



STATE BUDGET 2007-08

INTRODUCTION

The 2007 Budget Act signed by Governor Schwarzenegger includes the largest reserve of any budget act in the state's history. The May Revision proposed a total reserve of \$2.2 billion. Due to the shortfall in revenue collections that came to light in June, and in recognition of the state's continuing structural deficit and other potential threats, the Legislature took actions to reduce spending and increase funds available, thereby increasing the total reserve to an unprecedented \$3.4 billion. The Governor further reduced spending with \$703 million in General Fund vetoes, raising the total reserve to \$4.1 billion. As a result, General Fund spending growth in this budget is held to \$0.6 billion, or 0.6 percent.

Figure INT-01 displays the major changes to the amounts proposed in the May Revision.

These actions eliminate the gap between spending and revenues in 2007-08, after discounting the \$1.023 billion of transfer to the Budget Stabilization Account for rainy-day purposes.

Figure INT-01
Major General Fund Changes Since May Revision

	(millions)	
	Total Reserve	
	Total Impact	Ongoing Impact
Total Reserve at May Revision	\$2,199	
Overall Proposition 98 Changes	\$749	\$0
Reject Economic Recovery Bonds Pre-payment	595	0
Repay Prior Year Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Claims Over Three Years	174	-69
Reduce Medi-Cal Estimate	332	332
Funded Various Capital Outlay Projects with Lease Revenue Bonds	101	0
Use TANF Reserve	84	0
Integrated Services for Homeless Mentally Ill Adults Program	55	55
Medi-Cal Managed Care Rates	53	0
Unallocated Reduction	72	72
Reverse Price Increase (except the Legislature, Judicial Branch and Constitutional Officers)	40	40
Continue Funding for Williamson Act	-39	-39
Use Public Transportation Account for Various Purposes	-41	-119
Reverse STRS Supplemental Benefit Maintenance Account Contribution Savings	-75	-75
Enhance Effort to Reunite Owners and Their Unclaimed Property	-87	-77
Reverse CalWORKs Reform Proposals	-314	-314
Net of All Other Changes	171	-20
Total Changes	\$1,870	-\$214
Total Reserve at Budget Act	\$4,069	

Despite the modest year-over-year increase in General Fund spending in the Budget Act, it still fully funds K-12 education (providing a 3.4-percent increase in per-pupil spending from all funds), law enforcement and the Governor's compacts with higher education and the judiciary. It also continues the commitment to reform the state's prison system by reducing recidivism, improving prison health care and reducing overcrowding. The Budget Act also continues the commitment to improve the state's critical infrastructure through prudent use of the general obligation bonds authorized by the people in 2006.