma, Major Risk Medical Insurance, and Access for Infants and Mothers programs, and rural health demonstration project and a consumer assessment project to offset costs in the Medi-Cal Program.

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

BORROWING

Major new contingency proposal:

- \$1.982 billion—Borrowing from **Local Government**. The May Revision contingency plan proposes to borrow eight percent of the property tax revenues received by cities, counties, and special districts in 2008-09 as authorized in Article XIII of Section 25.5 of the Constitution. Repayment must be made within the next three years. Legislation also is proposed to create a joint powers authority to allow local agencies to borrow against the state repayment as a group.
- -\$500 million—**Reduce Size of Registered Reimbursement Warrants (RAWs)**. The contingency proposals include borrowing from the local governments from Proposition 1A. To limit the size of overall borrowing in the budget package in recognition of the loss of revenues in 2010-11, the overall contingency proposals will assume \$5.5 billion of RAWs rather than \$6.0 billion.

In the event Propositions 1A, 1B, 1C, 1D, and 1E fail on May 19, the above contingency proposals would become necessary to offset the additional budgetary loss. Figure MPA-04 is a budget summary with these additional proposals. Together with the primary May Revision proposals, the contingency plan would provide a reserve at approximately \$2 billion.

Figure MPA-05 displays all solutions for 2008-09 and 2009-10 as proposed in May Revision and the additional solutions in Contingency Proposals.

Figure MPA-04
2009-10 May Revision Contingency Proposals
General Fund Budget Summary
With All Budget Solutions
(Dollars in Millions)

	<u>2008-09</u>	<u>2009-10</u>
Prior Year Balance	\$2,308	-\$3,631
Revenues and Transfers	<u>\$85,947</u>	<u>\$92,218</u>
Total Resources Available	\$88,255	\$88,587
Non-Proposition 98 Expenditures	\$58,195	\$48,804
Proposition 98 Expenditures	<u>\$33,691</u>	<u>\$36,652</u>
Total Expenditures	\$91,886	\$85,456
Fund Balance	-\$3,631	\$3,131
Reserve for Liquidation of Encumbrances	\$1,079	\$1,079
Special Fund for Economic Uncertainties	-\$4,710	\$2,052

SUMMARY OF MAJOR SOLUTIONS BY CATEGORY

Figure MPA-05
Recap by Category of all May Revision and Contingency Proposals
(Dollars in Millions)

	2008-09 and Prior	2009-10	Two-Year	Percent to Total
Reorganization/Consolidation	\$0.0	\$50.0	\$50.0	0.2%
Program Savings	2,637.0	6,362.4	8,999.4	42.2%
Cuts Requiring Federal Waivers	0.0	750.0	750.0	3.5%
Revenue Accelerations/Fees	0.0	2,765.4	2,765.4	13.0%
Fund Shifts	12.5	92.9	105.4	0.5%
Other	0.0	1,178.3	1,178.3	5.5%
Borrowing	0.0	7,482.0	7,482.0	35.1%
Total	\$2,649.5	\$18,681.1	\$21,330.6	100.0%
Change in Reserve (from \$2 billion)		-52.0	-52.0	
Total with Change in Reserve	\$2,649.5	\$18,629.1	\$21,278.6	

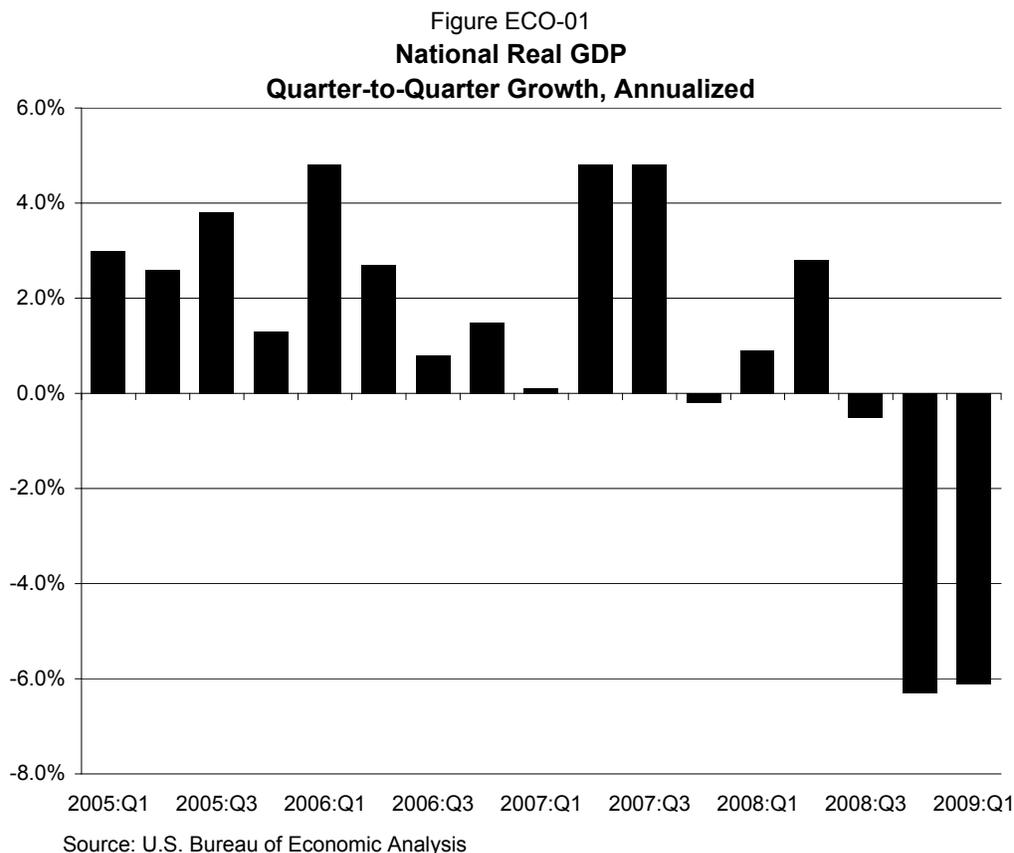
This page intentionally blank to facilitate double-sided printing.

ECONOMIC OUTLOOK

The national and California recessions deepened considerably between November 2008, when the Governor’s Budget forecast was constructed, and April 2009, when the May Revision forecast was developed. Monthly job losses grew sharply and became more widely dispersed across industries in California. Unemployment rose above 10 percent. Personal income and taxable sales fell in the fourth quarter of 2008.

The national economy fared much the same—growing job losses, rising unemployment, falling personal income—and to top it off, steep declines in real GDP in the fourth quarter of 2008 and the first quarter of 2009 (Figure ECO-01).

To recover, both economies will need improved credit availability. California’s economy will also need a stronger national economy. On both fronts, a smattering of encouraging signs have been spotted recently. Most importantly, consumers are starting to spend more and conditions in a number of financial markets, including equity markets, have improved.



ECONOMIC OUTLOOK

Output of both economies should begin to grow in the second half of 2009, but the recovery will likely be slow at first, with payroll employment continuing to fall and unemployment remaining high for perhaps six months.

The outlook for the national economy is for negative growth in 2009, weak growth in 2010, and good growth in 2011:

- Real GDP is projected to fall 3.5 percent in 2009, and grow 1.4 percent in 2010 and 3.5 percent in 2011, as compared to the 1.1-percent growth in 2008.
- Nonfarm payroll employment is forecast to fall by 3.6 percent in 2009 and 0.8 percent in 2010 and grow 1.5 percent in 2011, as compared to a decline of 0.4 percent in 2008.

The outlook for the California economy is also for negative growth in 2009 followed by weak growth in 2010, and better growth in 2011:

- Personal income is projected to fall 1 percent in 2009; and grow 1.4 percent in 2010, and 3.9 percent in 2011, as compared to 2.5 percent in 2008. The projected decline in personal income is the first since 1938.
- Nonfarm payroll employment is forecast to fall by 3.9 percent in 2009 and 0.9 percent in 2010 and grow 1.6 percent in 2011, as compared to a 1.2-percent decline in 2008.

THE NATION

The national economy contracted sharply in the fourth quarter of 2008 and the first quarter of 2009. The two quarter percentage decline in economic output was the largest since the first quarter of 1958. However, two favorable developments occurred in the first quarter of 2009: consumers began to spend more, and businesses worked off a large amount of unwanted inventories that had built up as the economy slowed during 2008. Consumer spending grew by over 2 percent in the first quarter after falling sharply in the third and fourth quarters of 2008. The paring of inventories brought them into better alignment with sales—something that needs to happen before a recovery can take hold. Recent consumer confidence surveys indicate that consumers are somewhat less pessimistic about the economy. The fiscal stimulus package should give consumer spending a boost in the coming months.

The housing sector is showing some signs of stabilizing. Sales are up a bit, and the inventory of unsold new homes has fallen. Mortgage rates have fallen considerably since

last summer. Falling home prices along with lower mortgage rates have made housing more affordable, but the supply of mortgage credit remains tight.

Unlike consumers, businesses are not yet ready to spend more. Spending for equipment and software by businesses fell at an annual rate of almost 30 percent in both the fourth and first quarters. Businesses will likely need to see additional positive signs coming from the economy before they increase capital spending.

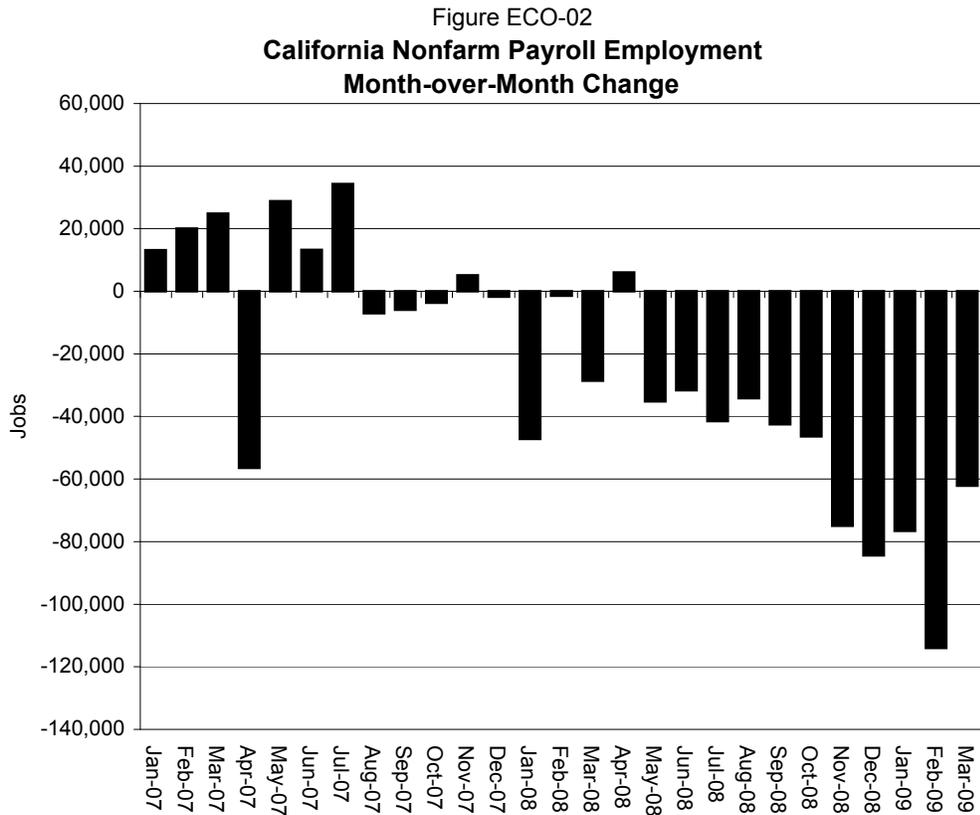
Similarly, exports will not likely contribute much to economic growth until mid-2010. After growing strongly for five years, exports fell sharply in the last two quarters as the economies of major trading partners weakened.

Labor markets have not been a source of encouraging news. More than 5.7 million payroll jobs have been lost in the nation since December 2007, the beginning of the recession. While the average monthly loss has been almost 360,000 jobs, the losses have grown over time. The last six have averaged 656,000 per month. The national unemployment rate has risen quickly in the last year. In April 2009, it jumped 0.4 percentage point to 8.9 percent. In April 2008, it was 5 percent.

A number of financial markets have improved in recent weeks, among them markets for short-term funding, including interbank markets and the commercial paper market. Concerns about credit risk in those markets appear to have receded somewhat, there is more lending at longer maturities, and interest rates have declined. In addition, the issuance of asset-backed securities (ABS) backed by credit card, auto, and student loans all picked up in March and April, and ABS funding rates have declined. Also, mortgage rates have fallen in response to the Federal Reserve's purchases of agency debt and mortgage-backed securities. And recently, bond issuance by nonfinancial firms has been relatively strong.

CALIFORNIA

The toll of the recession in California has been most visible in the labor markets. Payroll employment peaked in California in July 2007, five months earlier than in the nation. Since then employment has fallen by almost 730,000 jobs. And, as in the nation, monthly job losses were modest initially and then grew and became more widespread across industries over time. The six months ending in March 2009 accounted for five of the six biggest monthly payroll job losses in the official employment series, which began in January 1990 (Figure ECO-02). No major region was spared. No metropolitan statistical area or metropolitan division gained payroll jobs from March 2008 to March 2009.



Source: Employment Development Department, Labor Market Information Division

California’s unemployment rate rose quickly from 6.4 percent in March 2008 to 11.2 percent in March 2009.

California personal income fell by an estimated 0.3 percent, taxable sales by 11.5 percent, and new vehicle registrations by 24 percent from the third quarter to the fourth quarter of 2008.

Made-in-California exports fell by 5.9 percent from the fourth quarter of 2007 to the fourth quarter of 2008. High-tech exports fell by almost 17 percent.

California’s housing slump is showing signs of coming to an end. California home building fell for the fourth consecutive year in 2008. The number of units for which permits were granted was only 30 percent of the level in 2004, and few new homes were sold in 2008. But existing single-family detached home sales grew by 27 percent. Inventory of unsold new homes have been pared.

THE FORECAST

Some positive signs have been seen in the national and California economies in the past month or two: monthly job losses have fallen in both the nation and California on occasion, consumers have begun to spend a little more, and conditions have improved in a few financial markets. The pace of contraction of both economies may have slowed. Jobs will continue to be lost and unemployment will continue to increase even after economic activity has begun to grow.

The current national recession has entered its 17th month, making it the longest recession in the post-World War II period. It will very likely become the deepest recession in that period before it is done. The recovery could be long and slow, and a relapse is possible. Another batch of possibly toxic mortgages will be resetting in 2010 and 2011. Nevertheless, both economies are projected to grow in 2010. (Figure ECO-03 and Figure ECO-04).

Figure ECO-03
Selected U.S. Economic Indicators

	2008	2009	2010
	(Est.)	(Projected)	(Projected)
Real gross domestic product, (2000 dollar) (Percent change)	1.1	-3.5	1.4
Personal consumption expenditures	0.2	-0.9	1.7
Gross private domestic investment	-6.7	-24.0	8.2
Government purchases of goods and services	2.9	0.7	0.2
GDP deflator (2000=100) (Percent change)	2.2	1.5	1.0
GDP, (Current dollar) (Percent change)	3.3	-2.0	2.4
Federal funds rate (Percent)	1.93	0.14	0.21
Personal income (Percent change)	3.8	0.1	1.8
Corporate profits before taxes (Percent change)	-15.3	-16.5	19.5
Nonfarm wage and salary employment (Millions)	137.0	132.1	131.0
(Percent change)	-0.4	-3.6	-0.8
Unemployment rate (Percent)	5.8	9.1	10.2
Housing starts (Millions)	0.90	0.55	0.85
(Percent change)	-32.6	-39.0	53.9
New car and light truck sales (Millions)	13.1	9.5	11.3
(Percent change)	-18.4	-27.4	19.1
Consumer price index (1982-84=100)	215.3	213.7	217.9
(Percent change)	3.8	-0.7	2.0

*Forecast based on data available as of April 2009.
Percent changes calculated from unrounded data.*

Figure ECO-04
Selected California Economic Indicators

	2008	Percent change	Projected			
			2009	Percent change	2010	Percent change
Personal income (\$ billions)	1,558.9	2.5%	1,542.7	-1.0%	1,564.3	1.4%
Nonfarm W&S employment (thousands)	14,997.0	-1.2%	14,406.7	-3.9%	14,270.6	-0.9%
Natural resources and mining	28.6	7.3%	28.8	0.8%	27.9	-3.2%
Construction	787.6	-11.8%	665.7	-15.5%	649.0	-2.5%
Manufacturing	1,424.5	-2.7%	1,339.8	-5.9%	1,295.3	-3.3%
High technology	374.8	-0.5%	361.1	-3.7%	352.6	-2.3%
Trade, transportation, & utilities	2,856.2	-1.9%	2,721.7	-4.7%	2,705.1	-0.6%
Information	474.0	0.7%	450.8	-4.9%	448.1	-0.6%
Financial activities	852.2	-5.8%	804.7	-5.6%	791.7	-1.6%
Professional and business services	2,243.4	-0.9%	2,157.8	-3.8%	2,139.9	-0.8%
High technology	323.1	5.3%	325.0	0.6%	320.7	-1.3%
Educational and health services	1,724.1	3.2%	1,750.7	1.5%	1,787.7	2.1%
Leisure and hospitality	1,571.9	0.7%	1,542.5	-1.9%	1,567.0	1.6%
Other services	515.2	0.6%	507.8	-1.4%	510.1	0.4%
Government	2,519.3	1.0%	2,436.4	-3.3%	2,348.8	-3.6%
Unemployment rate	7.2%		11.1%		12.0%	
Housing permits (thousands of units)	65	-42.5%	49	-24.4%	85	74.9%
Consumer price index (1982-84=100)	224.8	3.4%	223.8	-0.4%	229.3	2.4%

*Forecast based on data available as of April 2009.
 Percent changes calculated from unrounded data.*

REVENUE ESTIMATES

General Fund revenues are expected to be \$85.947 billion in 2008-09 and \$92.218 billion in 2009-10. The 2009-10 revenue estimate includes \$3.413 billion in revenue solutions - \$610 million from accelerating personal income tax and corporation tax estimated payments, \$2.8 million from revising veteran homes member fees, \$100 million from the approval of the Tranquillon Ridge oil lease, and \$1.0 billion from the sale of a portion of State Compensation Insurance Fund (SCIF) operations. If the budget balancing measures on the May 19 ballot are defeated, revenue solutions would be augmented with \$1.7 billion from increasing personal income tax wage withholdings by 10 percent.

Baseline General Fund revenues are expected to be below the 2009 Budget Act by \$3.4 billion in 2008-09 and \$8.9 billion in 2009-10. Additionally, prior year revenues are adjusted down by \$52 million for a three-year decrease of \$12.4 billion. The Budget Act revenue forecast had been based on data through November 2008. Since that time, the global, national, and state economies have weakened substantially and revenue collections have reflected these negative conditions. Preliminary agency cash collections through April were \$2.6 billion – or 3.5 percent – below forecast. Thus, revenues are now expected to decline by 3.8 percent in 2008-09, and another 9.1 percent in 2009-10.

Figure REV-01 displays the forecast changes between 2009 Budget Act and May Revision.

PERSONAL INCOME TAX

The baseline personal income tax forecast has been reduced by \$1.5 billion 2008-09 and by \$4.4 billion in 2009-10. The 2008-09 decrease is due to weakness in the final payments tied to 2008 tax year liabilities as well as the first estimated payment for the 2009 tax year. Through April, net General Fund cash receipts were \$1.2 billion below the 2009 Budget Act forecast. The May Revision forecast estimates that capital gains income declined by 60 percent in 2008 and will fall by another 30 percent in 2009, which reflects weakness in stock market and real estate prices. In addition, personal income reductions reflect softness in across-the-board U.S. and California economic growth – in particular, wages, interest, dividends, and business income.

The personal income tax forecast for 2009-10 includes \$1.95 billion in revenue solutions - \$250 million from increasing the estimated payment requirement for the second estimated payment from 30 percent to 40 percent and, if budget balancing measures on

Figure REV-01 2009-10 May Revision General Fund Revenue Forecast Summary Table Reconciliation with the 2009-10 Budget Act (In millions)						
Source	Budget Act	Baseline Forecast	Change		Policy Proposals	Total
			Between Forecasts			
Fiscal 07-08						
Personal Income Tax	\$54,234	\$54,182	-\$52	-0.1%	0	\$54,182
Sales & Use Tax	26,613	26,613	0	0.0%	0	\$26,613
Corporation Tax	11,849	11,849	0	0.0%	0	\$11,849
Insurance Tax	2,173	2,173	0	0.0%	0	\$2,173
Alcoholic Beverage	327	327	0	0.0%	0	\$327
Cigarette	110	110	0	0.0%	0	\$110
Other Revenues	6,031	6,031	0	0.0%	0	\$6,031
Transfers	<u>1,237</u>	<u>1,237</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>\$1,237</u>
Total	\$102,574	\$102,522	-\$52	-0.1%	\$0	\$102,522
Fiscal 08-09						
Personal Income Tax	\$46,792	\$45,275	-\$1,517	-3.2%	0	\$45,275
Sales & Use Tax	26,332	24,612	-1,720	-6.5%	0	\$24,612
Corporation Tax	10,197	9,783	-414	-4.1%	0	\$9,783
Insurance Tax	1,831	2,041	210	11.5%	0	\$2,041
Vehicle License Fees	346	360	14	4.0%	0	\$360
Alcoholic Beverage	355	326	-29	-8.2%	0	\$326
Cigarette	113	104	-9	-8.0%	0	\$104
Other Revenues	2,326	2,398	72	3.1%	0	\$2,398
Transfers	<u>1,081</u>	<u>1,048</u>	<u>-33</u>	<u>-3.1%</u>	<u>0</u>	<u>\$1,048</u>
Total	\$89,373	\$85,947	-\$3,426	-3.8%	\$0	\$85,947
Change from Fiscal 07-08	-\$13,201	-\$16,575				
% Change from Fiscal 07-08	-12.9%	-16.2%				
Fiscal 09-10						
Personal Income Tax	\$51,237	\$46,886	-\$4,351	-8.5%	\$1,950 *	\$48,836
Sales & Use Tax	30,221	27,583	-2,638	-8.7%	0	\$27,583
Corporation Tax	10,445	8,439	-2,006	-19.2%	360	\$8,799
Insurance Tax	1,798	1,913	115	6.4%	0	\$1,913
Vehicle License Fees	1,692	1,657	-35	-2.1%	0	\$1,657
Alcoholic Beverage	370	332	-38	-10.3%	0	\$332
Cigarette	111	102	-9	-8.1%	0	\$102
Other Revenues	1,682	1,711	29	1.7%	1,103	\$2,814
Transfers	<u>172</u>	<u>182</u>	<u>10</u>	<u>5.8%</u>	<u>0</u>	<u>\$182</u>
Total	\$97,728	\$88,805	-\$8,923	-9.1%	\$3,413	\$92,218
Change from Fiscal 08-09	\$8,355	\$2,858				\$6,271
% Change from Fiscal 08-09	9.3%	3.3%				7.3%
Three-Year Total			-\$12,401		-\$8,988	

* Includes \$1.7 billion as an additional revenue solution if budget balancing measures on the May 19 ballot are defeated

the May 19 ballot are defeated, \$1.7 billion from increasing wage withholding payments by ten percent for tax years beginning on and after 2010. The estimated payment proposal would also reduce the number of required estimated payments from four to three. The third estimated payment would be due on the fifteenth day of the month

following the end of the tax year, generally January. This change in payment timing will be better for taxpayers in present value terms.

SALES AND USE TAX

The sales and use tax forecast has been reduced by \$1.7 billion in the current year and \$2.6 billion in the budget year. Through April, sales tax receipts are \$792 million below the 2009 Budget Act forecast.

The current year reduction is due primarily to lower disposable income, weakness in cash receipts and a higher transfer to transportation funds resulting from higher gasoline and diesel prices than expected. The budget year reduction is due to a reduced forecast for disposable income, higher unemployment, weak auto sales, and a higher transfer to transportation funds.

CORPORATION TAX

The baseline corporation tax forecast has been decreased by \$414 million for the current year and \$2 billion for the budget year. Through April, corporate agency cash was \$546 million below the 2009 Budget Act forecast. The weakness is primarily attributed to weaker-than-expected corporate profits.

The corporation tax forecast for 2009-10 includes \$360 million from increasing the estimated payment requirement for the second estimated payment from 30 percent to 40 percent. The estimated payment proposal would also reduce the number of required estimated payments from four to three. The third estimated payment would be due on the fifteenth day of the last month of the tax year.

INSURANCE TAX

The insurance tax forecast has been increased by \$210 million in the current year and by \$115 million in the budget year. The revenue increases are primarily due to 2008 liability being higher than a sample of insurance companies had indicated in a survey taken in the fall of 2008. At that time, it was estimated that 2008 premiums would decline by 7 percent. It now appears that premiums grew by about 0.5 percent. Thus, the higher level of premiums largely accounts for the increase in revenues over the two years.

OTHER REVENUES AND TRANSFERS

The baseline forecast for all other revenues and transfers has been increased by \$15 million in 2008-09 and decreased by \$43 million in 2009-10. This forecast includes vehicle license fees, Alcoholic Beverage Taxes, Tobacco Taxes, and all minor revenues and transfers.

The forecast for other revenues and transfers for 2009-10 includes \$1.103 billion in revenue solutions - \$2.8 million from revising veteran homes member fees, \$100 million from the approval of the Tranquillon Ridge lease, and \$1.0 billion from the sale of a portion of SCIF operations.

Additionally, the May Revision includes special fund fee increases to offset General Fund costs, including an increase of employer fees by \$40.1 million to fund the Occupational Safety and Health program and the Labor Standards Enforcement programs in the Department of Industrial Relations and a 4.8-percent surcharge on insurance premiums generating \$120 million in 2009-10 and \$480 million ongoing to offset of costs at Cal FIRE, Cal EMA and the Military Department.

PROPERTY TAX

Statewide property tax revenues are forecast to grow by 2.3 percent in 2008-09, and decrease by 4.1 percent in 2009-10. The 2009-10 Governor's Budget forecast the respective growth rates at 4.4 percent and 0.3 percent.

Input from county assessors throughout the state was solicited when developing these revised estimates. Consideration also was given to the steep declines in median sales prices for residential properties in 2008 (property tax revenue in a given fiscal year is based on the January 1 lien date which, in turn, derives value from activity in the preceding calendar year). These declines in 2008 sales prices will drive reductions in the 2009-10 assessed values of neighboring properties.

The state budget reflects about 35 percent of property taxes as a funding source for K-14 education. Current year allocations to school and community college districts have been reduced by \$303 million from the Governor's Budget forecast and 2009-10 allocations are projected to be reduced by \$1.006 billion.

EXECUTIVE OFFICE

Michael C. Genest
Director of Finance
(916) 445-4141

Ana J. Matosantos
Chief Deputy Director, Budget
(916) 445-9862

Thomas L. Sheehy
Chief Deputy Director, Policy
(916) 445-8610

Fred Klass
Chief Operating Officer
(916) 445-4923

Jennifer K. Rockwell
Chief Counsel
(916) 324-4856

Miriam B. Ingenito
Deputy Director, Legislation
(916) 445-8610

H.D. Palmer
Deputy Director, External Affairs
(916) 323-0648

BUDGET PROGRAM AREAS

Revenue Forecasting; Economic Projections;
Demographic Data; Business, Transportation,
and Housing; Local Government

Mark Hill, PBM*(916) 322-2263

Education

Jeannie Oropeza, PBM(916) 445-0328

Health and Human Services

Lisa Mangat, PBM(916) 445-6423

Corrections and Rehabilitation, Judicial,
Justice, General Government, State and
Consumer Services

Todd Jerue, PBM(916) 445-8913

Resources, Energy, Environment,
Capital Outlay

Karen Finn, PBM.(916) 324-0043

Employee Relations, Retirement Systems,
Departmental Administration, Local Mandates,
Audits and Evaluations, Information
Technology Consulting

Diana L. Ducay, PBM(916) 445-3274

Budget Planning and Preparation,
Cash Management, Statewide Issues,
CALSTARS, FSCU

Veronica Chung-Ng, PBM(916) 445-5332

Financial Information System for California

Titus Toyama, PE**(916) 445-8918

*Program Budget Manager
**Project Executive

