



**Floor Report of the
8th Extraordinary Session
2009-10 and 2010-11 Budget Package**

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Summary

On January 8, 2010, the Governor proclaimed a fiscal emergency, triggering a Proposition 58 Special Session. The Governor included his Special Session proposal as part of his 2010-11 budget proposal so that it is consistent with his overall approach to balancing the budget for the next sixteen months. In response, the Assembly has crafted a package of bills that are intended to respond to the fiscal emergency in the current budget year that is summarized in this document.

The Assembly's Special Session is a meaningful first step towards bridging our state's budget gap. The package includes \$5 billion of solutions to begin bridging the projected \$19.9 billion shortfall. It also includes measures to ensure stability in the state's cash management situation for the remainder of the 2009-10 fiscal year and provisions to improve cash management in 2010-11. The combination of these two measures will demonstrate meaningful progress in addressing the state's current fiscal challenges and will demonstrate to our citizens, vendors, and investors that California is on the path towards fiscal stability and a balanced budget.

The guiding principles of the package:

- ◆ **Immediate and Substantial Action on the Budget Gap:** The Legislature's provides \$5 billion of solutions.
- ◆ **Ensuring the State has Cash to Pay its Bills:** The state will have the tools to avoid a cash shortfall in the spring, and will be taking steps now to prevent cash shortfalls in the 2010-11 budget.
- ◆ **Providing Funding for Transit and Transportation:** The package includes a swap of gas taxes that provides \$1.1 billion in General Fund savings in 2010-11, but retains funding for public transit and provides more funding for transportation projects than the Governor's proposal.
- ◆ **Promoting Investment and Job Creation:** By adopting solutions early and establishing a cash management strategy for the next sixteen months, the state will be in a stronger position to sell infrastructure bonds that have already been appropriated.
- ◆ **Setting the Stage for the 2010-2011 Budget:** The Legislative package provides a meaningful first step in addressing California's budget challenge. After the enactment of this package, the Legislature will quickly transition to a public process to thoroughly vet the remaining budget proposals and develop the full 2010-11 budget.

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Components of Special Session Package:

How the Legislature's \$5 billion of solutions are constructed:

	Legislative Special Session Proposal		
(\$ millions)	2009-10	2010-11	Two Year Total
Expenditure Solutions	94.3	2,053.1	2,147.4
Gas Tax Swap	219.0	929.1	1,148.1
Revenues	14.5	809.8	824.3
Fund Shifts and Other			
Revenues	-	550.8	550.8
Other Alternative Funding	13.7	245.1	258.8
Federal Funds	6.0	69.5	75.5
Total	347.5	4,657.4	5,004.9

- ◆ Over \$2.1 billion of expenditure solutions. The solutions include:
 - \$811 million from corrections medical savings contained in the Governor's budget.
 - \$450 million by capping state agency employee costs. These savings will be achieved through the Governor's Executive Order and will not violate or require suspensions of existing collective bargaining statuses.
 - \$232 million by accepting Governor's proposal to suspend and defer certain mandates.
 - \$182 million from Governor's existing authority and plan for commutation of undocumented felons.
 - \$130 million by capturing operating equipment and expenses savings associated with capping state agency costs.
 - \$98 million by approving the Governor's proposal to delay OPEB pre-payments for post employment benefits, such as retiree health.
 - \$61 million by accepting Governor's proposal to continue 3 percent rate reduction for Developmental Regional Centers.
 - \$55 million by accepting the Governor's proposal to defer payments to Medical Institutional Providers.
 - \$41 million by approving Governor's proposal to transfer certain adults serving in juvenile detention to state prisons.
 - \$40 million by approving the Governor's proposal for statewide IT savings.

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- \$28 million by accepting the Governor's assumption of Medi-Cal fraud savings.
- \$17 million by delaying funding for the Judicial Conservatorship Program.
- \$5 million by adopting the Governor's proposal to reduce discretionary funding for hunting and fishing programs.
- ◆ \$1.15 billion savings from the gas tax swap.
 - The sales taxes on gasoline would be eliminated and a new 12.9 cent excise tax would be enacted in 2010-11, providing a one-year tax reduction at the pump. The new excise tax would grow to about 18 cents for 2011-12 and be adjusted annually thereafter to maintain transportation funding at what would have been provided under the sales tax.
 - The new excise tax would be used to pay for General Obligation Bond debt, backfill STIP and local road funding lost from the elimination of the Sales Tax, and pay for SHOPP program needs. This tax is indexed to grow as sales taxes would have grown.
 - Unlike the Governor's plan, this swap would provide funding for local transit. The existing sales tax for diesel fuel, this historic primary funding source for public transit, would be maintained in the Legislative plan. Beginning in 2011-12, the sales tax will be increased (offset by an equal reduction in the diesel excise tax), and 75 percent of this tax revenue would be dedicated to local transit. This will generate over \$350 million annually for local transit operations.
 - In addition, \$400 million is immediately appropriated for local transit operations to keep local transit funding through 2010-11.
 - Finally, a new local fee authority for on motor fuels is established to provide a local funding option for public transit and mitigate the effects of motor fuels.
- ◆ \$824.3 million in revenue and tax compliance savings. These include:
 - \$650 million through two changes: 1) delaying, for one year, the implementation of recently enacted tax changes that allows the transfer of tax credits with a business in the same unitary group and 2) limiting, to 68 percent of income, the amount of Net Operating Loss changes that allow corporations to carry back losses for the two prior years.
 - \$107 million from extending the sales tax "nexus." Requires out-of-state sellers, such as Amazon, that pay commissions to California firms or residents for sales referrals (often through a website link) to collect use tax (equivalent to sales tax) on their sales to California residents. This provision improves compliance, but does not change tax liability. Existing law requires

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Californians to pay equivalent use tax on these purchases, but compliance is low.

- \$32 million by authorizing the Financial Institutions Records Match (FIRM) Program. Requires financial institutions to perform quarterly matches of their account records with a file of tax delinquents provided by the Franchise Tax Board in order to identify assets that can be applied to pay the delinquent tax debts. This provision improves collections, but does not change tax liability.
- \$33 million from authorizing suspension of licenses for delinquent taxpayers. Permits the state to suspend state occupational and professional licenses because of unpaid income tax liabilities. Allows taxpayer to avoid suspension by entering into an installment agreement with FTB.
- \$2.3 million in additional savings by defining abuse tax shelters.
- ◆ \$550 million in fund shifts and other revenues. These include:
 - \$450 million by accepting Governor's assumption of miscellaneous revenues.
 - \$100 million by accepting Governor's proposal to transfer Tribal Gaming funds to the General Fund.
- ◆ \$260 million in alternative funding solutions including:
 - \$200 million from passage of Governor's Emergency Response Initiative.
 - \$58 million by accepting Governor's proposal to increase DNA penalty assessments for DOJ labs.
- ◆ \$75.5 million by accepting the Governor's assumption of additional federal funds for foster care.

Cash Management Plan:

- ◆ Contains a specific plan to address a \$2 billion cash problem in March and April of 2010. This plan includes \$1 billion of various short-term deferrals, which will not impact services.
- ◆ Specifies deferrals for the 2010-11 fiscal year and provides a mechanism to trigger off some or all of deferrals if sufficient cash is available. This is critical to providing certainty to local governments and school districts so they can do early planning of their own cash management needs. And, putting a 2010-11 cash plan in place will help the Treasurer sell needed Infrastructure Bonds this spring which will be critical to spurring job growth.

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Other Provisions:

- ◆ Contains language to stabilize funding for the Beverage Recycling fund (AKA "the Bottle Bill") for the year by accelerating a payment made by manufacturers and repaying loans to the fund in order to fully fund all program expenditures through 10-11.
- ◆ Includes language to allow the Department of Alcohol and Beverage Control (ABC) to transfer \$497,000 from the Federal Trust Fund to the ABC Fund to reimburse the ABC Fund for the money it expended on the federal grants.
- ◆ Contains provisions to allow the California Transportation Commission to make arrangements with local transportation agencies to allow local funds to be used to start Proposition 116 funding projects. The local entities would be reimbursed with bond funds, once they are available.
- ◆ Continues the appropriation of \$100 million Proposition 1B bond funds for port security.

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**Special Session
Governor's plan vs. Legislative Plan**

\$ millions	Governor's Proposal			Legislative Proposal		
	2009-10	2010-11	2 yr Total	2009-10	2010-11	2 yr Total
Expenditure Solutions	236.6	4587.9	4824.5	94.3	2053.1	2147.4
Prop 98 Expenditure Solutions	892.6	868.8	1761.4	-	-	-
Gas Tax Swap	57.1	1129.1	1186.2	219.0	929.1	1148.1
Fund Shifts and Other Revenues	-	-	-	-	550.8	550.8
Revenues	-	-	-	14.5	809.8	824.3
Other Alternative Funding	92.7	979.1	1071.8	13.7	245.1	258.8
<i>Federal Funds</i>	7.5	86.9	94.4	6.0	69.5	75.5
<i>Total</i>	<i>1286.5</i>	<i>7651.8</i>	<i>8938.3</i>	<i>347.5</i>	<i>4657.4</i>	<i>5004.9</i>

Budget Trailer Bills for the 8th Extraordinary Session

<u>BILL #</u>	<u>DESCRIPTION</u>
AB/SB 1	Current Year Budget Changes (majority)
AB/SB 2	Budget Year Budget Changes (majority)
AB/SB 3	DOJ/Corrections Trailer Bill (majority)
AB/SB 4	Health/Human Services Trailer Bill (majority)
AB/SB 5	Cash Solutions (2/3 vote, urgency)
AB/SB 6	Transportation Part I (majority)
AB/SB 7	Resources Trailer Bill (2/3 vote)
AB/SB 8	Tax Enforcement (majority)
AB/SB 10	General Government Trailer Bill (majority)
AB/SB 11	Proposition 116 Letter of No Prejudice (majority)
AB 12	Port Security (majority)
SB 13/ AB 185 (Regular Session)	Emergency Response Initiative (2/3 vote, tax)