



## **FLOOR SUMMARY**

**DECEMBER 18, 2008**

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**Overview**

The Governor called the First Extraordinary 2009-10 Session and proposed a mix of budget cuts, new revenues, and economic stimulus in order to begin to address the growing budget shortfall that now is estimated to be \$40 billion.

The Comprehensive December Package now before the Assembly provides \$18.1 billion in General Fund relief. The package emulates the Governor's comprehensive approach with tough General Fund spending savings of \$8.8 billion, new General Fund revenues of \$9.3 billion, and makes substantial progress toward resolving the shortfall and provides critical cash relief needed to free up resources for infrastructure investments.

In total, the package consists of \$7.3 billion in spending cuts, \$9.3 billion in tax increases, and about \$1.5 billion of other solutions, such as fund shifts. There are no gimmicks, only real, ongoing solutions that make real progress toward resolving the \$40 billion shortfall.

The following chart summarizes the \$17.9 billion of solutions:

(\$'s in billions)

| <b>Type of Solution:</b> | <b>2008-09</b> | <b>2009-10</b> | <b>Total</b>  |
|--------------------------|----------------|----------------|---------------|
| Budget Cuts              | \$3.5          | \$3.7          | \$7.3         |
| Revenue Increases        | \$1.5          | \$7.8          | \$9.3         |
| Other Solutions          | \$0.7          | \$0.8          | \$1.5         |
| <b>Total Solutions</b>   | <b>\$5.7</b>   | <b>\$12.3</b>  | <b>\$18.1</b> |

The following provides a summary of the key areas of the Comprehensive December Package:

**Revenue Solutions:**

- ◆ **¼ Cent Local Sales Tax (Single Flip).** Ends the temporary reduction of the local "Bradley Burns" sales tax, which results in more property tax funds going to schools, which in turn saves the General Fund approximately \$95 million in the current year and \$1.3 billion in the budget year.

This action is referred to as the "Single Flip" because it is part of the "Triple Flip" mechanism used to repay the Economic Recovery Bonds (ERBs). The Triple Flip consists of the following:

- ¼ cent State Sales Tax increase dedicated to repay the ERBs.
- Temporary ¼ cent local sales tax decrease.

- Temporary property tax shift from schools to local governments to replace the lost sales tax revenues. This shift then results on increased General Fund spending on schools to replace the lost property tax revenues.

The Single Flip ends the temporary ¼ cent local sales tax reduction and returns the property tax revenues to the schools, which results in the General Fund savings. (While the Single Flip is thought of as a revenue increase, for the General Fund perspective, the budget solution actually results in less General Fund spending for schools.)

- ◆ **Independent Contractor Withholding.** Establishes a three percent withholding requirement for independent contractors for payments in excess of \$600 per-year made by businesses to all independent contractors. Payments by households to contractors for lawn service, painters, cleaning services, etc., would not be subject to withholding. This will result in \$2 billion in additional revenues for 2009-10. In addition, this proposal will bring in an ongoing approximately \$150 million as a result of increased tax compliance.
- ◆ **Oil Severance.** Imposes an oil severance tax of 9.9 percent of gross value of oil produced in California, effective July 1, 2009. Low-value stripper oil would be exempt, as would oil owned or produced by the state or local governments. This generates \$855 million in 2009-10.
- ◆ **2.5 percent Personal Income Tax Surcharge.** Establishes a 2.5 percent surcharge on Personal Income Tax liabilities beginning for the 2009 tax year. This generates \$150 million in the current year and \$1.5 billion in the budget year.
- ◆ **½ cent State Sales Tax Increase.** Increases the State Sales and Use Tax by ½ cent effective February 1. The Governor proposed a 1 ½ cent sales tax increase; this is just a portion of that proposal and will generate \$955 million in the current year and \$2.3 billion in the budget year.

**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 in a manner that mitigates direct impacts on classroom instruction.
- ◆ **Settle-Up Solutions.** Current year spending as "settle-up" dollars rather than new 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.

**Transportation Solutions:**

- ◆ **Transportation Funding Enhancement and Protection.** Generates over \$3 billion for new transportation investments over the next 18 months, including \$600 million in the current year and \$2.4 billion in the budget year. Of this amount, over \$750 million will go to local governments and over \$2.2 billion will be available for state transportation priorities.

The additional \$3 billion for transportation could translate into 45,000 jobs.

The additional revenues result from the establishment of a gas and diesel fee that replaces the stagnant excise tax and the vulnerable sales taxes on gas. The fee is preferable to the taxes for the following reasons:

1. The fee will enjoy "double barrel" constitutional protection. Not only will the fee revenues be restricted to the constitutional limitations placed on fees (there must be a nexus), but the fee will also be subject to limitations of Article XIX. Therefore the revenues could not be borrowed, shifted, suspended, or in any other way be transferred to the General Fund the way that the existing excise tax and sales tax revenues can.
2. The fee will protect vehicle drivers as gas prices increase because it will be set at a rate and stay there regardless of the price of gas. Under current law, the sales tax on gas increases as the price of gas goes up, so consumers get hit twice with the increased base price on gas and the increased sales tax. Under the fee, the same fee will be paid whether gas costs \$1.50 per gallon or \$3.00 per gallon.
3. The fee revenues will keep pace with the needs of the transportation system, because the fee will be adjusted every three years to keep pace with inflation.

Cities and counties will receive about \$2.2 billion from the fee, which is about \$600 million more than they receive from the existing excise and sales tax combined. In addition, they will continue to receive the funds

based on the same formulas that were in place under the excise and sales taxes.

Lastly, the State Transportation Improvement Program (STIP) will be guaranteed a greater level of funding than what was dedicated to the STIP under the sales tax.

- ◆ **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.
- ◆ **General Obligation Bond Payments.** Reduces General Fund spending on transportation General Obligation Bond payments and shifts those costs to appropriate transportation funds, this saves the General Fund \$681 million over the next 18 months.
- ◆ **Fund Shifts.** Achieves \$185 million in General Fund solutions in the current year and the budget year by shifting eligible Motor Vehicle Account funds and Tribal Compact revenues to the General Fund.

**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 \$118 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.** Approves the Governor's proposal for a three percent rate reduction for Regional Centers, which saves about \$29 million in the current year and \$72.4 million in the budget year.

**Local Government Solutions:**

- ◆ **Local Public Safety Programs.** Approves the Governor's proposal to eliminate General Fund support for various local programs which saves approximately \$152.5 million in the current year and \$414.2 million in the budget year. However, these cuts are mitigated by redirecting special funds (\$150 million in the current year and \$359 million in the budget year) for these local purposes.

- ◆ **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.

**Corrections:**

- ◆ **Parole Supervision.** Achieves \$33.4 million in savings by allowing offenders without current or previous convictions for serious, violent, or sexual crimes to be discharged from parole after six months if they are violation free. Savings from this change in state parole policy are projected to grow to \$337.1 million in 2009-10. The current year savings are offset by \$22 million that was reduced by the Governor for the implementation of a parolee alternative sanctions instrument.
- ◆ **Inmate Credits.** Implements comprehensive credit reform that will authorize the California Department of Corrections and Rehabilitation to provide up to four months of earned credit for successful program completion by eligible inmates, authorize consistent day-for-day credit for all eligible inmates in state prison and those who are in jail pending transfer to state prison, and provide credits to inmates who are awaiting assignment to a conservation camp. These changes result in costs of \$6.1 million but will provide for ongoing savings of \$90.5 million beginning in 2009-10.
- ◆ **Threshold Adjustments.** Adjusts the statutory threshold values for property crimes to reflect inflation since 1982, which will result in ongoing savings of \$51.3 million beginning in 2009-10.

**Various Other Solutions:**

- ◆ **Judiciary Solutions.** Achieves \$96 million in solutions from the Judiciary with a cut to the 2008-09 COLA and by shifting Trial Court Improvement Funds to the General Fund.
- ◆ **Office of Emergency Services.** Approves Governor's proposal to eliminate funding for various local assistance programs administered by the Office of Emergency Services resulting in current year savings of \$23.9 million, which grow to \$57.4 million in 2009-10. Programs that will be eliminated as a result of this reduction include Vertical Prosecution Block Grants, Rural Crime Prevention, California Multi-jurisdictional Methamphetamine Enforcement Teams, High Technology Theft Apprehension Program, Sexual Assault Felony Enforcement Teams, and California Gang Suppression.

- ◆ **Employee Compensation.** Reduces funding for employee compensation by \$240 million in the current year and \$417 million in the budget year. The savings, however, are required to be negotiated through the collective bargaining process.