Governor's Budget

Special Session 2008-09

Introduction

Economic conditions have deteriorated dramatically since the Governor signed the 2008 Budget Act on September 23. This deterioration was reflected in General Fund revenue collections for the month of September that came in $923 million below forecast. As a result, California faces a revenue shortfall of $11.2 billion this year. Specifically, the Department of Finance estimates that General Fund revenues will be approximately $567 million lower in 2007-08, $10.7 billion lower in 2008-09, and $13 billion lower in 2009-10 than earlier projections.

This significant revenue shortfall demands immediate action for the following reasons:

- A revenue reduction of this magnitude will reduce total cash resources below acceptable levels next month. If no action is taken to reduce spending, increase revenues, or a combination of both, the state will run out of cash in February and be unable to meet all of its obligations for the rest of the year.
- The revenue reduction will eliminate the $1.7 billion reserve adopted in the Budget Act and create a General Fund budget gap of $9.5 billion.
- Quick action to restore balance to the current year budget will lay the groundwork for balancing the budget for 2009-10.

- Delays in enacting budgetary solutions will significantly reduce the value of those solutions for this year and next, thereby necessitating even more spending reductions and/or revenue increases.

In light of the urgency of the situation, Governor Schwarzenegger has called a special session of the Legislature and is proposing a variety of spending reductions and revenue increases to bring spending closer in line with available revenues. In addition, given the economic downturn and its impact on families and workers, the Governor is proposing numerous measures to help stimulate the economy to help families stay in their homes and to keep Californians employed.

Overview of the Proposals to Address the Shortfall

The Governor's special session proposals include spending reductions totaling $4.5 billion, or 49 percent of the total proposed solutions, while revenue increases account for $4.7 billion, or 51 percent of the total solutions. As the figure shows, these proposals are in addition to the $24.3 billion in solutions enacted in the Budget Act of 2008. When all of the solutions are considered, spending reductions account for 49 percent, revenue increases account for 39 percent and borrowing accounts for 12 percent.

Final spending and revenue projections for the 2009-10 Governor's Budget will not be available until January. Therefore, this special session proposal is based on preliminary projections of the revenue shortfall only and does not reflect the total potential budget gap. The economic situation and the revenue shortfall are so severe that it is clear that there will be a substantial deficit projected for 2009-10. Therefore, the descriptions of the fiscal effects of the special session proposals include estimates of their impact in 2009-10.

Figure INT-01

Major Solutions

(Dollars in Millions)

	As of 2008 Budget Act			2008-09			
	2007-08 & prior	**2008-09**	**Total**	**Special Session**		**Total**	
Revenue Increases							
Corporate Penalty for Understatement of Tax	$1,435	$75	$1,510			$1,510	
Net Operating Loss Suspension and Carryback		1,265	1,265			1,265	
Tax Credit Limitation and Usage Modification		615	615			615	
Limited Liability Corporations Payment Date Change		360	360			360	
Accelerate Estimated Payments		1,270	1,270			1,270	
Remove Estimated Payment Option for High Income Taxpayers		1,035	1,035			1,035	
Accrual Change	416	1,440	1,856			1,856	
Additional Tax Revenues (LAO/DOF) (June)	120	-250	-130			-130	
Additional Tideland Revenues (LAO/DOF)	24	166	190			190	
Additional Revenues from Tribal Compacts		78	78			78	
FTB/BOE Revenue Options		226	226			226	
Transfers from Special Funds		141	141			141	
Justice Settlement (transfer to GF)		11	11			11	
Temporary (3-year) 1.5 cent Increase in Sales Tax				$3,540		3,540	
Oil Severance Tax (9.9% tax rate; exception for stripper wells)				530		530	
Expand Sales Tax to Some Services				357		357	
Nickel a Drink Alcohol Tax				293		293	
All Other Changes	63	74	137			137	
Total Revenue Increases	**$2,058**	**$6,506**	**$8,564**	**$4,720**	**51%**	**$13,284**	**40%**
Borrowing							
Economic Recovery Bonds	$3,313		$3,313			$3,313	
Loans from Special Funds		$714	714			714	
Total Borrowing	**$3,313**	**$714**	**$4,027**	**$0**	**0%**	**$4,027**	**12%**
Expenditure Reductions							
Proposition 98:							
Property Tax	$275	$423	$698			$698	
Redevelopment Agency Pass Through		350	350			350	
Settle-Up Payment	150		150			150	
Base	671	2,643	3,314	$2,500		5,814	
Non Proposition 98:							
Budget Balancing Reductions	113	2,154	2,267			2,267	
Non Budget Balancing Reductions:							
Medi-Cal Program Savings	165		165	142		307	
Suspend Prop 58 Transfer		1,509	1,509			1,509	
Use of Public Transportation Account for Home-to-School Transportation		488	488			488	
Use Spillover Moneys for Debt Service Payments		250	250			250	
Reimburse of GF for Past Debt Service Payments from TDSF		235	235			235	
Reduce Mandates Funding		53	53			53	
Eliminate Estimated Claims for N98 Mandates		75	75			75	
Defer Third Year Payment of 15-Year Plan for Old N98 Mandates		75	75			75	
Eliminate Funding for CCPOA Last, Best, and Final Offer	260	230	490			490	
Health and Dental Benefits for Annuitants Premium Reductions	23	81	104			104	
State Cash Management Improvement Program		60	60			60	
Reduction (Control Section 4.07)		50	50			50	
Savings Due to Budget Delay and Executive Order S-09-08		340	340			340	
CDCR--Limit Parole Supervision				78		78	
Funding Realignment for Public Safety Grant Programs				250		250	
Reduce UC and CSU budgets to the 10% Across-the-Board Reduction Funding Level				132		132	
Developmental Services Program Savings				34		34	
SSI/SSP Program Savings				391		391	
CalWORKs Program Savings				274		274	
IHSS Program Savings				118		118	
Reduce State Funding for Transit Agencies				230		230	
Eliminate Funding for the Williamson Act				35		35	
Employee Compensation Changes				320		320	
All Other Changes	60	137	197			197	
Total Expenditure Reductions, before vetoes	**$1,717**	**$9,153**	**$10,870**	**$4,504**	**49%**	**$15,374**	**46%**
Vetoes		**$510**	**$510**			510	**2%**
Reduce Reserve		**$306**	**$306**			306	**1%**
Total Solutions	**$7,088**	**$17,189**	**$24,277**	**$9,224**	**100%**	**$33,501**	**100%**

Stimulate the Economy/Retain and Create Jobs

Finally, the special session will focus on various proposals to help stimulate the economy, retain and create jobs, and reduce barriers to job creation and retention.

The economic stimulus proposals include accelerating the appropriation of $700 million remaining in Proposition 1B funds for improvements to local streets and roads. These funds will be available for cities and counties that agree to encumber the funds by December 31, 2009, certify that their local fund balances for road maintenance do not exceed three months of their Highway Users Tax Account (HUTA) and Transportation Investment Fund (TIF) revenues, and meet accountability requirements.

The economic stimulus proposal also provides an additional $800 million in Proposition 1B funding in 2008-09 for local transit agencies to accelerate several large local transit projects. Moreover, to create jobs in a sector heavily impacted by the current downturn, some Proposition 1B projects administered by Caltrans totaling $822 million will be accelerated by waiving some state and federal environmental requirements.

The economic stimulus proposal also includes accelerating the implementation of $147 million of water and flood projects funded by Propositions 84 and 1E. Under existing law, these funds will not be available until March 1, 2009. The Administration believes urgency legislation is necessary to make these Proposition 84 and 1E funds available immediately. In addition, the Governor will seek action by the federal government to move an additional $57.1 million in water projects forward now.

The special session proposal will also include the reintroduction of the necessary amendments to AB 900 so that needed construction for the Department of Corrections and Rehabilitation can begin as well as to create valuable jobs in the state. The Administration is also looking forward to continuing to work with the Legislature to address the correctional systems' capital needs for medical and mental health services.

The Governor will propose the following in the special session:

- Easing regulations to allow "in the pipeline" hospital construction projects to move forward.
- Providing flexibility to employers regarding flex time schedules, meal and rest periods, and overtime rules, to reduce the amount of costly litigation and encourage employers to keep jobs in-state.

- Providing tax incentives to new film and television production locating in California and production that has left the state, to return in-state.
- Creating reforms to help homeowners avoid foreclosure and stay in their homes, as well as reforms to the lending process that will help prevent a future mortgage crisis in California.

Economic Outlook and Revenue Estimates

Economic Outlook

Less than six weeks after the enactment of the 2008-09 budget, a string of weak economic statistics, arriving during a spreading credit crunch and the bankruptcies and rescues of several financial institutions, has convinced most economists that the national economy is in recession. Most persuasive was a sharp fall in consumer spending in the third quarter of 2008 and a stock market collapse in October. Mounting job losses, falling home prices, plunging equity prices, and tight credit conditions have worn down consumers. One widely followed measure of consumer confidence – The Conference Board Consumer Confidence Index – fell to a record low in October. Slower consumer spending is, in turn, dampening business spending on equipment and structures.

While economic statistics on the California economy are fewer and less timely than those on the national economy, there is no doubt that the California economy is experiencing the same pressures as the national economy. Job losses have grown in recent months. The state's unemployment rate has risen quickly in the last year and is considerably higher than the national rate. Housing prices are falling faster in the state than in the nation. Taxable sales were below year-ago levels in the most recent four quarters of available data. Auto sales have dropped farther in the state than the nation.

The outlook for the national and California economies has deteriorated considerably since the budget enactment. Weaker GDP growth, bigger job losses, and smaller personal income gains are now expected in 2009. Whereas a short, modest economic decline was expected before, a deeper and longer decline is much more likely now. How long and how deep depends largely on how long it takes for credit to become much more available.

The Nation

Real GDP decreased 0.3 percent in the third quarter of 2008, with the weakness widely spread across major spending categories. A 3.1-percent drop in consumer spending—the largest percentage decline in 28 years—did most of the damage. Business equipment spending and residential construction also fell, and export growth slowed.

The economy ended the third quarter much weaker than it began, and this was before the stock market delivered its greatest drop in 21 years in October with paper losses of $2.5 trillion. Retailers are expected to report very weak October sales, which will bode poorly for holiday sales. The fourth quarter of 2008 is expected to be considerably weaker than the third quarter.

The Federal Reserve and U.S. Treasury took dramatic steps in September and October to reinvigorate credit markets. On October 29, the Federal Reserve lowered by one-half percentage point its target for the interest rate banks charge one another for short-term loans. This brought the target rate to 1 percent, leaving the central bank very little room to further ease monetary policy. Thus, it appears increasingly likely that Congress will enact another economic stimulus package.

California

California labor markets have weakened as 2008 has progressed. In the first nine months of the year, California lost 78,600 jobs, but in the first five months the average monthly loss was 5,200 jobs, while in the last four months, it was 13,200 jobs. Seven of the 11 major industry sectors have lost jobs since the end of 2007, with construction, retail trade, and financial activities—which includes real estate and mortgage lending services—accounting for the bulk of the job losses. The state's unemployment rate began 2008 at 5.9 percent and quickly rose to 7.7 percent in August and September.

California's housing slump continues to be a significant drag on the economy. But home sales have started to pick up, especially sales of distressed houses. New home sales remain at low levels. Average home prices continue to drop. In September, the median price of existing homes sold, $316,500, was 41 percent lower than the median price a year earlier. Some of the decline is due to a changing mix of homes that have sold—more moderately priced homes and fewer expensive homes. Unsold inventories have stabilized at six months of sales at current monthly sales rates. Single-family home building appears to have stabilized at very low rates.

The Outlook

The outlook for the state and national economies darkened considerably as 2008 progressed and accelerated through the end of October. Economic growth was already expected to be low before the credit and stock market turmoil developed. Recent economic statistics point to considerable economic weakness in the fourth quarter of 2008 and in 2009. It appears that consumers will get little reprieve from job losses, falling home prices, and low equity prices. The state's unemployment rate could exceed 10 percent in some months of 2009 and 2010. The impact of the financial rescue measures enacted by Congress in October is uncertain at this point. The national and California economies will face strong headwinds in 2009 and the first half of 2010.

A new forecast will be prepared for the Governor's Budget that will incorporate new economic data released in November and be informed by events and other forecasts that become available in the next few weeks.

Figure Econ-01 shows selected economic indicators used in the current forecast.

Figure ECON-01

Economic Outlook

Percentage changes unless otherwise noted.

	2008 (Est.)	2009 (Projected)	2010 (Projected)
Selected United States Economic Indicators			
Real gross domestic product	1.4	-0.9	1.6
Personal income	4.3	1.9	2.6
Corporate profits before taxes	-12.2	1.4	6.3
Nonfarm wage and salary employment	-0.1	-1.6	0.2
Unemployment rate (Percent)	5.7	7.6	8.1
Housing starts (1,000s of units)	931	737	1,013
Selected California Economic Indicators			
Personal income	4.0	2.2	2.6
Nonfarm WAS employment	-0.4	-1.2	-0.4
Unemployment rate (Percent)	7.0	9.0	9.7
Housing permits (1,000s of units)	67	64	83

Forecast based on data available as of October 2008.

Percent changes calculated from unrounded data.

Revenue Estimates

To provide the Governor and the Legislature with the most up-to-date assessment of current year revenues, the Department has taken into account available data and input from economists, including experts outside of the department to provide an updated revenue projection. Developing this preliminary revenue assessment is highly unusual and outside the traditional revenue estimates included in the Governor's Budget or the May Revision. Based on the latest available data, the Department now projects that baseline General Fund revenues are expected to be approximately $102.4 billion in 2007-08, $91.3 billion in 2008-09, and $89.5 billion in 2009-10. New revenues from tax law changes proposed in the special session are estimated to be $4.7 billion in 2008-09 and $10.3 billion in 2009-10. Proposed total revenues are $96.1 billion in 2008-09, and $99.8 billion in 2009-10.

Expected baseline revenues have been reduced from Budget Act estimates by approximately $567 million in 2007-08, $10.7 billion in 2008-09, and $13 billion in 2009-10. The reductions are primarily due to reductions to the economic forecast for personal income, capital gains and corporate profits, and lower tax collections. Expected baseline revenues for 2009-10 also reflect a $500 million reduction for the sale of the EdFund, which is no longer expected to be completed in 2009-10.

The $7.2 billion revenue reduction to 2008-09 baseline Personal Income tax revenues is largely due to lower expected capital gains. Capital gains accounts for $4.0 billion of the 2008-09 personal income tax revenue loss. The remaining approximately $3.2 billion reduction is due to a lower forecast for personal income components such as wages and salaries and proprietorship income.

The approximately $1.6 billion reduction to 2008-09 baseline Sales and Use tax revenues is due to lower collections, and lower expected disposable income, auto sales and less construction of new housing.

The approximately $1.6 billion reduction to baseline Corporation tax revenues is due to lower third-quarter corporate estimated payments and lower expected corporate profits.

Figure REV-01 displays the forecast changes between Budget Act and Special Session.

Figure REV-01
2008-09 Special Session
GENERAL FUND REVENUE FORECAST
SUMMARY TABLE
Reconciliation with 2008-09 Budget Act
(In millions)

Source	Budget Act	Special Session			
		Baseline	Change between Forecasts	Proposed	Change between Forecasts
Fiscal 07-08					
Personal Income Tax	$54,380	$54,289	-$91	$54,289	-$91
Sales & Use Tax	26,813	26,613	-$200	$26,613	-$200
Corporation Tax	11,926	11,690	-$236	$11,690	-$236
Insurance Tax	2,171	2,173	$2	$2,173	$2
Other Revenues	6,525	6,457	-$68	$6,457	-$68
Transfers	1,212	1,238	$26	$1,238	$26
Total	**$103,027**	**$102,460**	**-$567**	**$102,460**	**-$567**
Fiscal 08-09					
Personal Income Tax	$55,721	$48,479	-$7,242	$48,479	-$7,242
Sales & Use Tax **	27,111	25,486	-$1,625	$29,383	$2,272
Corporation Tax	13,073	11,426	-$1,647	$11,426	-$1,647
Insurance Tax	2,029	2,177	$148	$2,177	$148
Other Revenues	3,242	2,967	-$275	$3,789	$547
Transfers	816	798	-$18	$798	-$18
Total	**$101,992**	**$91,333**	**-$10,659**	**$96,053**	**-$5,940**
Change from Fiscal 07-08	-$1,035	-$11,127		-$6,408	
% Change from Fiscal 07-08	-1.0%	-10.9%		-6.3%	
Fiscal 09-10					
Personal Income Tax	$55,863	$48,824	-$7,039	$48,824	-$7,039
Sales & Use Tax **	29,248	25,234	-$4,014	$33,709	$4,461
Corporation Tax	11,982	10,731	-$1,251	$10,731	-$1,251
Insurance Tax	2,135	2,135	$0	$2,135	$0
Other Revenues	3,366	2,603	-$763	$4,389	$1,023
Transfers	15	61	$46	$61	$46
Total	**$102,609**	**$89,588**	**-$13,021**	**$99,849**	**-$2,761**
Change from Fiscal 08-09	$617	-$1,745		$3,796	
% Change from Fiscal 08-09	0.6%	-1.9%		4.0%	

** Proposed sales and use tax numbers include $322 million for 2008-09 and $713 million for 2009-10 that will be transferred under Proposition 42 to the Transporation Investment Fund. Of these amounts, $676 million will be transferred in 2009-10 and $359 million in 2010-11.

Proposed Law Changes

Temporary Sales Tax Increase: Effective January 1, 2009, a temporary rate increase of 1.5 percent is proposed for three years in the General Fund Sales and Use tax. At the end of three years, the Sales and Use tax rate will return to 5 percent. This proposal is expected to generate additional sales tax revenues of $3.540 billion in 2008-09 and $7.319 billion in 2009-10 for the General Fund. These amounts include $322 million for 2008-09 and $713 million for 2009-10 that will be transferred under Proposition 42 to the Transportation Investment Fund. Of these amounts, $676 million will be transferred in 2009-10 and $359 million in 2010-11.

Broaden the Sales and Use Tax to Include Certain Services: Effective February 1, 2009, it is proposed to apply the sales and use tax rate to appliance and furniture repair, vehicle repair, golf, and veterinarian services. Effective March 1, 2009, the sales and use tax rate will be applied to amusement parks and sporting events. Assuming a 6.5-percent General Fund tax rate, this proposal is expected to generate additional General Fund sales tax revenue of $357 million in 2008-09 and $1.156 billion in 2009-10. These estimates assume initially low collections but significant improvements in collections over time. This proposal will also generate revenues for local government agencies of $151 million in 2008-09 and $487 million in 2009-10, including $27 million for local public safety funds in 2008-09 and $89 million in 2009-10.

Oil Severance Tax: Effective January 1, 2009, it is proposed to impose an oil severance tax upon any oil producer extracting oil from the earth or water in California. The tax shall be applied to the gross value of each barrel of oil at a rate of 9.9 percent. Any oil produced by a stripper well, in which the average value of oil as of January 1 of the prior year is less than fifty dollars ($50) per barrel, will be exempt from this tax. Also, any oil owned or produced by any political subdivision of California will be exempt from this tax. This proposal is expected to generate additional revenues of $528 million in 2008-09 and $1.195 billion in 2009-10.

Increase Alcohol and Excise Taxes by 5 Cents a Drink: Alcohol excise taxes are proposed to be raised by five cents per drink beginning on January 1, 2009. A drink is defined as 1.5 ounces of distilled spirits, 12 ounces of beer, or 5 ounces of wine. This increase is estimated to raise $293 million in 2008-09 and $585 million in 2009-10. These estimates are adjusted to reflect an estimate of reduced consumption caused by the increase in price. Alcohol taxes were last raised in 1991. See the Funding Realignment portion of Program Reductions for information on uses of these revenues.

Vehicle Registration Fee Increase: Effective February 1, 2009, annual vehicle registration fees are proposed to be increased by $12 to offset a shift of Vehicle License Fee revenue from the support of the Department of Motor Vehicles to support local criminal justice programs. This special fund revenue will provide $150 million for these programs in 2008-09 and $359 million in 2009-10 and future years. See the Funding Realignment portion of Program Reductions for information on uses of these revenues.

Program Reductions

The Administration proposes a total of $4.5 billion of General Fund reductions in 2008-09 program costs. These reductions will generate $6.1 billion in General Fund savings in 2009-10. The reductions are in addition to the $11.38 billion in expenditure reductions in the 2008 enacted budget.

Proposition 98 (K-14)

Total Proposition 98

Due to significant declines in anticipated revenues since the budget was enacted, the Administration proposes total Proposition 98 expenditure reductions of $2.5 billion in 2008-09 in the special session, including eliminating the partial COLA provided to K-12 revenue limits and community college apportionments, Child Care programs savings, and further reducing general purpose funding for all Local Education Agencies, which will be accompanied by dramatic flexibility provisions that will allow LEA's to transfer categorical funds at their discretion to ensure adequate funding for essential classroom instruction and services. Specific savings proposals are summarized below:

K-12 Programs

- $244.3 million is proposed for reduction by eliminating the 0.68-percent COLA provided for school district and county office of education revenue limits.

- $1.791 billion is proposed for reduction by further reducing the amount for local education agency (LEA) revenue limits, coupled with flexibility to transfer categorical funds to each LEA's general fund. This strategy is necessary to provide maximum flexibility to local education agencies (LEAs). It is the Administration's expectation that LEAs will maintain as much funding as possible for direct classroom instruction and the most essential support services. Therefore, the Administration proposes to authorize LEAs to transfer any categorical allocations received to their general fund for any purpose up to the amount of their share of the reduction. Districts electing to utilize this flexibility must adopt a transfer plan in a regularly scheduled governing board meeting and agree to report the amounts and categorical programs from which transfers were made and the purposes for which those funds were used.
- $55 million is proposed for reduction in capped child care programs to reflect the amount of funding that will not be allocated in current year contracts as reported by the Department of Education for General Child Care, Preschool, Alternative Payment and other programs. Because this amount has not been allocated for contracts with providers, it will not result in a reduction of services to families.
- $42 million is proposed for reduction from Stage 2 and Stage 3 child care programs based on revised estimates for lower than anticipated caseload since the budget was enacted. Stage 2 costs are revised down by $27 million and Stage 3 costs are revised down by $15 million.
- It is also proposed that $108 million in recently identified prior-year child care savings be reappropriated for CalWORKs Stage 2 and 3 programs to offset an estimated shortfall in one-time savings from the After School Safety and Education (ASES) program that was anticipated to fund part of the 2008-09 costs for these caseload-driven programs.
- $71.2 million in reductions are proposed to specific programs that are currently underutilized. The amounts and programs with recently identified prior-year savings that are proposed for reduction include $28.6 million for K-3 Class Size Reduction, $2.6 million for Principal Training, $3.3 million for Alternative Credentialing, and $1 million for the Pupil Retention Block Grant. Further, the Administration proposes to reduce the appropriation for the Targeted Instructional Improvement Grant (TIIG) program on a one-time basis and backfill that reduction through reappropriation of the one-time prior-year savings anticipated from the aforementioned programs. The Administration recognizes these savings amounts are subject to refinement and will work with the Legislature to adjust this proposal to conform to any updated information that becomes available.

Community Colleges (CCC)

- $39.8 million is proposed for reduction by eliminating the 0.68-percent COLA for CCC apportionments enacted in the education trailer bill (Section 33 of Chapter 519, Statutes of 2008).
- $292.4 million is proposed for reduction by further reducing the amount for general purpose apportionments and providing categorical flexibility similar to the proposal for K-12 LEAs. Similarly, it is the Administration's expectation that districts will maintain as much funding as possible to maximize course offerings aligned with the system's highest priorities for transfer, basic skills and vocation/career preparation along with the most essential support services. Thus, it is proposed that community college districts may transfer categorical allocations to the district's general fund for any purpose up to the amount of their share of the $290.1 million reduction. Districts electing to utilize this flexibility must also adopt plans in public meetings and agree to report the amounts and programs from which transfers were made and the purposes for which those funds were used.

Higher Education

$132 million in ongoing reductions are proposed for the higher education segments, excluding community colleges. Specific amounts are detailed below.

University of California (UC)

- A reduction of $65.5 million is proposed on an unallocated basis. Together with UC's $33.1 million share of the $190 million statewide savings requirement for state operations assumed in the enacted 2008 Budget, expenditures for UC will reflect approximately a ten-percent reduction from the workload budget, consistent with the reduction level proposed in the January 2008-09 Governor's Budget.

California State University (CSU)

- A reduction of $66.3 million is proposed on an unallocated basis. Together with CSU's $31.3 million share of the $190 million statewide savings requirement for state operations assumed in the enacted 2008 Budget, expenditures for CSU will reflect a ten-percent reduction from the workload budget, consistent with the reduction level proposed in the January 2008-09 Governor's Budget.

Hastings School of Law (HCL)

- A reduction of $402,000 is proposed on an unallocated basis. Together with HCL's $114,000 share of the $190 million statewide savings requirement for state operations assumed in the enacted 2008 Budget, expenditures for HCL will reflect a ten-percent reduction from the workload budget, consistent with the reduction level proposed in the January 2008-09 Governor's Budget.

Corrections and Rehabilitation

Parole Reform, Enhanced Credit Earning, and Property Crime Threshold Revisions

The Administration's special session proposal reflects reductions in the Department of Corrections and Rehabilitation of $78.1 million in 2008-09 and $677.6 million in 2009-10, as a result of the following proposals:

- Focus parole efforts on those offenders who have committed serious, violent, or sexual crimes. Under this proposal, offenders without current or previous convictions for serious, violent, or sexual crimes would not receive parole supervision after their release from prison. This would substantially reduce parole costs in the Department, ensure that the highest risk offenders continue to receive full supervision on parole, and reform the current "revolving door" process in which more prison admissions result from parole revocations than court convictions. This proposal is estimated to result in General Fund savings of $78.7 million in 2008-09 and $535.9 million in 2009-10.

- Enact statutory changes that would authorize the CDCR to provide up to four months of earned credit for each program successfully completed by an eligible inmate. Incentivizing program participation and completion will reduce inmate violence within the CDCR and will facilitate the inmate's reintegration into society. Additional changes would authorize consistent day-for-day credit for all eligible inmates who comply with institutional rules, continuous day-for-day credits for inmates who are in jail pending transfer to a state prison, and enhanced credits for inmates who are awaiting an assignment at a conservation camp. These proposals result in a cost of $3.4 million in 2008-09 and a savings of $90.5 million ongoing beginning in 2009-10, after accounting for savings already included in the 2008-09 Budget Act.

- Implement changes to adjust the statutory threshold values for determining when property crimes are prosecuted as a felony to reflect inflation since 1982. As a result, the special session reflects General Fund savings of $2.9 million General Fund in 2008-09, growing to $51.3 million in 2009-10.

Legislature

- No specific reductions are proposed for the Legislature; however, the 2008-09 Budgets of other constitutional officers including the Governor's Office, the Attorney General, and the Judicial Branch included reductions in the range of ten percent. The Legislature's 2008-09 Budget reflects a reduction of a lesser level. The Administration hopes the Legislature can achieve savings that are more in line with the savings achieved by constitutional executive officers.

Public Safety Grant Programs

Reductions for Various Public Safety Grants

- The proposal includes the elimination of a total of $51.7 million General Fund in 2008-09 and $103.5 million General Fund in 2009-10 for local public safety funding. This includes the following:
    - $14.7 million in 2008-09 and $29.4 million in 2009-10 that is allocated to counties that operate juvenile camps and ranches. While these funds are available to all counties based on the number of beds occupied, these funds currently support the operation of 29 camps or ranches. These funds are administered by the CDCR.
    - $28.7 million in 2008-09 and $57.4 million in 2009-10 for various local assistance programs administered by the Office of Emergency Services. Included in this reduction is funding for Vertical Prosecution Block Grants, Rural Crime Prevention, California Multi-jurisdictional Methamphetamine Enforcement Teams, the High Technology Theft Apprehension Program, Sexual Assault Felony Enforcement Teams, and various other public safety programs.
    - $8.3 million in 2008-09 and $16.7 million in 2009-10 for grants to county sheriffs of specified small and rural counties for supplemental public safety funding.

Health and Human Services

To address the budget shortfall, the Administration proposes legislation to implement the following eligibility and benefit changes effective December 1, 2008.

Medi-Cal

- Reduce California benefits to the level of optional benefits provided in most states. Cease to provide the following optional benefits for adult (excluding children) dental, chiropractic, incontinence creams and washes, acupuncture, audiology, speech therapy, optometry/optometrists, optician/optical lab services, podiatry, and psychology services. California will still be providing more optional benefits than most states. General Fund savings of $41 million result in 2008-09 and $129.9 million in 2009-10.

- Limit benefits for newly qualified immigrants and immigrants who permanently reside under the color of law (PRUCOL) to the same level as currently provided for undocumented immigrants. Benefits retained include emergency services, pregnancy-related services, long-term care in a nursing facility, and breast and cervical cancer treatment. General Fund savings of $29.7 million result in 2008-09 and $144.4 million in 2009-10.

- Implement a monthly eligibility determination for emergency services for undocumented immigrants. This population currently receives up to six months of health services after an initial eligibility determination. This proposal would limit services to one month unless and until a subsequent emergency ensues. General Fund savings of $15.1 million result in 2008-09 and $73.5 million in 2009-10.

- Reduce the income level for new applicants to the Section 1931 (b) program to the pre-March 2000 standard of an average of approximately 72 percent of the federal poverty level, and define under-employment as the principal wage earner working less than 100 hours a month for persons applying for Section 1931 (b) and for the medically needy program. The Section 1931 (b) program provides Medi-Cal eligibility to families with low incomes who meet eligibility requirements. Parents with higher incomes who meet the resource and status requirements would be eligible for the Medi-Cal medically needy program with a share of cost. General Fund savings result of $8.6 million in 2008-09, $109 million in 2009-10, and ultimately $342.5 million in 2011-12.

- Shift federal Safety Net Care Pool funding from designated public hospitals to portions of the California Children's Services, the Genetically Handicapped Persons, the Medically Indigent Adult Long-Term Care, and Breast and Cervical Cancer Treatment programs, which are eligible for these funds. No net reduction in services to beneficiaries will result from this shift. General Fund savings of $3.7 million result in 2008-09 and $54.2 million in 2009-10.

- Reinstate share of cost for Medi-Cal for aged, blind and disabled individuals with incomes over the SSI/SSP limits. Eligibility for Medi-Cal without a share of cost for beneficiaries previously expanded in January of 2001 from 69 percent up to 127 percent of the federal poverty level. This proposal would align eligibility with the SSI/SSP limits, and generate General Fund savings of $43.8 million in 2008-09, $203.7 million in 2009-10, and $212.8 million annually thereafter.

Three-Percent Reduction to Regional Center Operations and Purchase of Services Payments

- Discount payments to regional center service providers by three percent effective December 1, 2008. Certain types of payments will be exempt from this reduction, including supplemental rent/lease payments for consumers receiving supported and independent living services, and "usual and customary" rates for services such as bus fares. The department will also consider exemptions necessary to ensure the health and safety of consumers. Payments for supported employment services will not be discounted. Additionally, to assist in the implementation of the reduction to regional center operations funding, the Administration proposes to provide workload relief such as suspension of reporting requirements for staff salary schedules and contract expenditures, and suspension of the 1:66 coordinator-to-consumer ratio. For those consumers who are on the federal Home and Community Based Services Waiver, are three years of age and younger in the Early Start Program, or are consumers moving from a developmental center into the community, the coordinator-to-consumer ratio will not be suspended. These changes are expected to result in General Fund savings of $34.2 million in 2008-09 and $59.8 million in 2009-10.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)

- Reduce SSI/SSP grants to the federal minimum effective March 1, 2009, which would result in General Fund savings of $348.9 million in 2008-09 and $1.1 billion in 2009-10. Currently, the SSI/SSP grant for an aged/disabled individual is $870 per month and the grant for aged/disabled couples is $1,524 per month. After provision of a federal cost-of-living adjustment in January, 2009, this proposal would reduce the monthly grants to $830 and $1,407 for aged/disabled individuals and couples, respectively.

- Eliminate the Cash Assistance Program for Immigrants effective March 1, 2009, which would result in General Fund savings of $37.8 million in 2008-09 and $114.1 million in 2009-10. This state-only program provides benefits to aged, blind, and disabled legal immigrants.

CalWORKs

- Modify the Safety Net program, by continuing benefits for families beyond their 60-month time limit only if they meet federal work participation requirements. This would result in General Fund savings of $80.7 million in 2008-09 and $242 million in 2009-10, assuming March 1, 2009 implementation.

- Provide cash aid for families receiving child-only benefits in a manner consistent with other CalWORKs families, for General Fund savings of $76.8 million in 2008-09 and

$230.3 million in 2009-10. Under this proposal, aid to some families receiving child-only benefits would be limited to 60 months. These families include parents or caretakers who are undocumented non-citizens or certain types of felons.

- Institute a face-to-face self-sufficiency review every six months with a county worker for CalWORKs families who are not meeting work requirements. This proposal would result in General Fund savings of $23.3 million in 2008-09 and $94.8 million in 2009-10, assuming March 1, 2009 implementation. These reviews would assess what services or resources may be necessary to address barriers that are preventing participation and help remove a family's dependence upon public assistance.
- Reduce CalWORKs grants by 10 percent effective March 1, 2009, which would result in General Fund savings of $93.2 million in 2008-09 and $279.6 million in 2009-10. This proposal would reduce the maximum monthly grant for a family of three from $723 to $651.

In-Home Supportive Services (IHSS)

- Provide IHSS domestic and related services to individuals with the highest levels of need, as measured by a functional index score of 4 or higher. This proposal would result in General Fund savings of $23.1 million in 2008-09 and $71.4 million in 2009-10, assuming March 1, 2009 implementation. The provision of other IHSS services to all eligible consumers regardless of their functional index score would not be impacted.
- Focus the state buyout program for IHSS recipients whose Medi-Cal share of cost is higher than their IHSS share of cost on persons with the most severe needs. This proposal would result in General Fund savings of $12.3 million in 2008-09 and $37 million in 2009-10, assuming March 1, 2009 implementation. Under this proposal, IHSS recipients with average functional index scores below 4 would be required to pay for more of their services before qualifying for subsidies.
- Limit state participation in the wages of IHSS workers to the state minimum wage plus $0.60 per hour for health benefits. Assuming March 1, 2009 implementation, this proposal would result in General Fund savings of $82.9 million in 2008-09 and $248.8 million in 2009-10.

California Food Assistance Program (CFAP)

- Eliminate the CFAP effective July 1, 2009, which would result in General Fund savings of $30.3 million in 2009-10. This state-only program provides food benefits to low-income legal non-citizens.

State Transit Assistance Program

Eliminate Local Transit Grants

- This proposal eliminates the portion of the State Transit Assistance program that is paid from the Public Transportation Account ($229.9 million in 2008-09 and $306 million in 2009-10), but retains $350 million available from Proposition 1B for local transit programs. This program has historically provided between 3 and 5 percent of total funding for local transit agency operations and capital costs associated with local mass transportation programs. The majority of local funding comes from farebox revenues, federal funds, state capital funding, and other local tax revenues.

Williamson Act

- This proposal eliminates $34.7 million in state reimbursements to local taxing agencies that partially defray the loss of property tax revenues from contracts with local landowners who agree to limit the use of their land to agricultural, scenic, or open space purposes in exchange for reduced property taxes. This action does not eliminate the ability of local entities to enter into these agreements.

  While local governments can cancel contracts if state funding is eliminated, they cannot begin to collect taxes based on the property's full value until four years have elapsed. After four years the property is annually taxed at an incrementally higher value over a five-year period. In the sixth year, the property is taxed at full value.

Funding Realignment

In an effort to reduce General Fund expenditures and to create permanent, stable funding for certain high-priority programs, the Governor's special session proposal generates additional revenues to fund various public safety programs and drug and alcohol prevention and treatment services. Specifically, the proposal increases revenues by $442.5 million in 2008-09 and $944 million in 2009-10 to support these high-priority programs as follows:

Local Law Enforcement Grants

- The proposal provides $150 million in 2008-09 and $359 million in 2009-10 in Vehicle License Fee (VLF) funding for specific law enforcement grant programs. The proposal also eliminates General Fund support for these programs, resulting in savings of $198.8 million in 2008-09 and $397.5 million in 2009-10. These VLF funds were previously used to support the Department of Motor Vehicles (DMV) operations, which will now be funded by increased revenue in the Motor Vehicle Account derived from a $12 increase in the annual vehicle registration fee. The specific programs that will be funded from the VLF include the following:

- $55.7 million in 2008-09 and $135.9 million in 2009-10 to support a broad spectrum of local juvenile probation activities statewide.

  With this funding realignment proposal, overall funding to support juvenile probation activities will be reduced by $20.2 million in 2008-09 and $16 million in 2009-10, but the program will receive a permanent, statutory funding stream.

- $94.3 million in 2008-09 and $223.1 million in 2009-10 to support the COPS/JJCPA Programs and the Booking Fees Program. The COPS/JJCPA Programs will receive $78.6 million in 2008-09 and $191.6 million in 2009-10. The Booking Fees Program will receive $15.8 million in 2008-09 and $31.5 million in 2009-10.

  With this funding realignment proposal, overall funding for the COPS/JJCPA Programs will be reduced by $28.6 million in 2008-09 and $22.6 million in 2009-10. Overall funding for the Booking Fee Program will not be impacted in either year.

Alcohol Excise Tax for Drug and Alcohol Prevention and Treatment

- Alcohol excise taxes are proposed to be raised by five cents a drink beginning on January 1, 2009. This increase is estimated to raise $293 million in 2008-09 and $585.0 million in 2009-10.

  Revenues generated from these taxes will be used to fund drug and alcohol abuse prevention and treatment services, thereby generating General Fund savings of $293 million in 2008-09 and $585 million in 2009-10 while maintaining program services. Specifically these revenues will provide: $27 million for providing substance abuse services to CalWORKs participants; $116 million for providing alcohol and drug treatment programs to individuals both in-prison and in parole settings; and $150 million to the Department of Alcohol and Drug Programs to provide a variety of prevention and treatment services, including services currently provided pursuant to Proposition 36, the Drug Offender Treatment Program, and the Drug Medi-Cal program. By establishing this dedicated revenue source, the state can ensure that these critical programs continue to provide alcohol and drug prevention and treatment to California's most needy citizens.

Employee Compensation Changes

- Require state employees take a one day furlough each month between December 1, 2008 and June 30, 2010. This would result in a savings of approximately $263 million General Fund in 2008-09 and $451 million General Fund in 2009-10.
- Eliminate two state holidays and premium pay for hours worked on all remaining holidays. This would result in a savings of approximately $39.4 million General Fund in 2008-09 and $74.5 million General Fund in 2009-10.
- Compute overtime based on actual time worked. This change would result in a savings of approximately $17.5 million General Fund in 2008-09 and $30 million General Fund in 2009-10.
- Establish alternative work schedules of ten hours per day, four days per week.

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