



CALIFORNIA



STATE BUDGET 2008-09

INTRODUCTION

The 2008 Budget Act resolves the \$24.3 billion budget deficit identified in the May Revision. It provides a modest reserve of \$1.7 billion this year, but projects a deficit of \$1.0 billion in 2009-10. While this budget does not resolve the state's persistent structural budget deficit, it includes a historic budget reform measure that puts California on the path to fiscal stability and avoids borrowing from local governments or transportation funds.

Figure INT-01 shows that expenditure reductions account for 47 percent of all solutions, more than any other category. As a result of these reductions, this budget holds General Fund spending to virtually no growth this year—\$103.4 billion in 2008-09 compared to \$103.3 billion in 2007-08. It is also noteworthy that this reflects less than two-percent growth as compared to General Fund spending in 2006-07.

The Budget includes a reduction of \$850 million General Fund, or one percent below the amounts proposed in the budget bill adopted by the Legislature. This reduction is due to:

- \$510 million in General Fund vetoes. These vetoes reflect the Governor's determination to reduce spending to the maximum extent possible given constitutional, statutory, and court-ordered spending requirements.

Figure INT-01
Recap of Solutions
 (Dollars in Millions)

	2007-08 and Prior	2008-09	Total	
			Dollars	Percent
Revenue Increases	\$2,058	\$6,506	\$8,564	35%
Borrowing	3,313	714	4,027	17%
Expenditure Reductions*	1,717	9,663	11,380	47%
Reduce Reserve		306	306	1%
Total	\$7,088	\$17,189	\$24,277	100%

* Includes \$510 million in vetoes and \$340 million in savings due to the budget delay and Executive Order S-09-08.

- \$340 million in General Fund savings due to the delay in enacting this Budget and the effect of Executive Order S-09-08. The budget delay slowed or halted many activities of government for nearly three months. The Executive Order terminated the services of temporary employees and reduced overtime. Given the state’s fiscal condition, the order will remain in effect for the remainder of the year.

Figure INT-02 displays the solutions included in this budget in more detail.

BUDGET REFORM

The Governor’s highest budget priority this year was to enact reforms in the state’s budget system. In response, the Legislature approved an historic constitutional amendment, to be considered by the people on the next statewide ballot after this November.

Budget reform addresses the three major reasons that California has periodically faced drastic budget crises like the one we are experiencing this year:

- Over the years, the state has undertaken ongoing commitments funded by temporary revenue surpluses during years of high growth. Budget reform will limit the Legislature’s ability to spend surge revenue in high-growth years by mandating that at least three percent of General Fund revenues each year be sequestered into a “rainy day” fund, unless the rainy day fund is full or moneys are being accessed in a deficit year. Higher-than-anticipated revenues will also be captured and deposited in the fund.

Figure INT-02
Major Solutions
(Dollars in Millions)

	2007-08 & prior	2008-09	Total
Revenue Increases			
Corporate Penalty for Understatement of Tax	\$1,435	\$75	\$1,510
Net Operating Loss Suspension and Carryback		1,265	1,265
Tax Credit Limitation and Usage Modification		615	615
Limited Liability Corporations Payment Date Change		360	360
Accelerate Estimated Payments		1,270	1,270
Remove Estimated Payment Option for High Income Taxpayers		1,035	1,035
Accrual Change	416	1,440	1,856
Additional Tax Revenues (LAO/DOF) (June)	120	-250	-130
Additional Tideland Revenues (LAO/DOF)	24	166	190
Additional Revenues from Tribal Compacts		78	78
FTB/BOE Revenue Options		226	226
Transfers from Special Funds		141	141
Justice Settlement (transfer to GF)		11	11
All Other Changes	63	74	137
Total Revenue Increases	\$2,058	\$6,506	\$8,564
Borrowing			
Economic Recovery Bonds	\$3,313		\$3,313
Loans from Special Funds		714	714
Total Borrowing	\$3,313	\$714	\$4,027
Expenditure Reductions			
Proposition 98:			
Property Tax	\$275	\$423	\$698
Redevelopment Agency Pass Through		350	350
Settle-Up Payment	150		150
Base	671	2,643	3,314
Non Proposition 98:			
Budget Balancing Reductions	113	2,154	2,267
Non Budget Balancing Reductions:			
Medi-Cal Program Savings	165		165
Suspend Prop 58 Transfer		1,509	1,509
Use of Public Transportation Account for Home-to-School Transportation		488	488
Use Spillover Moneys for Debt Service Payments		250	250
Reimburse of GF for Past Debt Service Payments from TDSF		235	235
Reduce Mandates Funding		53	53
Eliminate Estimated Claims for N98 Mandates		75	75
Defer Third Year Payment of 15-Year Plan for Old N98 Mandates		75	75
Eliminate Funding for CCPOA Last, Best, and Final Offer	260	230	490
Health and Dental Benefits for Annuitants Premium Reductions	23	81	104
State Cash Management Improvement Program		60	60
Reduction (Control Section 4.07)		50	50
Savings Due to Budget Delay and Executive Order S-09-08		340	340
All Other Changes	60	137	197
Total Expenditure Reductions, before vetoes	\$1,717	\$9,153	\$10,870
Vetoes		\$510	\$510
Reduce Reserve		\$306	\$306
Total Solutions	\$7,088	\$17,189	\$24,277

INTRODUCTION

- The state has failed to build up a "rainy day" fund to cover downturns in the economy. Budget reform will greatly strengthen the state's rainy day fund by increasing it over the next several years to an amount equal to 12.5 percent of each year's General Fund revenues and strictly limiting the withdrawal of funds.
- Finally, the state has been slow to act to reduce spending when budget deficits arise. Budget reform gives the Governor the ability to freeze and reduce spending mid-year in future downturns.

CALIFORNIA STATE LOTTERY MODERNIZATION AND SECURITIZATION

The budget package includes legislation, if approved by the voters, that will authorize the California State Lottery to adopt changes that will help to improve its financial performance, with the General Fund ultimately benefiting from this improved performance. In addition to capitalizing on this underperforming asset, the legislation will protect education funding by increasing the Proposition 98 minimum guarantee to offset the loss of lottery revenue to K-14 education, thereby giving schools a more stable and growing source of funds to replace the historically unreliable lottery revenues.

Also included is legislation that will authorize the securitization of a portion of future lottery revenues. The securitization proceeds will be deposited into a newly created Debt Retirement Fund and available for various purposes that will help offset future General Fund expenditures. The first \$5 billion of securitized revenue is expected to be available in 2009-10.