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## Happy New Year? Governor Releases 2009-10 Budget Proposals Early

With little advance notice and minimal fanfare, Director of Finance Mike Genest released the *2009-10 Governor's Budget General Fund Proposals* on New Year's Eve. The document presents an overview of the Governor's proposals for balancing the 2009-10 budget, as well as closing the gap projected for the remainder of 2008-09. Unlike the traditional *Governor's Budget Summary*, the documents released on December 31 provide more limited information in a format that mirrors that typically used for the Governor's May Revision. Director of Finance Genest stated that the Governor would fulfill his constitutional obligation to introduce a comprehensive spending plan, including a budget bill, next week. The December 31 documents include most of the Governor's 2008-09 special session proposals, with others aimed at bridging a budget gap that continues to widen due to the worsening economic downturn. Documents outlining the proposal are available at <http://www.dof.ca.gov/>.

The Governor's proposals would address a \$39.560 billion budget gap and provide a \$2.0 billion reserve for a total of \$41.6 billion in 2008-09 and 2009-10 "solutions." The proposals address both a \$14.8 billion projected shortfall for the remainder of the current year and the anticipated budget year deficit. The Governor's proposals include deep cuts to education, health, human services, and other areas of the budget; a sizeable tax increase; and new borrowing. Specifically, the governor proposes to cut spending by \$17.4 billion; raise \$14.3 billion in new revenues; and borrow a total of \$10.0 billion against future lottery proceeds (\$5.0 billion), using relatively short-term Revenue Anticipation Warrants (\$4.7 billion), and other sources (\$358 million). The Governor would make major changes, which would require voter approval, to early childhood programs supported by Proposition 10 of 1998 and mental health programs established by Proposition 63 of 2004. The Governor would not make significant changes to after-school programs funded pursuant to Proposition 49.

The following update provides a "quick and dirty" summary of key provisions of the Governor's budget proposals. As additional details become available, the California Budget Project (CBP) will update this document. The CBP also will prepare in-depth analyses of major proposals contained in the budget over the upcoming days and weeks. Please check the CBP website ([www.cbp.org](http://www.cbp.org)) for corrections and additions to this analysis as additional information becomes available.

### How Did Things Get This Bad, This Quickly?

The massive budget shortfall largely reflects the impact of the downturn in the economy on state revenue collections. The Governor now estimates that 2008-09 revenue collections will be \$14.5 billion below the 2008-09 Budget Act estimate and that anticipated 2009-10 revenues will be \$16.3 billion below that estimate. The worsening economy also has affected anticipated collections from a variety of non-tax sources, including:

- An elimination of \$500 million in previously anticipated 2009-10 revenues from the sale of the EdFund because changes in student loan policies and capital markets have complicated sale efforts.
- A \$123 million reduction in 2008-09 tribal gaming revenues and a \$192 million reduction in 2009-10 due to the failure of one tribe to ratify a gaming compact with the state and lower levels of gaming activities due to the economic downturn.
- Projected reductions of \$252 million in 2008-09 and \$272 million in 2009-10 in royalty receipts from oil and gas production due to declining oil prices.

Declining revenue collections, along with the rising demand for many health and human services programs due to the downturn in the economy are coupled with the state's underlying structural imbalance between revenues and expenditures, which is largely attributable to tax cuts enacted over the past fifteen years. These factors have led to the widest budget gap in California history in dollar terms and a gap that approaches that of 2003-04 in percentage terms. Moreover, the current crisis comes on the heels of consecutive shortfalls since 2001-02, a number of ballot measures limiting the options available to bridge the shortfall, and rising debt service obligations for both deficit-related and General Obligation bond debt.

## **The Recession Deepens**

State and national economic conditions continued to erode through the end of 2008 as the recession – now officially determined to have begun in December 2007 – deepened, spurred on by the “credit crunch” and a sharp contraction in consumer spending. The Governor's forecast estimates that inflation-adjusted gross domestic product (GDP) – the value of all goods and services produced in the US – increased by a modest 1.3 percent in 2008. In contrast, annual growth in inflation-adjusted GDP exceeded 2.0 percent for most of this decade. In addition, the Governor's forecast estimates that personal consumption spending, which makes up the majority of GDP, rose by just 0.4 percent in 2008 – the weakest growth in consumer spending since 1991.

California's economy weakened “in step” with the US economy in 2008. The Governor's forecast estimates that the number of nonfarm jobs in the state declined by 0.6 percent in 2008, bringing the year's unemployment rate to 7.1 percent. As job losses have mounted, Californians have reduced their spending on goods and services. As a result, the state's taxable sales are down by an estimated 4.5 percent in 2008. Although the state's total personal income has held up, increasing by an estimated 3.7 percent in 2008, the Governor's forecast notes that personal income growth slowed in the second half of the year, as the economy continued to deteriorate.

The Governor projects that the state and national economies will weaken further in 2009, with some improvement in 2010. The Governor's estimates show inflation-adjusted GDP declining in 2009 for the first time in 18 years, and personal consumption spending remaining essentially flat, before beginning to recover in 2010. In California, job losses are expected to continue in 2009 and 2010 and the unemployment rate is projected to reach 9.4 percent by 2010. The state's taxable sales are projected to decline by 6.0 percent in 2009, then increase by 3.7 percent in 2010. The Governor's forecast notes that if the recession continues for another five months – a prospect that appears likely – this downturn will be the longest since the end of World War II.

## **Governor Continues Call for New Revenues**

The Governor's proposals include a mix of new temporary and permanent tax increases, acknowledging the need for additional revenues as part of any solution to the budget crisis. The Governor's revenue package includes provisions from his special session package and a new proposal to scale back the dependent credit claimed by personal income taxpayers. Specifically, the Governor would:

- Temporarily increase the state's sales tax rate by 1.5 percentage points effective March 1, 2009 through December 31, 2011. This provision would raise an estimated \$2.35 billion in 2008-09 and \$7.114 billion in 2009-10.
- Broaden the state's sales tax base to include certain services, including appliance, furniture, and vehicle repair; veterinarian services; and amusement parks, sporting events, and golf, raising an estimated \$272 million in 2008-09 and \$1.154 billion in 2009-10.
- Impose a 9.9 percent oil severance tax effective February 1, 2009 to generate an estimated \$358 million in 2008-09 and \$855 million in 2009-10.
- Raise alcoholic beverage taxes by the equivalent of a nickel a drink effective February 1, 2009, raising an estimated \$244 million in 2008-09 and \$585 million in 2009-10.
- Reduce the dependent tax credit – the tax credit claimed for children and other dependents – to the same level as the personal credit beginning in the 2009 tax year. Prior to 1998, the dependent and personal credits were equal dollar amounts. This provision is anticipated to raise \$1.44 billion in 2009-10.

The Governor also would increase vehicle registration fees by \$12 per vehicle to raise \$92 million in 2008-09 and \$359 million in 2009-10 and increase the fee charged for driver's licenses by \$3 to raise an estimated \$16.5 million in 2009-10.

## **K-12 Education**

The Governor's budget proposals reflect a total 2009-10 funding level of \$55.9 billion for K-14 programs covered by the Proposition 98 guarantee. The Governor's proposals provide 2009-10 Proposition 98 funding that is 5.3 percent (\$3.1 billion) below the Proposition 98 minimum funding level that the Governor assumes would be required with no reductions to 2008-09 Proposition 98 spending.

The Governor proposes to seek legislation to reduce 2008-09 Proposition 98 spending on K-14 programs in order to reduce current year spending to the minimum required under changing conditions. This reflects the fact that, because of changing economic conditions, the Governor now estimates the 2008-09 Proposition 98 guarantee to be \$51.5 billion, 11.4 percent (\$6.6 billion) lower than the level assumed by the 2008-09 Budget Act.

To achieve proposed 2008-09 reductions to K-12 education programs covered by the Proposition 98 guarantee, the Governor's proposals would:

- Defer \$2.6 billion of school district revenue limit and K-3 Class Size Reduction program payments from April to July 2009.
- Reduce revenue limit funding for school districts and county offices of education by \$1.6 billion.
- Count \$1.1 billion of "settle-up" funds toward prior year Proposition 98 obligations.
- Use \$618.7 million of Public Transportation Account (PTA) and Mass Transportation Fund monies to fund the Home-to-School Transportation program. In effect, this reduces the General Fund's obligation under the Proposition 98 guarantee by an identical amount.
- Reduce funding for a number of K-12 educational programs by \$55.5 million, including a reduction of \$48.5 million in support for Economic Impact Aid – a program for districts with concentrations of English learners or students from low-income families.

To achieve proposed 2009-10 General Fund reductions to K-12 education, the Governor proposes to:

- Eliminate cost-of-living adjustments (COLAs) for K-12 education programs, a reduction of \$2.5 billion.
- Reduce revenue limit funding for school districts and county offices of education by \$1.5 billion.

- Reduce funding for K-12 education programs by \$1.1 billion by allowing districts to shorten the school year by five days.
- Use \$398.5 million of PTA and Mass Transportation Fund monies to pay for Home-to-School transportation. In effect, this reduces the General Fund's obligation under the Proposition 98 guarantee by an identical amount.
- Reduce general purpose funds for school districts and county offices of education by \$152.7 million, in part due to a projected decline in enrollment.
- Eliminate funding for the High Priority Schools Grant Program, a reduction of \$114.2 million.

The Governor also proposes to:

- Replace \$891.6 million in state lottery funding with General Fund dollars that would be counted toward the Proposition 98 funding guarantee. While the Governor's proposal is consistent with legislation passed as part of the 2008-09 budget agreement, lottery funds currently are not counted toward the Proposition 98 guarantee.
- Increase funding to school districts and county offices of education by \$268.2 million to backfill projected reductions in property tax collections.
- Suspend all education mandates with the exception of mandated costs related to the California High School Exit Exam and interdistrict and intradistrict transfers.
- Provide "schools complete and permanent flexibility with respect to categorical funding." The Governor's proposal would authorize the transfer of funding for categorical programs, such as class size reduction and instructional materials, to a district's or county office of education's general fund.

## **California Community Colleges**

The Governor proposes to:

- Reduce funding by \$322.9 million by eliminating the 5.02 percent statutory COLA for California Community College (CCC) programs.
- Defer \$230 million of community college apportionments from January and February to July 2009 so that this amount counts toward the 2009-10 Proposition 98 guarantee, rather than the 2008-09 guarantee.
- Increase funding by \$185.4 million to reflect a 3 percent growth in apportionments and categorical programs.
- Replace \$167.5 million in state lottery funding with General Fund dollars that would be counted toward the Proposition 98 funding guarantee. While the Governor's proposal is consistent with legislation passed as part of the 2008-09 budget agreement, lottery funds currently are not counted toward the Proposition 98 guarantee.
- Authorize CCCs to transfer any categorical funds to their General Fund. The Governor's proposal states that CCCs would be required to "sunshine" any transfer in a public hearing.

## **Higher Education**

The Governor's proposals:

- Continue \$132.1 million in unallocated reductions to the University of California (UC, \$65.5 million), California State University (CSU, \$66.3 million), and Hastings College of Law (HCL, \$0.4 million).
- Eliminate funding for enrollment growth and operating cost increases that would be required pursuant to the Higher Education Compact, a \$209.9 million reduction for the UC, \$217.3 million reduction for CSU, and \$0.5 million reduction for HCL.

- Assume a 9.3 percent fee increase at UC, 10 percent at CSU, and 13 percent at HCL, which would generate a total of \$300.7 million. Systemwide undergraduate fees at the UC would rise from \$7,126 to \$7,788 and fees would rise from \$3,048 to \$3,354 at the CSU.
- Provide \$79.5 million to the UC (\$29.8 million), CSU (\$49.6 million), and HCL (\$0.2 million) to replace lottery revenues as part of the proposal to borrow against future lottery proceeds included in the 2008-09 budget agreement.
- Increase funding for CSU by \$3.6 million and for UC by \$1.1 million to provide support for nursing enrollments.
- Use federal Temporary Assistance for Needy Families (TANF) block grant dollars to pay for \$192.6 million of California State Aid Commission (CSAC) costs for CalGrants that would otherwise come from the General Fund. TANF funds would be generated from cuts to the CalWORKs Program. The Governor also would cut funding for CalGrants by \$87.5 million by freezing income eligibility limits, reducing the maximum award for students attending private institutions, eliminating the CalGrant Competitive Program, and failing to fully adjust CalGrant awards to reflect any increase in CSU and UC student fees.
- Would reorganize student aid programs by consolidating the CSAC and the California Postsecondary Education Commission and decentralize student aid administration, including administration of the CalGrant program, to the higher education segments. Funding for these activities would be cut by \$2 million to reflect anticipated savings.

## Medi-Cal Program

The Governor proposes a number of eligibility and benefit changes to the Medi-Cal Program, for state savings of \$50.8 million in 2008-09 and \$668.7 million in 2009-10, along with reductions in federal Medicaid funds of a similar magnitude. These are mainly proposals that the Legislature rejected in 2008. Specifically, the Governor proposes to:

- Eliminate dental and other Medi-Cal benefits for adults, for a reduction of \$39.4 million (\$19.7 million General Fund) in 2008-09 and \$258.8 million (\$129.4 million General Fund) in 2009-10.
- Require more low-income seniors and people with disabilities to pay a share of cost for Medi-Cal services, for savings of \$28.6 million (\$14.3 million General Fund) in 2008-09 and \$371.6 million (\$185.8 million General Fund) in 2009-10.
- Restrict Medi-Cal eligibility for low-income parents with children, for savings of \$5.2 million (\$2.6 million General Fund) in 2008-09 and \$176.4 million (\$88.6 million General Fund) in 2009-10. The Governor proposes to reduce the maximum income level for parents applying for Medi-Cal to the limit in effect prior to March 2000. In addition, the Governor proposes to make it more difficult for two-parent families to enroll in and retain Medi-Cal coverage by reinstating a requirement that the family's principal wage earner work less than 100 hours per month. Previously, the Administration has estimated that these changes – when fully implemented in 2011-12 – would prevent 429,000 low-income parents from obtaining Medi-Cal coverage.
- Reduce services provided to certain legal immigrants – such as those in the US for five years or less – for savings of \$4.4 million (\$9.4 million General Fund offset by \$5 million in increased federal funds) in 2008-09 and \$64.6 million (\$139.9 million General Fund offset by \$75.3 million in increased federal funds) in 2009-10.
- Restrict access to health care services for unauthorized immigrants by requiring them to reapply for Medi-Cal monthly in order to receive emergency services. The proposal assumes savings of \$9.6 million (\$4.8 million General Fund) in 2008-09 and \$142.4 million (\$71.2 million General Fund) in 2009-10 by reducing the number of immigrants covered by Medi-Cal.
- Use federal Safety Net Care Pool funds that currently support public hospitals to support several state programs, including the California Children's Services Program and Genetically Handicapped Persons Program. This shift would result in state savings of \$54.2 million in 2009-10.

In addition, the Governor proposes to:

- Shift \$85.5 million in payments for Medi-Cal fee-for-service providers from 2008-09 to 2009-10, reflecting a one-month delay. This proposal is in addition to the two-week delay authorized under current law.
- Suspend the statutory operating-cost increase for county Medi-Cal administration, for savings of \$24.7 million in 2009-10.

### **California Work Opportunity and Responsibility to Kids (CalWORKs) Program**

The Governor proposes to suspend the July 2009 COLA for CalWORKs grants, for savings of \$79.1 million in 2009-10. Moreover, the Governor proposes a number of other changes – all of which the Legislature has previously rejected – for additional savings of \$123.5 million in 2008-09 and \$696.9 million in 2009-10. Specifically, the Governor proposes to:

- Cut CalWORKs grants by 10 percent, which would reduce the maximum monthly grant for a family of three in high-cost counties from \$723 to \$651.
- Eliminate cash assistance:
  - For children in the CalWORKs “safety net” program if their parents do not work sufficient hours to meet federal work participation requirements. The safety net program provides aid to children whose parents have reached the CalWORKs 60-month time limit and therefore are no longer eligible for cash assistance.
  - After 60 months for some children whose parents or caretakers are ineligible for CalWORKs, including US citizen children of undocumented immigrants.
  - For certain CalWORKs families in which an adult fails to attend a “self-sufficiency review” with a county worker.

In addition, these proposals would result in state savings of \$24.3 million in the Department of Developmental Services and \$192.6 million in the California Student Aid Commission due to shifting federal TANF funds, which are primarily used to support the CalWORKs Program.

### **Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program**

The Governor proposes to:

- Reduce SSI/SSP grants to the minimum level required by federal law and eliminate the Cash Assistance Program for Immigrants (CAPI), for combined savings of \$200.1 million in 2008-09 and \$1.247 billion in 2009-10. CAPI provides state-funded cash assistance to approximately 10,000 elderly and/or disabled legal immigrants who are not eligible for SSI/SSP payments due to their immigration status.
- Suspend the June 2010 state COLA for SSI/SSP grants, for savings of \$27 million in 2009-10 and annual savings of \$323.9 million beginning in 2010-11.

### **In-Home Supportive Services (IHSS) Program**

The Governor’s budget proposals include three changes to the IHSS Program that would result in savings of \$62.7 million in 2008-09 and \$384.2 million in 2009-10. Specifically, the Governor proposes to:

- Cap the state’s contribution toward the wages of IHSS workers at the state’s minimum wage, which is currently \$8.00 per hour.
- Require IHSS recipients who have less severe impairments to begin paying their own Medi-Cal “share-of-cost.”
- Eliminate domestic and related services for IHSS recipients who have less severe impairments.

## **Other Health and Human Services Programs**

The Governor proposes to:

- Eliminate the First 5 California Commission and redirect all state funds and 50 percent of county First 5 funds to support children’s programs overseen by the Department of Social Services, for General Fund savings of \$275 million in 2009-10. First 5 supports programs for children from birth through age 5, using funds provided by a 50-cent-per-pack tax on cigarettes imposed by Proposition 10 of 1998. This proposal would require voter approval.
- Divert funds raised by Proposition 63 of 2004 to reduce the state’s costs for Mental Health Managed Care, for General Fund savings of \$226.7 million in 2009-10. Proposition 63 enacted a state personal income tax surcharge of 1 percent on taxpayers with taxable incomes in excess of \$1 million, with the proceeds to be used to expand mental health services. Proposition 63 prohibits funds from being used to supplant existing state or county funds used to provide mental health programs. Therefore, this proposal would require voter approval.
- Eliminate the California Food Assistance Program (CFAP) beginning on July 1, 2009, for savings of \$37.8 million in 2009-10. CFAP provides food assistance to certain legal noncitizens who are ineligible for the federal Supplemental Nutrition Assistance Program – formerly the Food Stamp Program – solely due to their immigration status.
- Cut funding for Regional Centers, which coordinate services for people with developmental disabilities, by \$334 million in 2009-10 through unspecified program reductions. This cut would be in addition to the Governor’s proposal to reduce funding for Regional Center operations and services by 3 percent beginning on February 1, 2009, for savings of \$24.6 million in 2008-09 and \$60.2 million in 2009-10.

## **Child Care and Development Programs**

The Governor proposes to:

- Increase the fees that families pay for child care assistance up to a maximum of 10 percent of income, for savings of \$14.4 million in 2009-10.
- Reduce reimbursement rate limits in voucher-based programs, including the Alternative Payment Program, from the 85<sup>th</sup> percentile to the 75<sup>th</sup> percentile – based on the 2007 regional market rate survey – effective July 1, 2009, for savings of \$38.7 million in 2009-10.
- Suspend the 5.02 percent COLA in 2009-10 for child care and preschool programs overseen by the California Department of Education, for savings of \$79.5 million.
- Permanently reduce annual funding for child care and development programs by \$55 million to reflect recurring unspent funds carried forward to subsequent years. The Administration states that, “No reduction in families served should result” from this cut.

## **Labor and Workforce Development**

The Governor’s budget documents note that projected Unemployment Insurance and Disability Insurance benefit payments have increased significantly, rising by \$3.1 billion in 2008-09 and \$1.5 billion in 2009-10 relative to prior

forecasts. Most of this increase represents a rise in unemployment insurance claims attributable to the downturn in the economy.

## **State Employees and Operations**

The Governor's budget proposals include several changes in state employees' compensation and benefits. Specifically, the Governor proposes to:

- Reduce funding for state employee compensation by \$414.6 million in 2008-09 and \$1.006 billion in 2009-10 by requiring state employees to take two days furlough each month, eliminating two state holidays and "premium pay" for hours worked on the remaining state holidays, and changing the method for calculating overtime pay for state workers.
- Lay off an unspecified number of current state employees as well as implement "efficiencies and other savings" to generate total savings of \$150 million.
- Reduce the cost of providing health coverage to state employees by contracting directly with a health insurance provider rather than through the California Public Employees' Retirement System, for savings of \$132.2 million beginning in January 2010.
- Restart state employer contributions to the UC Retirement System at a lower level than otherwise required, for savings of \$75.7 million.

The Governor's budget proposals also:

- Reduce property tax assistance for seniors and blind or disabled Californians available through the Senior Citizen's Property Tax Deferral program, for savings of \$32 million beginning February 1, 2009.
- Eliminate certain California Emergency Management Agency (CalEMA) grants, for savings of \$23.9 million in 2008-09 and \$57.4 million in 2009-10. Eliminated grants include 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 programs.
- Increase funding for the Emergency Response Initiative by \$17.1 million "to enhance the State's emergency response capabilities." The Governor proposes to provide this additional funding through a 2.8 percent surcharge on all residential and commercial property insurance statewide.
- Allocate \$3.1 million to implement legislation that would help the Franchise Tax Board (FTB) boost tax compliance by identifying individuals and businesses that have not filed tax returns. The FTB estimates that this initiative would generate \$4 million in General Fund revenues in 2009-10, rising to \$40 million in 2013-14.
- Provide \$3.9 million for the Enterprise Data to Revenue Project to improve tax collections. This project is expected to increase General Fund revenues by \$14 million in 2009-10, increasing to \$90 million per year starting in 2012-13.
- Allocate \$1.3 million for the Enterprise Customer, Asset, Income, and Return Information Technology Project to boost personal and corporate income tax collections. Budget documents state that this project "is expected to produce more revenues than it costs."
- Provide \$1.3 million to improve revenue collections from the taxation of flavored malt beverages. The Board of Equalization estimates improved collections will generate \$38.3 million in General Fund revenues in 2009-10. However, recent news reports indicate that beverage makers have reformulated these drinks to evade imposition of the higher tax.



## **Legislative, Executive, and Judicial**

The Governor's budget proposals:

- Reduce funding for the Legislature by 10 percent, for savings of \$18.3 million in 2008-09 and \$24.9 million in 2009-10. Budget documents note that this is "consistent with reductions adopted by state operations and for other constitutional officers reflected in the 2008 Budget Act.
- Reflect savings of \$191,000 from not funding growth in the budget for the Governor's Office.
- Make permanent the one-time reduction in funding for the State Judiciary and Trial Courts included in the 2008 Budget Act, for savings of \$146 million.
- Allocate \$71.4 million for additional Trial Court judgeships.

## **Local Government**

The Governor proposes to:

- Shift Vehicle License Fee (VLF) revenues that currently support the Department of Motor Vehicles (DMV) to fund certain law enforcement grant programs traditionally paid out of the General Fund. Under the Governor's proposal, the Citizens Option for Public Safety (COPS) and Juvenile Justice Crime Prevention Act programs, local juvenile probation activities, and booking fee payments would be funded from the VLF. The Governor proposes to increase the annual vehicle registration fee by \$12 to replace VLF funds shifted from the DMV. The additional fee would generate an estimated \$92 million in 2008-09 and \$359 million in 2009-10.
- Reduce state payments to local governments by \$34.7 million in both 2008-09 and 2009-10 for revenues lost because of Williamson Act contracts. The Williamson Act lowers property taxes paid by agricultural landowners that agree not to develop their land.
- Eliminate funding for the Small/Rural Sheriffs Grant program, for savings of \$18.5 million.

## **Transportation**

The Governor's proposals:

- Eliminate funding for local transit grants formerly funded out of the proceeds of sales taxes paid on vehicle fuels, for a reduction of \$153.2 million in 2008-09 and \$306 million in 2009-10. These funds would instead be used to support transportation costs previously paid out of the General Fund, including home-to-school transportation.
- Redirect \$100.8 million in revenues from tribal gaming from transportation to the General Fund, reducing resources available for the State Highway Operation and Protection Program (SHOPP) and the Traffic Congestion Relief Program (TCRP). Budget documents state that, "the transfer of these revenues to the General Fund would be contingent upon the state receiving at least this amount from a federal stimulus package."
- Expedite the availability of Proposition 1B bond funds for transportation. Under the Governor's proposal, an additional \$800 million would be available in 2008-09 and an additional \$350 million in 2009-10.
- Call for a number of changes to state environmental and contracting laws. These changes, which the Governor has demanded in the context of the debate over the Legislature's special session budget package, would exempt a specified number of projects from the California Environmental Quality Act (CEQA) and make changes to state contracting laws aimed at privatizing a larger share of Caltrans-supported projects.
- Allocate \$53.4 million from the State Highway Account to replace and retrofit Caltrans vehicles to comply with air quality regulations.

- Increase special fund support for the California Highway Patrol (CHP) by \$34.9 million to support 240 new positions and by \$11.9 million to support a new CHP dispatch system.

## **Debt Service**

The Governor's budget proposals reflect a \$1.41 billion increase in debt service costs due to a \$1.219 billion increase attributable to voter-approved General Obligation debt; \$82 million in additional lease-revenue bond debt service costs; and a \$106 million increase in short-term cash-flow borrowing costs.

## **Corrections**

The Governor's proposals would result in a significant reduction in spending for Corrections and Rehabilitation. Under the proposals, spending would be reduced by \$841.9 million (8.7 percent) through a combination of policy changes and fund shifts. Specifically, the proposals would:

- Provide \$232.1 million to support the full-year cost of new and expanded programs, including substance abuse treatment, contracting for out-of-state beds, and rehabilitative programs for female inmates.
- Allocate \$88.3 million for inflation adjustments in operating budgets. The Governor proposes to eliminate cost-of-living adjustments for K-14 education and most health and human service programs.
- Score savings of \$598.4 million attributable to various parole and prison reforms, including enhanced credit accruals for prisons; eliminating parole for non-violent, non-serious offenders; and adjusting the threshold value for property crimes for inflation.
- Cutting funding for the receiver overseeing medical services in the state's correctional system by \$180.8 million, a 10 percent reduction.
- Reducing General Fund support for local juvenile probation and camp and ranch operations by \$181.2 million; \$135.9 million of this amount would be backfilled out of Vehicle License Fee revenues.
- Shifting \$219.5 million in substance abuse treatment program costs from the General Fund to a new special fund supported by the proposed increase in alcoholic beverage taxes.

## **Resources**

The Governor's proposals would:

- Reduce CAL FIRE's emergency fire suppression expenditures by \$248 million. Budget documents state that the lower expenditure level represents "the historical average of firefighting costs over the past five years and additional federal reimbursements."
- Eliminating funding for the California Conservations Corps, for savings of \$17 million. The Governor states, "this proposal will provide additional support in future years" for local conservations corps.
- Spend an additional \$684.5 million from Proposition 84 and 1E bond funds for flood control projects and levee improvements in the Central Valley and Delta areas.
- Provide \$3 million from special funds to add 14.2 fish and game warden positions.