

THE 2007-2008 STATE BUDGET  
Preliminary Conference Report



**ASSEMBLY BUDGET COMMITTEE  
PRELIMINARY CONFERENCE REPORT  
2007-2008 STATE BUDGET**

**JOHN LAIRD, CHAIR**  
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**Summary**

On June 29, 2007, the Budget Conference Committee completed their work crafting the budget for 2007-08, thus culminating a five month process of well over 100 subcommittee, full committee, and Conference Committee hearings. During which time countless issues were presented, debated, and acted upon, resulting in a final budget that is fair, responsible, and balanced.

In total, the Conference version of the budget contains \$105.7 billion in available General Fund resources, \$104.4 billion in General Fund expenditures, and a total available reserve of \$2.023 billion.

The Conference version is similar to the Governor's May Revision proposal in that they both have almost identical actual reserves and neither have a lot of new programs.

Some key elements of the Conference version of the budget are as follows:

- ◆ **\$2 Billion Reserve in line with Governor's May Revision Reserve.** Provides total available reserve of \$2,023 million, within \$13 million of the Governor's updated May Revision reserve. And, the Conference reserve is much more realistic than the Governor's updated May Revision reserve, since it does not include the \$832 million Home-to-School diversion of transportation funds which is likely unconstitutional. Therefore the Governor's reserve likely being overstated by \$832 million.
- ◆ **Tough Solutions.** Includes difficult budget solutions, including cutting the CalWORKS COLA, not "buying-out" the Governor's fee increases for CSU and UC,

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not providing \$400 million in current year Proposition 98 "settle-up" appropriations, and shifting \$551 million of gas taxes paid at the pump from public transit to the benefit of the General Fund.

- ◆ **Economic Recovery Bonds Repayments.** Includes \$2.5 billion in repayments of the Economic Recovery Bonds. This includes about \$1.5 billion from the dedicated sales tax and \$1 billion that the Governor could have suspended.
- ◆ **Williamson Act.** Rejects the Governor's proposal to eliminate the Williamson Act Subvention for local governments.
- ◆ **CalWORKS for Children.** Rejects the Governor's most draconian cuts to CalWORKS, including \$314 million in cuts that may have taken aid away from as many as 190,000 of California's neediest children.
- ◆ **SSI/SSP COLA.** Rejects the Governor's proposal to cut the January, 2008 COLA for SSI/SSP.
- ◆ **Medi-Cal.** Fully funds caseload and county administration and includes \$214.3 million for managed care rate increases, as proposed in the Governor's May Revision.
- ◆ **Clean Air and Protecting the Environment.** Begins implementation of AB 32 and provides significant funding for clean air and environmental protection efforts with critical bond appropriations.
- ◆ **K-12 Education.** Provides full funding of Growth and COLA for education but makes no new investments for education programs that may not be able to be sustained in future budget years.
- ◆ **Access to Higher Education.** Rejects Governor's proposed cut of \$26.3 million for Academic Preparation programs for the UC and CSU.
- ◆ **Gangs.** Provides \$9.5 million in local assistance grants to create meaningful alternatives to gang affiliation by incentivizing regional collaborations between local agencies and community organizations for gang prevention, intervention, re-entry, job training and community services.
- ◆ **Juvenile Justice.** Reforms the state's system to provide rehabilitative services to juveniles in closer proximity to their families and enhances the capacity of local communities to implement an effective continuum of responses to juvenile crime and delinquency. Provides \$130,000 per ward in block grant assistance to local agencies, as well as \$14.9 million in planning grants.

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- ◆ **Public Transportation.** Restores \$749 million of the Governor's \$1.3 billion cut to public transit by rejecting the Governor's \$832 million Home-to-School proposal but approving \$339 million for General Obligation Bonds, \$83 million for Proposition 42 loans, and \$129 million for Regional Center transportation.
  
- ◆ **Proposition 42.** Provides full funding for Proposition 42, including \$83 million in repayments.

As with every budget, no one can be pleased with every aspect of the entire document. However, it is important to note the following issues that have historically been priorities for Legislative Republicans:

- ◆ No new taxes.
- ◆ Reserve equal to the Governor's updated proposed reserve.
- ◆ \$2.5 billion in Economic Recovery Bond repayments, including \$1 billion above the minimum required payment.
- ◆ No new social programs.
- ◆ Full funding of the current year K-12 Equalization deal.
- ◆ Rejection of the Governor's proposed elimination of the Williamson Act subvention.
- ◆ Over \$500 million for local law enforcement programs (none of which are state programs).

In summary, the Conference version of the budget provides a responsible \$2.023 billion reserve, maintains funding for critical programs, and makes difficult cuts – while also making significant General Fund debt payments.

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Summary of Charts

General Fund Summary  
(in millions)

	<u>2006-07</u>	<u>2007-08</u>
<b>Prior-year balance</b>	\$10,540	\$4,416
Revenues and Transfers	\$95,541	\$101,251
<b>Total Resources Available</b>	<b>\$106,081</b>	<b>\$105,666</b>
<b>Total Expenditures</b>	<b>\$101,665</b>	<b>\$104,393</b>
<b>Fund Balance</b>	<b>\$4,416</b>	<b>\$1,273</b>
<b>Budget Reserves:</b>		
Reserve for Liquidation of Encumbrances	(\$745)	(\$745)
Special Fund for Economic Uncertainties	\$3,671	\$528
Budget Stabilization Account	\$472	\$1,495
<b>Reserve and Budget Stabilization Account</b>	<b>\$4,142</b>	<b>\$2,023</b>

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**Major Changes from Governor's May Revision  
Assembly Version  
(in millions)**

	<b>Impact on Reserve</b>
Governor's Published Reserve in May Revision	\$2,199
Corrections Medical (CY savings, BY cost)	-\$9
Unclaimed Property (CY year loss of revenue, BY increased revenues and expenditures)	-\$87
SBMA Proposal not available after 7/2 (likely unachievable anyway)	-\$75
Cal Fire current year deficiency	-\$13
Saving from updated PERS retiree health benefit estimate	\$21
<b>Updated Governor's May Revision Reserve</b>	<b>\$2,036</b>
Conference Changes Updated May Revision Reserve	
Reduced Revenue from Tribal Gaming Compacts	-\$22
Rejected CalWORKS cut to kids	-\$314
Rejected cut SSI/SSP COLA (includes updated COLA estimate)	-\$148
Rejected cut to Homeless Mentally Ill Integrated Services	-\$55
Proposition 36 Funding	-\$40
Adjusted EPSDT Repayment schedule	\$156
Reduced cut to Public Transit by \$749 million	-\$749
Reject cut to Williamson Act Subvention	-\$39
Reject transfer from EDD Contingent Fund	-\$27
Reduced Current Year Proposition 98 Settle-up	\$400
Juvenile Justice Reform	-\$78
Cut funding for Mentally Ill Offender Crime Reduction Grants	\$45
Court Security Increase	\$37
Shifted Funding Source for capital projects	\$101
Reject FI\$CAL new spending proposal	\$36
Reject additional early repayment of ERB	\$595
Miscellaneous/Rounding	\$89
<b>Final Conference Reserve</b>	<b>\$2,023</b>

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**General Fund Summary Comparison  
Updated May Revision and Conference Version  
(in millions)**

	2007-08	
	Updated May Revision <sup>1</sup>	Conference Version
	<u>2007-08</u>	<u>2007-08</u>
<b>Prior-year balance</b>	\$3,876	\$4,416
Revenues and Transfers	\$101,318	\$101,251
<b>Total Resources Available</b>	<b>\$105,194</b>	<b>\$105,666</b>
<b>Total Expenditures</b>	<b>\$103,910</b>	<b>\$104,393</b>
<b>Fund Balance</b>	<b>\$1,283</b>	<b>\$1,273</b>
<b>Budget Reserves:</b>		
Reserve for Liquidation of Encumbrances	(\$745)	(\$745)
Special Fund for Economic Uncertainties	\$541	\$528
Budget Stabilization Account	\$1,495	\$1,495
<b>Reserve and Budget Stabilization Account</b>	<b>\$2,036</b>	<b>\$2,023</b>

<sup>1</sup>Changes to the Governor's May Revision are as follows:

- ◆ CDCR Medical results in a current year savings and a budget year cost that net about \$9 million in additional expenditures.
- ◆ Unclaimed property changes result in a current year loss of revenue, budget year gain in revenue, and additional expenditure that net a reserve reduction of about \$87 million.
- ◆ SBMA proposal no longer available, and was likely unachievable as proposed, resulting in an increased budget year expenditure of \$75 million.
- ◆ Cal Fire current year deficiency of \$13 million.
- ◆ Updated PERS retiree health costs reduce expenditures by \$21 million.