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Governor Releases Pre-Election Budget Proposals

On May 14, Governor Schwarzenegger released proposals for closing the budget gap that has emerged since the February budget agreement under two scenarios. The first assumes that voters approve the “money measures,” Propositions 1C, 1D, and 1E, on the May 19 ballot. The second assumes rejection of these measures. The Governor’s document identifies \$15.4 billion in “solutions” that would be needed if the ballot measures are enacted and \$21.3 billion in “solutions” if the ballot measures fail. Most of the newly identified gap – \$13.5 billion – is attributable to deterioration in state and local tax collections due to the downturn in the economy. A portion – \$2.3 billion – of the identified gap is due to higher than previously anticipated expenditures. If voters reject Propositions 1C, 1D, and 1E, the gap would widen by \$5.8 billion.

The Governor’s proposals to close the \$15.4 billion gap include savings from reorganizing and consolidating state boards and departments (\$50 million); program reductions (\$5.6 billion); cuts requiring waivers of federal laws or regulations (\$750 million); revenue accelerations and/or fees (\$989 million); fund shifts (\$105 million); external borrowing using registered reimbursement warrants (\$6.0 billion); “other,” primarily privatization of a portion of the State Compensation Insurance Fund (\$1.1 billion); and reducing the size of the budget reserve (\$889 million). If the three ballot measures are rejected by the voters, the Governor proposes \$3.4 billion in additional cuts, \$1.8 billion in additional revenue accelerations and/or fees, \$1.5 billion in additional borrowing, and \$78.3 million in other proposals.

The Legislature passed, and the Governor signed, a 2009-10 Budget Bill in February. The Governor’s May Revision proposals would make changes in both the current (2008-09) and budget (2009-10) years to close the gap that has emerged since February. The Governor’s proposals are available at http://www.dof.ca.gov/budget/historical/2009-10/may_revision/documents/May_Revision_2009-10_General_Fund_Proposals.pdf. Significant proposals are listed below. Please check the CBP’s website (www.cbp.org) for updates as more information becomes available.

The Recession Deepens

State and national economic conditions worsened in late 2008 and early 2009, making it even more likely that the recession, now the longest in the post-World War II era, will also be the most severe. Inflation-adjusted gross domestic product (GDP) – the value of all goods and services produced in the US – fell by an annualized rate of more than 6 percent in both the fourth quarter of 2008 and the first quarter of 2009. This was the largest two-quarter drop in more than 50 years, according to the Governor’s forecast. Personal consumption spending, which makes up the majority of GDP, declined in the fourth quarter of 2008 by the largest percentage since 1980, then rose modestly in the first quarter of 2009.

In California, the effects of the recession on the job market deepened and became more widespread. The pace of the state's job losses accelerated in late 2008 and early 2009, bringing total job losses since employment peaked in July 2007 to more than 700,000. All but one major sector of the economy and every metropolitan area of the state lost jobs during the past year. As job losses mounted, California's unemployment rate continued a steady upward trajectory, reaching a record high of 11.2 percent in March. Californians continued to reduce their spending on goods and services in the fourth quarter, as taxable sales fell by 16.3 percent – the largest decline on record.

The Governor's forecast suggests that recovery from the downturn could be long and slow, particularly in the state's job market, which is anticipated to weaken further into 2010. This would likely drive up demand for health and human services programs at a time when many of these programs are slated for additional funding cuts. The Governor's estimates show inflation-adjusted national GDP declining in 2009, then increasingly modestly in 2010 before returning to a more typical growth rate in 2011. These estimates are more pessimistic than those of the latest Wall Street Journal survey of 52 economists, which show a smaller drop in GDP in 2009, followed by a larger increase in 2010. The Governor's projections for California show personal income declining by 1.0 percent in 2009, then rising by a modest 1.4 percent in 2010. Employment is forecast to drop by 3.9 percent in 2009 and by 0.9 percent in 2010, before resuming growth in 2011, and the state's unemployment rate is expected to reach an average of 12.0 percent in 2010.

Proposals To Close a \$15.4 Billion Gap

The Governor's May proposals:

- Reflect a total 2008-09 funding level of \$49.7 billion for K-14 programs covered under the Proposition 98 guarantee. The Governor's proposals provide 2008-09 Proposition 98 funding that is \$8.4 billion (14.4 percent) lower than the level assumed in the 2008-09 Budget enacted in September 2008.
- Reduce 2009-10 funding by \$2.2 billion for K-14 programs covered under the Proposition 98 guarantee compared to the funding level provided in the 2009-10 Budget enacted in February.
- Reduce revenue limit payments to school districts by \$694.3 million in 2008-09 and by \$950 million in 2009-10. Revenue limit payments provide general purpose funds for schools.
- Defer \$640.3 million of school district revenue limit payments from 2009-10 to 2010-11.
- Eliminate funding for the High Priority Schools Program for savings of \$114 million.
- Allow school districts to reduce the school year by up to five days for no more than three years.
- Reduce funding for community college categorical programs by \$85 million in 2008-09 and by \$221.6 million in 2009-10.
- Reduce community college apportionments by \$178.4 million in 2009-10. These proposals reflect a cut to funding for enrollment growth (\$58.4 million) and a reduction in the funding rate for credit physical education and recreational courses to the non-credit rate (\$120 million).
- Defer payment of \$115 million in community college apportionments from 2008-09 to 2009-10.
- Reduce higher education funding by a total of \$1.0 billion in 2008-09 – a \$510 million reduction for each of the University of California (UC) and the California State University (CSU).
- Cut \$750 million from the Medi-Cal Program through unspecified reductions that could include cuts to eligibility, provider payments, and benefits. The Governor indicates that California would have to seek permission from the federal government to make these cuts due to restrictions included in the federal economic recovery bill and other federal requirements.
- Limit Medi-Cal benefits provided to certain immigrants, including legal immigrant adults who have resided in the US for less than five years, to emergency services for savings of \$125 million. This change would take effect October 1, 2009.

- Eliminate the Cash Assistance Program for Immigrants (CAPI) and the California Food Assistance Program (CFAP) effective October 1, 2009 for savings of \$120.2 million.
- Reduce maximum monthly grants for Supplemental Security Income/State Supplementary Payment (SSI/SSP) recipients to the minimum allowed by federal law for individuals and couples for savings of \$248.5 million. This proposal would reduce the maximum SSI/SSP grant for individuals to \$830 per month and the maximum grant for couples to \$1,407 per month effective September 1, 2009.
- Make a number of reductions to the CalWORKs Program, including cutting off benefits to tens of thousands of children and reducing grant levels by 6 percent effective October 1, 2009 for savings of \$156.7 million.
- Cap the amount at which the state will share in the cost of wages for In-Home Supportive Services (IHSS) providers at \$8.00 per hour plus \$0.60 per hour for health benefits effective October 1, 2009 for savings of \$114.1 million.
- Limit domestic and related services in the IHSS Program to recipients with the greatest impairments effective October 1, 2009 for savings of \$40.8 million.
- Limit a state subsidy for IHSS recipients who must pay part of the cost to receive IHSS services to those with the greatest impairments effective October 1, 2009 for savings of \$38.2 million.
- Cut funding for Regional Centers, which coordinate services for people with developmental disabilities, by an additional \$234 million beyond the \$100 million cut included in the February budget agreement.
- Implement new federal and state drug pricing policies in the Medi-Cal Program aimed at lowering costs and retaining quality care effective October 1, 2009 for savings of \$75 million. One proposed change would require the state to review prescriptions for antipsychotic drugs before they could be dispensed.
- Reduce rates for Medi-Cal family planning services to the pre-January 2008 level for savings of \$36.8 million. The federal government pays approximately 75 percent of Medi-Cal family planning costs; therefore, the state would lose approximately \$110 million in federal funds under this proposal.
- Reduce payments for private safety-net hospitals by 10 percent for savings of \$20 million. The February 2009 budget agreement included a 10 percent rate cut for public safety-net hospitals.
- Eliminate state funding for contractors who help enroll eligible children in public health coverage programs for savings of \$2.7 million.
- Would sell a portion of the State Compensation Insurance Fund's (SCIF) "book of business" to a private entity. The SCIF is a state agency that sells workers' compensation insurance. The Governor assumes revenues of \$1 billion from the sale of SCIF assets and notes that SCIF would remain "as the insurer of last resort."
- Assume that the state receives \$100 million from the sale of leases that would allow drilling for oil off the Santa Barbara coast.
- Assume the sale of \$6 billion in registered reimbursement warrants, or RAWs. In January, the Legislative Analyst's Office questioned the ability of the state to issue RAWs to close a budget gap noting, "there are legal questions regarding the ability of the state to issue RAWs... Proposition 58, passed by the voters in 2004 restricted the state's ability to borrow for budgetary purposes."
- Change the payment schedule for personal and corporate income tax estimated payments, increasing 2009-10 tax collections by \$610 million. This proposal would change when payments are made, but would not change the total amount of taxes paid.
- Send layoff notices to 5,000 state employees – 5 percent of the workforce supported by the General Fund – on Friday, May 15.
- Reduce spending on state employee health coverage by contracting with a lower-cost health insurance provider beginning in January 2010 for savings of \$132.2 million. The Governor states that the savings generated from this proposal would be used to prefund Other Post-Employment Benefit costs beginning in 2010-11.
- Require new state employees to work for at least 25 years before becoming eligible for lifetime health benefits.
- Shift \$336 million in "spillover" revenues that have traditionally gone to support public transit operating expenses to cover debt service costs on transit bonds.

Additional Proposals That Would Be Made To Close a \$21.3 Billion Gap

If the voters reject Propositions 1C, 1D, and 1E, the budget gap would widen to \$21.3 billion. In order to close the additional gap, the Governor's May proposals:

- Shift 8 percent of city, county, and special district property tax dollars to schools and community colleges, resulting in a \$1.982 billion reduction in the state's Proposition 98 spending obligation. The proposed transfer is the maximum allowed by Proposition 1A of 2004 and must be repaid with interest within three years. Since these amounts must be repaid within a relatively short period, the Governor describes this amount as a loan.
- Adjust personal income tax withholding tables so that taxpayers pay a larger share of their payments during the first half of the calendar year. This would have the effect of changing when payments are made, but not the total amount that would be paid. The Governor assumes that 2009-10 collections would increase by \$1.7 billion as a result of this proposal.
- Reflect a total 2008-09 funding level of \$49.1 billion for K-14 programs covered under the Proposition 98 guarantee, \$617 million lower than the proposed reduction if voters approve Propositions 1C, 1D, and 1E. The Governor's proposals provide 2008-09 Proposition 98 funding that is \$9.0 billion (15.5 percent) lower than the level assumed in the 2008-09 Budget enacted in September 2008.
- Reflect a 2009-10 Proposition 98 funding level of \$51.1 billion, \$2.7 billion lower than the proposed reduction if voters approve Propositions 1C, 1D, and 1E. The Governor's proposal includes a \$965.6 million 2009-10 reduction to programs covered under the Proposition 98 guarantee previously provided to reflect the elimination of lottery support for schools. The May Revision notes that K-14 education would continue to receive this funding from the lottery if voters do not approve Proposition 1C.
- Reduce revenue limit payments to school districts by an additional \$617.3 million in 2008-09 for a total reduction of \$1.3 billion, and by an additional \$475 million in 2009-10 for a total reduction of \$1.4 billion. Revenue limit payments provide general purpose funds for schools.
- Defer an additional \$1.0 billion of school district revenue limit payments from 2009-10 to 2010-11. The Governor's proposals would defer a total of \$1.7 billion of school district revenue limit payments from 2009-10 to 2010-11 if voters reject Propositions 1C, 1D, and 1E.
- Allow school districts to reduce the school year by up to an additional two days – for a total of up to seven days – for no more than three years.
- Reduce funding for community college categorical programs by an additional \$112.4 million – a total reduction of \$334.0 million in 2009-10.
- Reduce 2009-10 funding for enrollment growth by an additional \$68.7 million for community college apportionments and categorical programs.
- Make \$150 million in unallocated reductions to higher education in 2009-10 – \$100 million to the CSU and \$50 million to the UC.
- Eliminate \$49.9 million in funding for academic preparation and education programs in 2009-10 – a \$31.3 million reduction for the UC and an \$18.6 million reduction for the CSU.
- Reduce the income limit for the Healthy Families Program to 200 percent of the poverty line from the current limit of 250 percent of the poverty line for savings of \$54.5 million. About 225,000 children would lose health coverage under this proposal.
- Eliminate IHSS domestic and related services for individuals who require minimal physical assistance from another person to perform an activity and eliminate IHSS services altogether for individuals who need only supervision from another person to perform an activity. These changes would take effect October 1, 2009 for combined savings of \$301.5 million.
- Cut funding for the Child Welfare Services Program by 10 percent for savings of \$70 million.
- Reduce foster care group home, foster family agency, and specialized care and clothing allowance rates by 10 percent for savings of \$13.9 million.

- Shift \$60 million in Proposition 99 cigarette tax revenues to the Medi-Cal Program, generating an equivalent amount of General Fund savings. A number of programs would lose Proposition 99 funding under this proposal, including the Access for Infants and Mothers Program, the Breast Cancer Early Detection Program, and county health programs.
- Reduce the Medi-Cal Adult Day Health Care Program benefit by limiting services to three days per week for savings of \$25.5 million.
- Eliminate state funding for the Children's Dental Disease Program for savings of \$2.9 million. This program annually serves approximately 300,000 children in preschool and elementary school in 31 counties.
- Eliminate state funding for the Substance Abuse and Crime Prevention Act (Proposition 36 of 2000) and the Substance Abuse Offender Treatment Program for combined savings of \$108 million.
- Eliminate state funding for HIV education and prevention efforts provided by local health jurisdictions for state savings of \$24.6 million.
- Eliminate state funding for the Domestic Violence Program, which supports 94 domestic violence shelters and centers, for savings of \$20.4 million.
- Reduce rates for substance abuse treatment services for individuals who are eligible for Medi-Cal by 10 percent for savings of \$8.8 million.
- Eliminate state funding for the California Poison Control System for savings of \$5.9 million.
- Eliminate funding for Maternal, Child and Adolescent Health Grants, which help improve the health of mothers, infants, and children, for savings of \$10 million.
- Gradually release undocumented immigrants from state prisons into the custody of federal authorities for deportation to achieve savings of \$182.1 million. The Governor suggests that this action could be avoided if the federal government were to increase funding for California to help offset the costs associated with these prisoners.
- Make certain "wobbler" crimes – those that can be treated as felonies or misdemeanors – punishable with a county jail term rather than with a state prison sentence for savings of \$99.9 million.
- Increase the proposed surcharge on all residential and commercial property insurance policies to 4.8 percent in order to raise \$76 million to partially fund CalFIRE and local first response agencies. In his 2009-10 proposed budget, the Governor proposed establishing a 2.8 percent surcharge to increase funding for the Emergency Response Initiative; however, this proposal was not included in the February budget package.