



July 2, 2009

## Governor Releases New Budget Proposals

Unlike most years, California began the 2009-10 fiscal year with a budget already in place, albeit one that is seriously out of balance. Last week, the Legislature began voting on bills to revise the 2008-09 and 2009-10 spending plans in order to help close the budget gap that has emerged since the February budget agreement was signed into law. However, the Legislature was unable to achieve the two-thirds vote needed to pass the full package of bills. A three-bill package that was expected to temporarily remedy the state's cash-flow problems and postpone the need for the State Controller to issue registered warrants – also known as IOUs – passed out of the Assembly on a bipartisan basis; however, this package failed to achieve the required two-thirds vote in the Senate. In addition, the Governor vetoed an alternative “majority-vote” package. Since the Governor and the Legislature were unable to enact revisions to the 2008-09 spending plan by the end of the fiscal year, key “solutions” for closing the budget gap that were proposed by the Governor in May or by the Budget Conference Committee in June can no longer be implemented.

On July 1, the Governor declared a fiscal emergency and called a special session of the Legislature. In addition, he released a letter outlining \$4.882 billion in “new solutions” ([www.dof.ca.gov](http://www.dof.ca.gov)) to partially address the \$5.313 billion in “lost solutions” and additional state costs that resulted primarily from policymakers’ failure to enact key budget revisions by the end of the 2008-09 fiscal year.<sup>1</sup> On its own, the remaining \$431 million gap would reduce the size of the reserve the Governor proposed in May from \$4.516 billion to \$4.085 billion as of June 30, 2010. However, the July 1 letter also projects – based on recent cash receipts – that state revenue collections through June 30, 2010 will be \$3.0 billion below the level assumed in the February budget agreement. As a result, the Governor has reduced the size of his proposed 2009-10 reserve by an additional \$3.0 billion, to \$1.085 billion.

As state policymakers search for a solution to the state budget crisis, Controller John Chiang was expected to begin issuing IOUs on July 2 due to a “severe cash deficit” estimated at nearly \$3 billion in July and at least \$3.5 billion in August ([www.sco.ca.gov](http://www.sco.ca.gov)). IOUs will be issued for a number of payments, including those to businesses, local governments, and taxpayers receiving income tax refunds. In contrast, the state Constitution, federal law, and court orders require the Controller to issue regular or “normal” warrants for education, debt service, state payroll, the California Public Employees’ Retirement System, the California State Teachers’ Retirement System, the In-Home Supportive Services Program, and Medi-Cal providers. IOUs will be repaid with an annual interest rate of 3.75 percent on or before October 2, 2009 if the state has sufficient cash available.

The Governor’s July 1 proposals – along with the proposals that they replace – are outlined below. Please check the CBP’s website ([www.cbp.org](http://www.cbp.org)) for updates as more information becomes available.

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<sup>1</sup> In addition, it appears that the Governor has rescinded his May Cal Grant proposal, which results in lost state savings of \$289 million.

## **Proposals That Needed To Be Enacted by June 30, 2009**

Key proposals to help close the budget gap needed to be enacted by the end of 2008-09. The Governor's July 1 letter indicates that because policymakers missed this deadline:

- A \$1.617 billion reduction to Proposition 98 funding in 2008-09 cannot be implemented and, as a result, the Proposition 98 minimum funding guarantee in 2009-10 will increase by \$1.622 billion above the level assumed by the Governor in May.
- \$350 million cannot be shifted from redevelopment agencies to schools in 2008-09 – a fund shift that would have reduced the Proposition 98 General Fund obligation by the same amount. A recent court decision invalidated a one-time redirection of funds from redevelopment agencies to each county's Educational Revenue Augmentation Fund (ERAF) that was enacted in the 2008-09 Budget. The Budget Conference Committee proposed revising this fund shift to comply with the court decision and achieve 2008-09 General Fund savings; however, this measure was not enacted by the end of the fiscal year.

In addition, the Governor proposed to reduce 2008-09 funding for the California State University (CSU) and the University of California (UC) by a total of \$1.435 billion, a cut that also was not enacted by June 30. As noted below, however, the Governor's July 1 letter suggests that this reduction can be applied retroactively.

## **The Governor's July 1 Proposals**

The Governor's July 1 letter includes \$4.9 billion in "solutions" that are proposed in addition to the Governor's May proposals, with the exception of the items discussed above. Specifically, the Governor proposes to:

- Require state employees to take a third day off without pay each month for state savings of \$425 million.
- Suspend the 2009-10 Proposition 98 minimum funding guarantee and reduce funding for K-14 education by \$3.0 billion to reflect a 2009-10 Proposition 98 funding level of \$49.0 billion.
- Make \$717.5 million in unallocated reductions to both the UC and the CSU retroactive to 2008-09, for \$1.4 billion in General Fund savings.