PRELIMINARY REPORT OF THE

2008-09 CONFERENCE COMMITTEE

AB 1770

JUNE 10, 2008

John Laird, Chair

Assembly Budget Committee

OVERVIEW

Summary

On July 8, 2008, the Conference Committee completed its work on the budget for 2008-09—AB 1770. In total, the Conference version of the budget contains $107.7 billion in available General Fund resources, $105.0 billion in General Fund expenditures, and a total available reserve of $1.8 billion.

The Conference version takes a truly balanced approach to crafting the budget, with tough cuts in every area of the budget, necessary tax increases, and other solutions. There are no accounting schemes, no smoke and mirrors, and no unreasonable assumptions.

What follows is a preliminary overview description of the Conference version of the budget, a more detailed report will follow in the coming days.

Basic Point of the Conference Budget:

♦ The Governor's May Revision includes $7 billion on unachievable revenue solutions, including $1.9 billion from the accrual proposal and $5.1 billion from the lottery securitization proposal that is unlikely to generate funds in the budget year.

♦ The Governor's May Revision also includes unacceptable cuts in education, health and human services, and public transit.

♦ So, while the Conference version includes over $6.2 billion in spending cuts to every area of the budget, additional revenues are needed to replace the Governor's $7 billion in unachievable revenue proposals and the unacceptable cut proposals to education, heath and human services, and public transit.

♦ Ergo, the Conference version contains $8.2 billion in tax increases and additional revenue solutions to replace the unachievable revenues and the unacceptable cuts.

Key Changes to the May Revision:

♦ **Puts Education First**. The Conference version puts education back as a key priority for the state by restoring over half of the Governor's $4.3 billion cuts to schools, and does not put education at risk of losing another $5 billion in lottery funds.

♦ **Balanced Each on Every Year**. The Conference version balances the budget each year with a fiscally responsible approach of tough spending cuts and new revenues, while the Governor's proposal relies on unacceptable draconian cuts and accounting schemes to temporarily balance the budget – only to see massive deficits return in just a year or two.

♦ **No Risky Accounting Schemes.** The Conference version does not rely on any risky accounting schemes, while the Governor's proposed reserve is made up almost entirely of revenues derived from his risky accrual proposal.

♦ **No Draconian Cuts to Health Care and Social Safety Net**. The Conference version contains very tough cuts to health on human services, but it restores the most draconian cuts to the elderly, the disabled, and the children of California.

♦ **Lottery Securitization.** Due to the uncertainty that the lottery securitization could be achieved in the budget year, the Conference version does not include lottery securitization. While the Conference version rejects the Governor's lottery proposal which would simply use the securitization proceeds for General Fund Relief, the Lottery securitization does remain a viable option for repaying debt and helping improve California's long-term budget solution while also providing a long-term increase in funding for schools.

♦ **No "Reform" Proposal.** The Conference version provides a responsible, balanced budget in line with existing Proposition 58 reforms, rather than the Governor's proposal to avoid the Proposition 58 reforms entirely and instead turn to a new reform that shifts power to the Executive and forces billions of dollars of automatic, across the board cuts – even in years with adequate revenues.

Key highlights of the Conference Budget:

Reserve

♦ Contains a bona fide reserve of $1.8 billion in 2008-09, a major improvement over the Governor's proposed reserve. The Governor's May Revision contained a $2 billion reserve, but it is made up almost entirely with the risky $1.85 accounting scheme.

Revenues

♦ Rejects the Governor's $7 billion of unachievable revenue solutions. This includes the $5.1 billion in revenues the Governor proposed from Lottery securitization and the $1.85 billion risky accounting scheme.

♦ Approves $8.2 billion in additional taxes, as well as $2.6 billion of other revenue solutions – which includes a portion of the Governor's special fund loans, the Governor's LLC acceleration, closing the yacht loophole, and providing a tax amnesty program. The $8.2 billion in additional taxes are as follows:

  o $5.6 billion from reinstating the 10 and 11 percent tax brackets that were last in place under Governor Wilson. The 10 percent bracket will apply to incomes over $321,000 and the 11 percent bracket will apply to income over $642,000.

  o $1.1 billion from suspending the Net Operating Loss (NOL) deduction for three years. The NOL has been suspended in previous difficult budget years and the Legislative Analyst recommended suspending it as part of their alternative budget proposal. The Conference action also provided the benefit of extending the allowable carry-forward time period from 10 years to 20 years.

  o $815 million by maintaining the 2007 income tax rate tables for 2008 rate. Under the same argument that the budget should not provide benefit COLAs (such as the SSI COLA), it makes sense to also keep the status quo for tax rates tables as well. This will result in additional annual taxes of about $34 for someone earning $50,000, $78 for someone earning $75,000, $135 for someone earning $100,000, and $184 for anyone making over $150,000.

  o $215 million by rolling back the $294 dependent credit to the pre-1997 level of $94 for joint filers and heads of households earning over $150,000.   The Legislative Analyst recommended rolling back the dependent credit for everyone, but the Conference version maintains the existing $294 credit for all families earning less than $150,000.

o $470 million to restore the Corporate Tax rate from 8.84 percent to the pre-1997 level of 9.3 percent. This rate would still be lower than the 9.6 percent rate that was in place from 1980 to 1986. At that time it was lowered to the 9.3 percent rate that was in place through 1996.

Education

♦ Increases school funding by about $2.3 billion above the Governor's budget. While this is a major increase from the Governor's proposal, it still results in about $2 billion in cuts below the workload budget level.

♦ Funds the UC and CSU at the level proposed in the May Revision, which includes a $100 million increase for each above the January proposal.

♦ Restores full funding for Cal Grants, including $57 million for competitive Cal Grants that the Governor proposed cutting.

Health

♦ Restores the most difficult cuts proposed by the Governor, including:

o Restores nearly all (about 92 percent) of the 10 percent Medi-Cal rate cut adopted in the Special Session for most providers (doctors, nurses, dentists, home health providers, etc.), and half of the rate cut for pharmacy, managed care and long-term care facilities that do not pay the quality assurance fee (most nursing homes pay the fee and will receive a cost-based rate increase). These rate restorations will take effect on September 1, 2008 and will result in a total cost of $275 million.

o Restores the Medi-Cal optional benefits. Of the restoration of $85.5 million, the adult dental restoration is $73.8 million.

o Restores almost all cuts to Medi-Cal eligibility, by: rejecting the rollbacks in eligibility for poor families that penalize work and marriage; rejecting restrictions on services to legal immigrants and imposing monthly eligibility hurdles to emergency care for the undocumented; and rejecting the imposition of quarterly status reports for children and parents and instead adopting semi-annual status reporting for children, which is the current reporting requirement for parents.

o Rejects co-pay increase and reduces premium increases by half for children in the Healthy Families Program.

♦ Makes budget cuts of over $400 million for Medi-Cal and Family health services. This includes various 10 percent cuts to programs and savings due to the full 10 percent rate cuts approved in the Special Session being in affect until September 1, 2008.

Human Services

♦ Makes tough cuts to human service programs, including cuts to SSI/SSP, CalWORKs, and other critical safety net programs.

♦ Restores the most draconian cuts proposed by the Governor for the social safety net, including rejecting cuts to: children's services and foster care; CalWORKs kids eligibility; grant reductions; the SSI federal COLA; and IHSS.

♦ Restores cuts to county administration of various programs that would have further tied the hands of counties to provide adequate services required by the state.

Transportation

♦ Provides full funding of Proposition 42, which provides $1.4 billion for highway construction, local road maintenance, and public transit.

♦ Restores $317 million of the Governor's proposed $825 million cut to public transit, and provides a total $560 million for local transit operations.

♦ Provides funding for various Proposition 1B programs, including local transit, State and Local Partnership, and the Trade Corridor Improvement Fund.

♦ Includes the Governor's proposed $11 car registration fee increase to support the California Highway Patrol.

Natural Resources and Environmental Protection

♦ Doubles the Governor's proposed Emergency Insurance Surcharge to generate funds for fighting forest fires and dealing with other emergencies. The annual surcharge will average about $25 for properties in high risk areas and $13 for properties in low risk areas.

♦ Provides funds for AB 32 to combat to continue implementation of strategies to reduce greenhouse gas emissions in California.

Public Safety

♦ Achieves $450 million in savings from corrections reforms, including:

   o Authorizing the direct discharge of offenders convicted of non-serious, non-violent offenses that have no prior serious or violent offenses and have completed their prison sentences.

   o Authorizing earned discharge from parole for specific offenders.

   o Adjusting the value threshold for property crimes by inflation.

   o Implementing comprehensive credit reform.

   o Establishing trial court pilot programs and mandating the use of alternative sanctions to divert certain parolees who would otherwise be returned to prison.

♦ Funds the COPS/Juvenile Justice program at the previous funding level of $100 million each and makes other necessary reductions to state support of local public safety programs that are local responsibilities, including the elimination for funding for Booking Fees and funding for the Rural Sheriff program.

Summary of Charts

Comparison of Solutions for the $15.2 Billion General Fund Shortfall
May Revision and Conference Version
(in billions)

	May Revision	Conference Version
Starting Problem	-$15.2	-$15.2
Expenditure Solutions		
Non-98 Budget Balancing Reductions & Misc.	$2.8	$2.0
Prop 98 Reductions	4.3	2.0
LAO Property Tax estimate (reduces GF for Education)	0.0	0.6
Transit Cuts	0.8	0.5
CCPOA Last, best, and final	0.4	0.5
HHS cuts not part of BBR	0.6	0.3
PERS/STRS savings issues	0.1	0.2
Cal Grant Cuts	0.1	0.0
Delay local Mandates	0.1	0.1
Total Expenditure Solutions	**$9.1**	**$6.2**
Revenue Solutions		
Tax Increases:	$0.0	$8.2
subtotal	*$0.0*	*$8.2*
Borrowing:		
Lottery Securitization Revenues	$5.1	$0.0
Special Fund Loans/Transfers	0.7	0.7
subtotal	*$5.8*	*$0.7*
Other Revenues:		
LLC Acceleration	$0.4	$0.4
Amnesty	0.0	1.5
Tax Accrual	1.9	0.0
Misc.	0.1	0.1
subtotal	*$2.3*	*$2.0*
Total Revenue Solutions	**$8.1**	**$10.8**
Grand Total, Solutions	**$17.2**	**$17.0**
Final Reserve	**$2.0**	**$1.8**

May Revision and Conference Version

General Fund Summary
(in billions)

	2008-09	
	May Revision	**Conference Version**
Prior-year balance	$1.7	$3.3
Revenues and Transfers	$103.0	$104.4
Total Resources Available	**$104.7**	**$107.7**
Total Expenditures	**$101.8**	**$105.0**
Fund Balance	**$2.9**	**$2.7**
Budget Reserves:		
(Liquidation of Encumbrances)	($.9)	($.9)
Final Reserve	**$2.0**	**$1.8**