

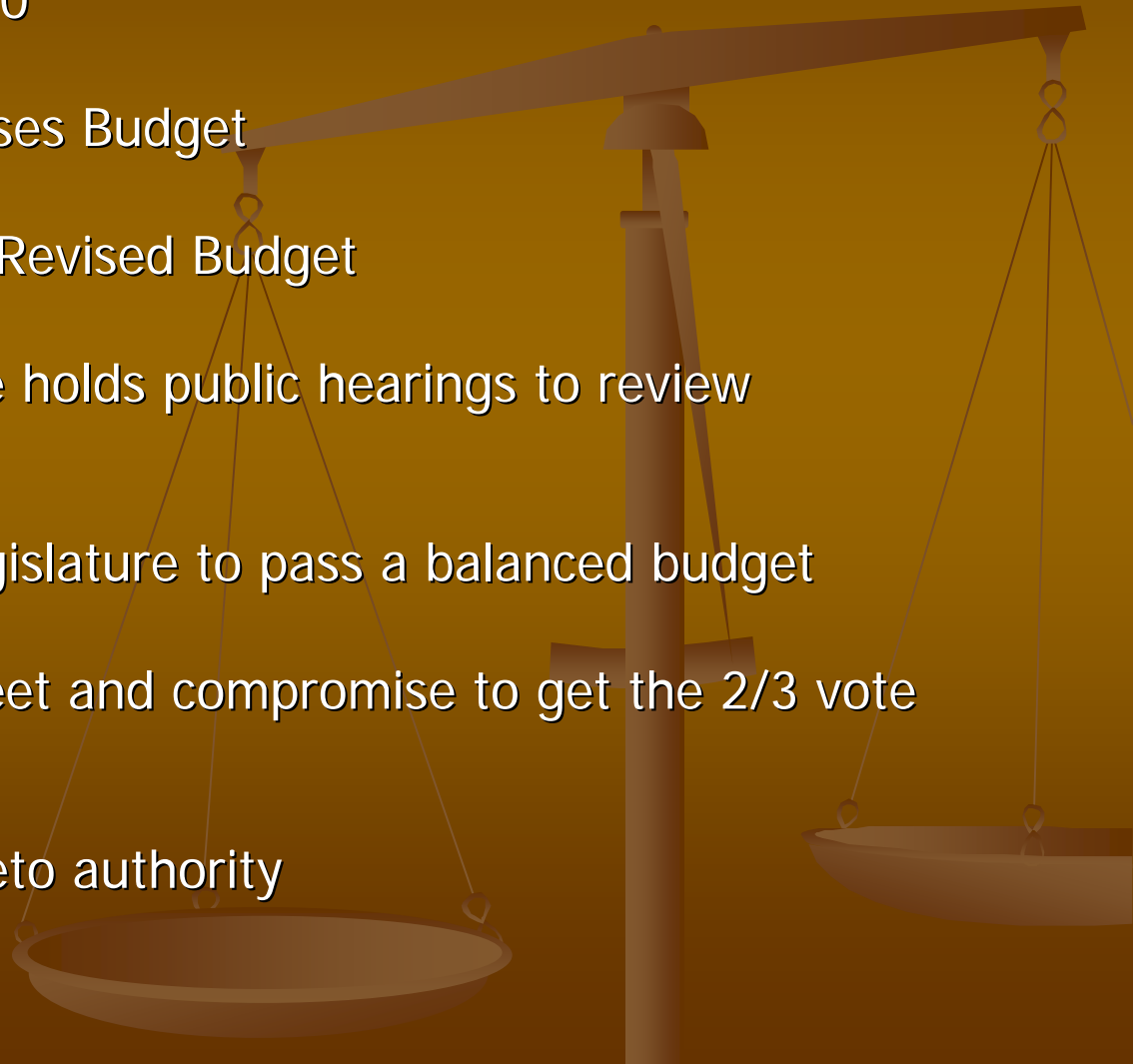
Reaching a Balanced Budget for California

Senator Denise Moreno Ducheny
40th District

Chair, Senate Budget & Fiscal Review
Committee

Budget Process

- Fiscal Year: July 1-June 30
- January: Governor Proposes Budget
- May: Governor Proposes Revised Budget
- January-June: Legislature holds public hearings to review Governor's proposal
- June 15: Deadline for Legislature to pass a balanced budget
- Sometimes, the BIG 5 meet and compromise to get the 2/3 vote required in each house
- Governor has line-item veto authority



What does the State's General Fund pay for?

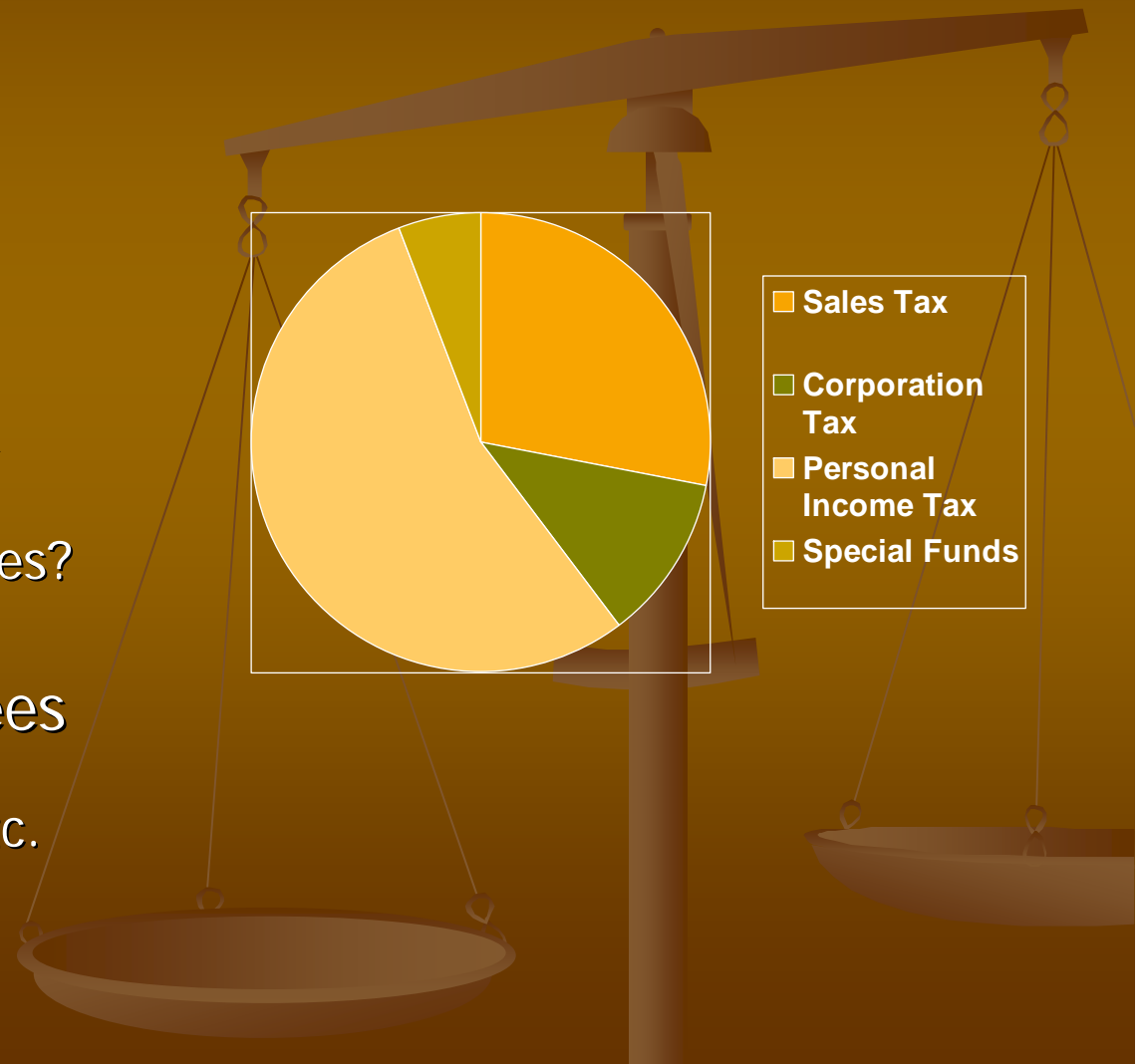
2007-2008 GF Budget

- K-12 Education: 37%
- Higher Ed: 10%
- Health: 14%
- Social Services: 9%
- Prisons: 10%
- Judicial System: 2.5%
- Business, Transportation & Housing: 1.5%
- Constitutional Requirements: 6%



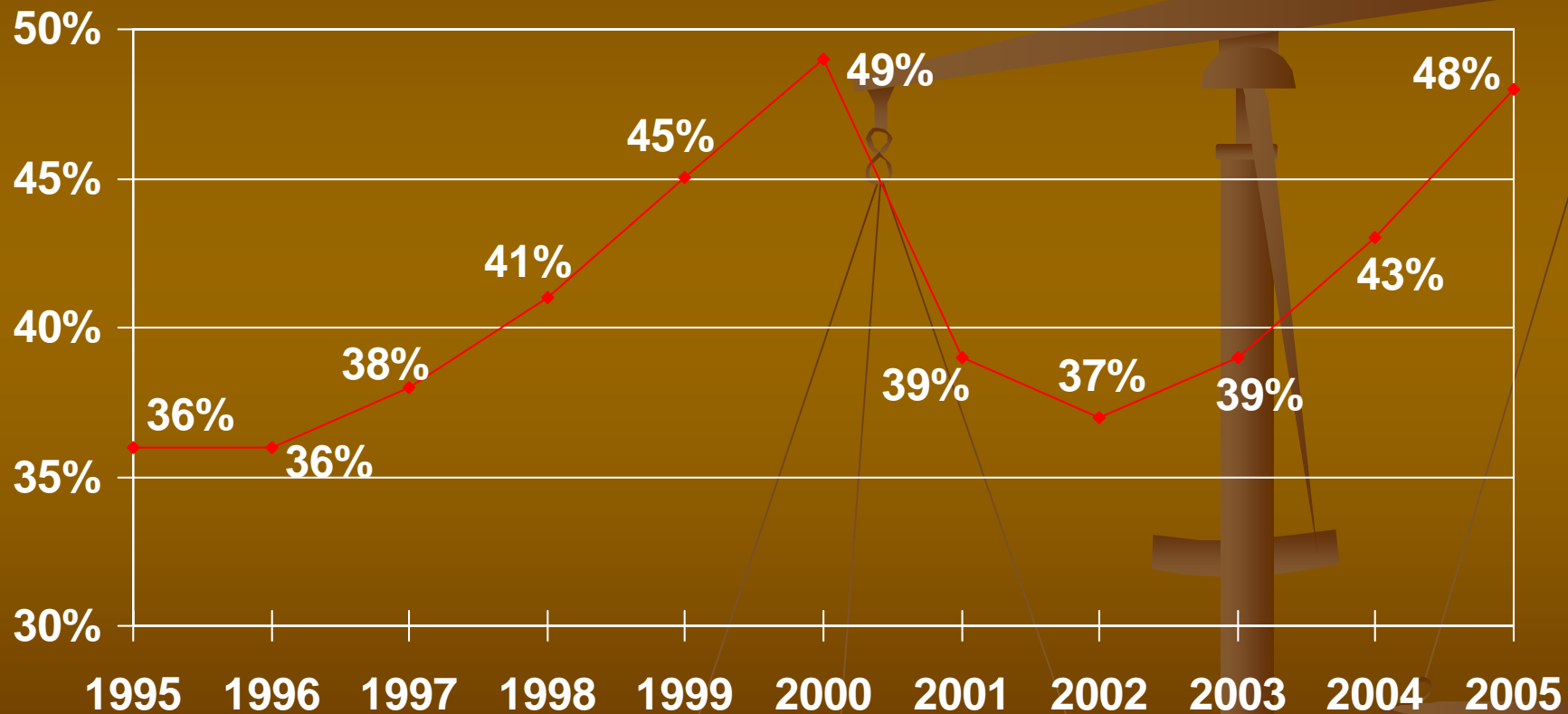
How do we finance our needs?

- Sales Tax
 - \$29 billion in 08-09
- Corporation Taxes
 - \$12 billion in 08-09
- Personal Income Tax
 - \$56 billion in 08-09
 - Who pays income taxes?
- Special Funds and Fees
 - Vehicle registration, recycling, gasoline, etc.



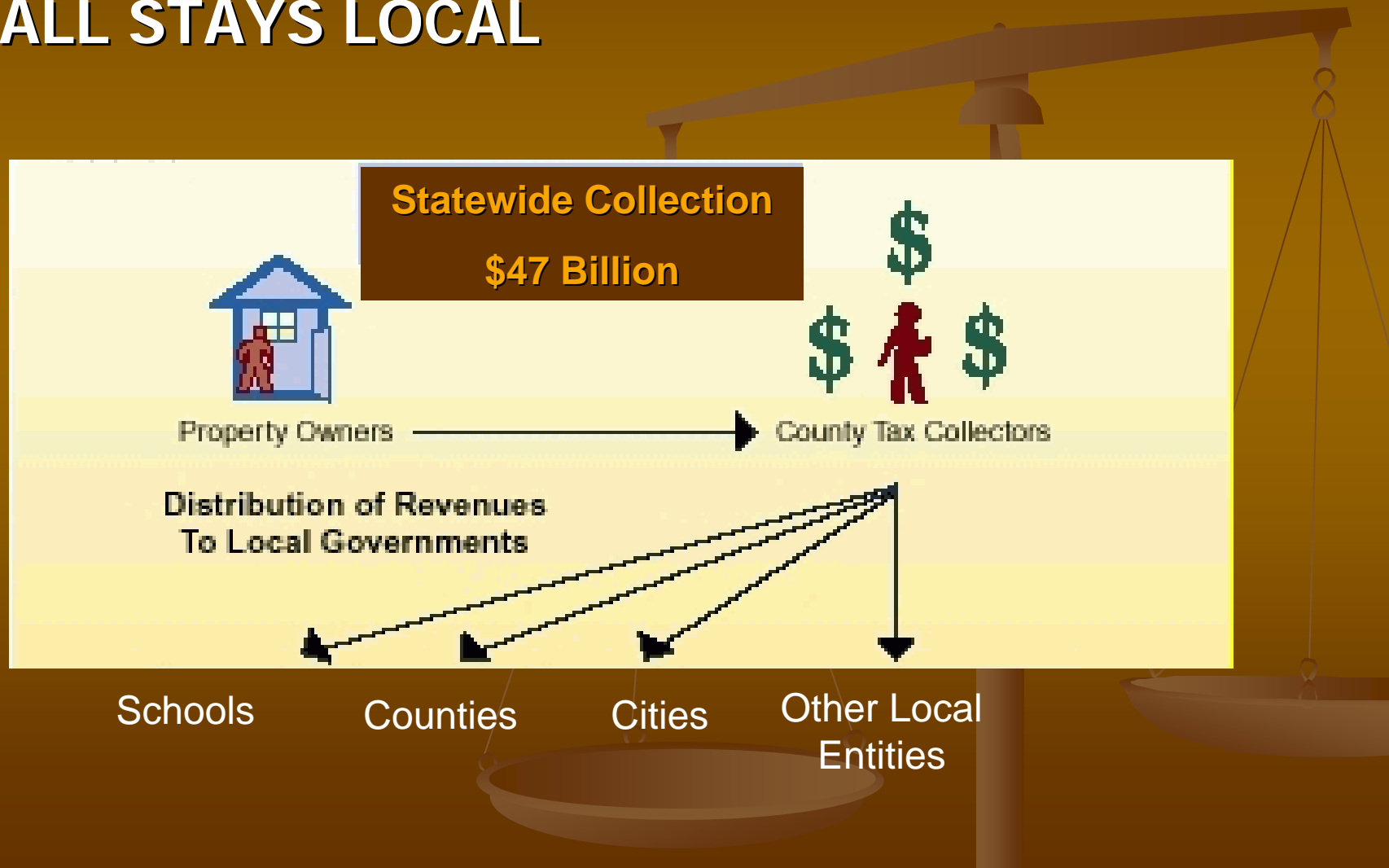
Share of PIT Paid By Top 1% of Taxpayers-

Remember, PIT Totals \$56 Billion



Where do Property Taxes Go?

ALL STAYS LOCAL

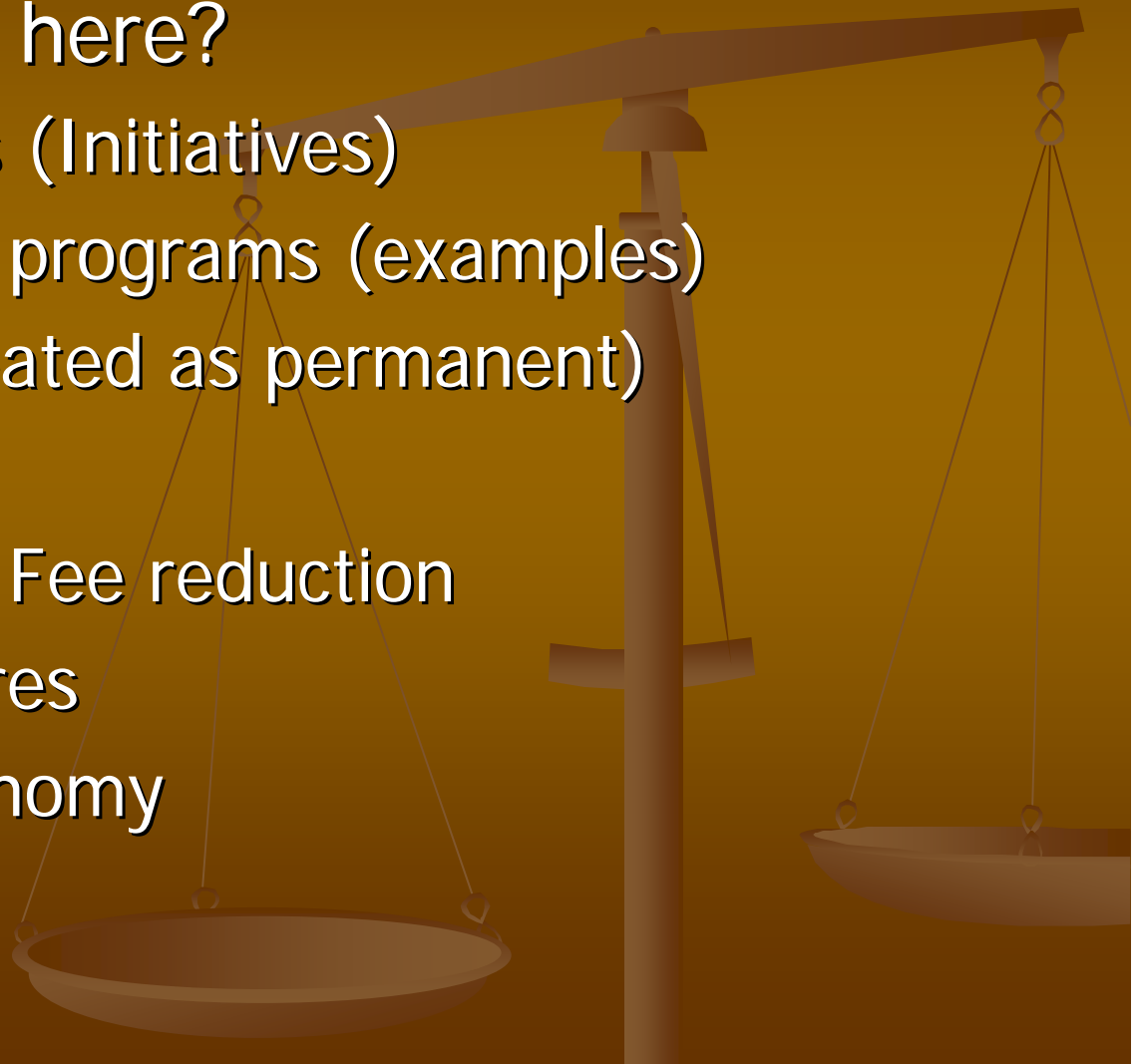


Funding Education

Major K-12 Education Programs Funded by Proposition 98				
<i>(Dollars in Millions)</i>				
	Revised 2007-08	Proposed 2008-09	Change	
			Amount	Percent
General Fund	\$22,847.4	\$21,328.5	-\$1,518.9	-6.6%
Local property tax revenue	12,549.9	13,413.2	863.3	6.9
Subtotals	(\$35,397.3)	(\$34,741.7)	(-\$655.6)	(-1.9%)
Categorical Programs	(\$15,591.9)	(\$14,568.7)	(-\$1,023.2)	(-6.6%)
Totals	\$50,989.2	\$49,310.4	-\$1,678.9	-3.3%
Ongoing Proposition 98	\$50,422.6	\$49,310.4	-\$1,112.3	-2.2%

Current Crisis

- How did we get here?
 - Voter Mandates (Initiatives)
 - Federal Cuts to programs (examples)
 - Tax Credits (treated as permanent)
 - COLAs
 - Vehicle License Fee reduction
 - New Expenditures
 - California's Economy



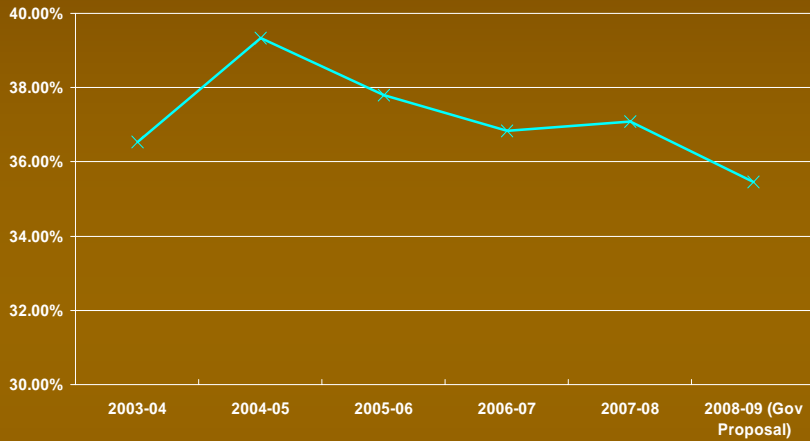
Major Propositions Affecting the State General Fund

Dedicated Tax Revenues		
November 1988	Proposition 99	Provides a 25 cent per pack tax on cigarettes and dedicates the more than \$300 million annually to tobacco education and health care services for low-income persons.
November 1993	Proposition 172	Raises the statewide sales tax rate by one-half cent and dedicates the \$3 billion in annual funds to local public safety purposes.
November 1998	Proposition 10	Provides a 50 cent per pack tax on cigarettes and dedicates the roughly \$600 million annually to early childhood development programs.
November 2004	Proposition 63	Enacts a state personal income tax surcharge of 1 percent that applies to taxpayers with annual taxable incomes of more than \$1 million. The proceeds of the tax surcharge (about \$1.6 billion annually) are earmarked to finance an expansion of community mental health programs.
Locked in State Spending		
November 1988	Proposition 98	Provides for a minimum level of total spending (General Fund and local property taxes combined) on K-14 education in any given year. The required General Fund contribution is roughly 40 percent of the state's budget.
March 2002	Proposition 42	Directs \$1.5 billion in sales taxes on gasoline to transportation purposes. (Reflected as General Fund spending.)
November 2002	Proposition 49	Requires that the state spend a certain amount (currently \$550 million) on afterschool programs.
November 2004	Proposition 1A	Restricts the Legislature from altering local government revenues in many cases. In prior years, the state took such actions which helped the state's General Fund.
November 2006	Proposition 1A	Restricts the circumstances in which the Legislature could suspend the Proposition 42 transfer for transportation.

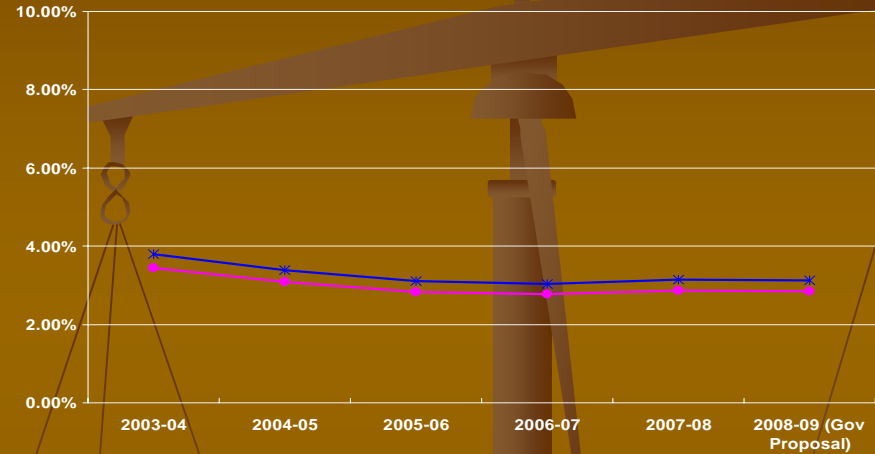
Spending by Category

As a % of the Total State GF (2003-04 to 2008-09 Gov. Proposal)

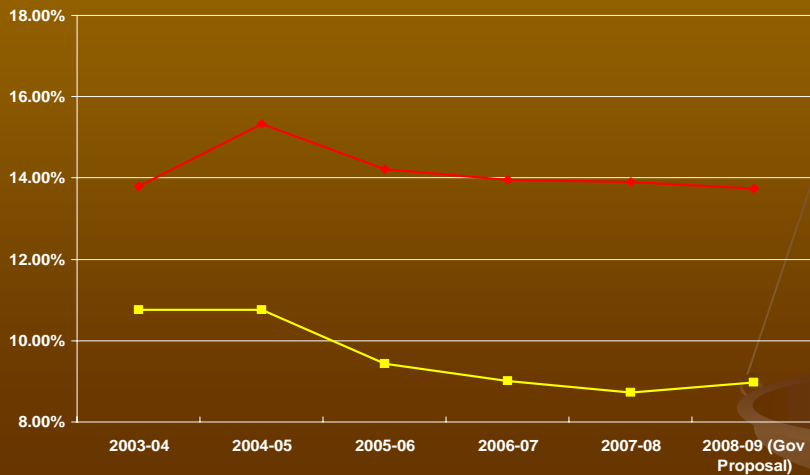
EDUCATION



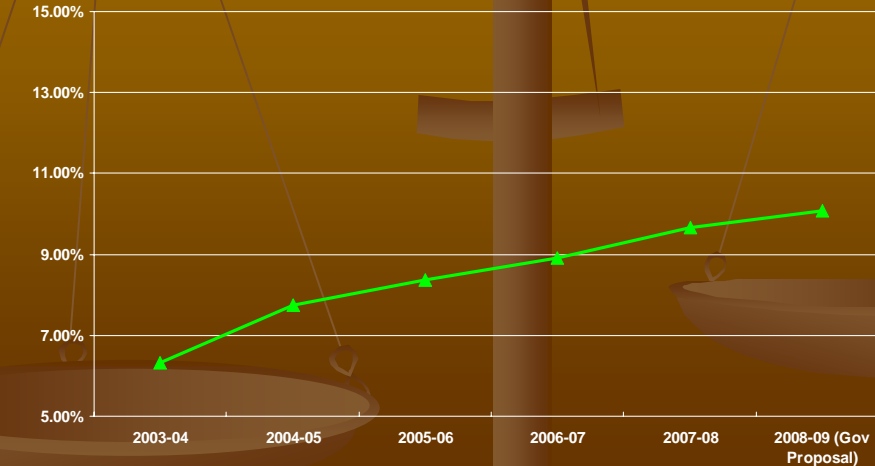
UC (blue) & CSU (pink)



HEALTH (red) & SOCIAL SERVICES (yellow)



CORRECTIONS

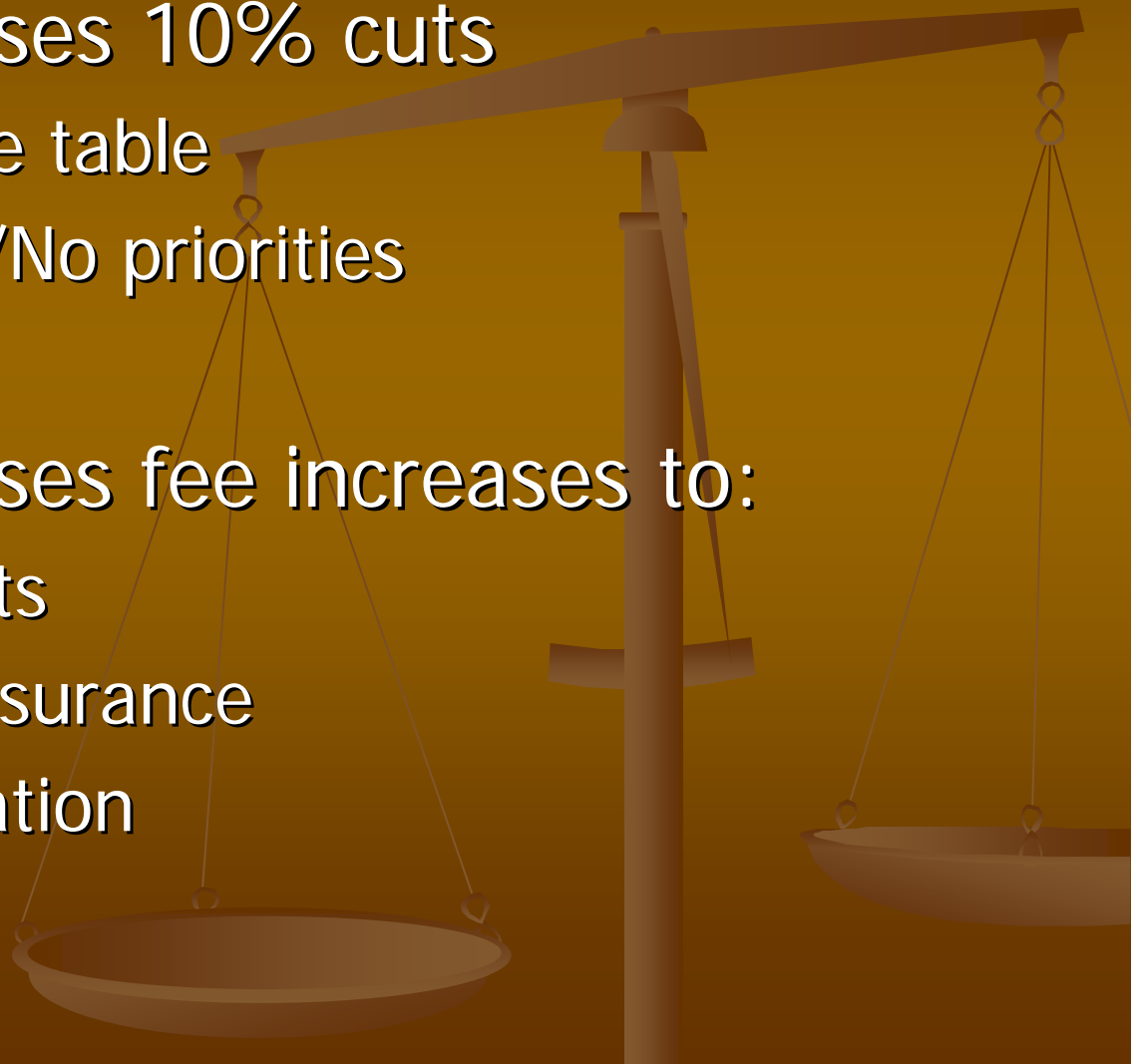


Current Year Action

- Current Year=Fiscal Year 2007-2008
 - \$3.3 billion shortfall
 - Lower than expected revenue
 - Special Session called by Governor
 - Legislature approved \$1 billion in cuts
 - \$500 million in Education
 - COLA delays
 - Judgeships delayed
 - \$3.3 billion Economic Recovery Bonds
- 

Budget Year 2008-09 (cont.)

- Governor proposes 10% cuts
 - Everyone on the table
 - Lacks foresight/No priorities
- Governor proposes fee increases to:
 - UC/CSU students
 - Homeowners insurance
 - Vehicle Registration



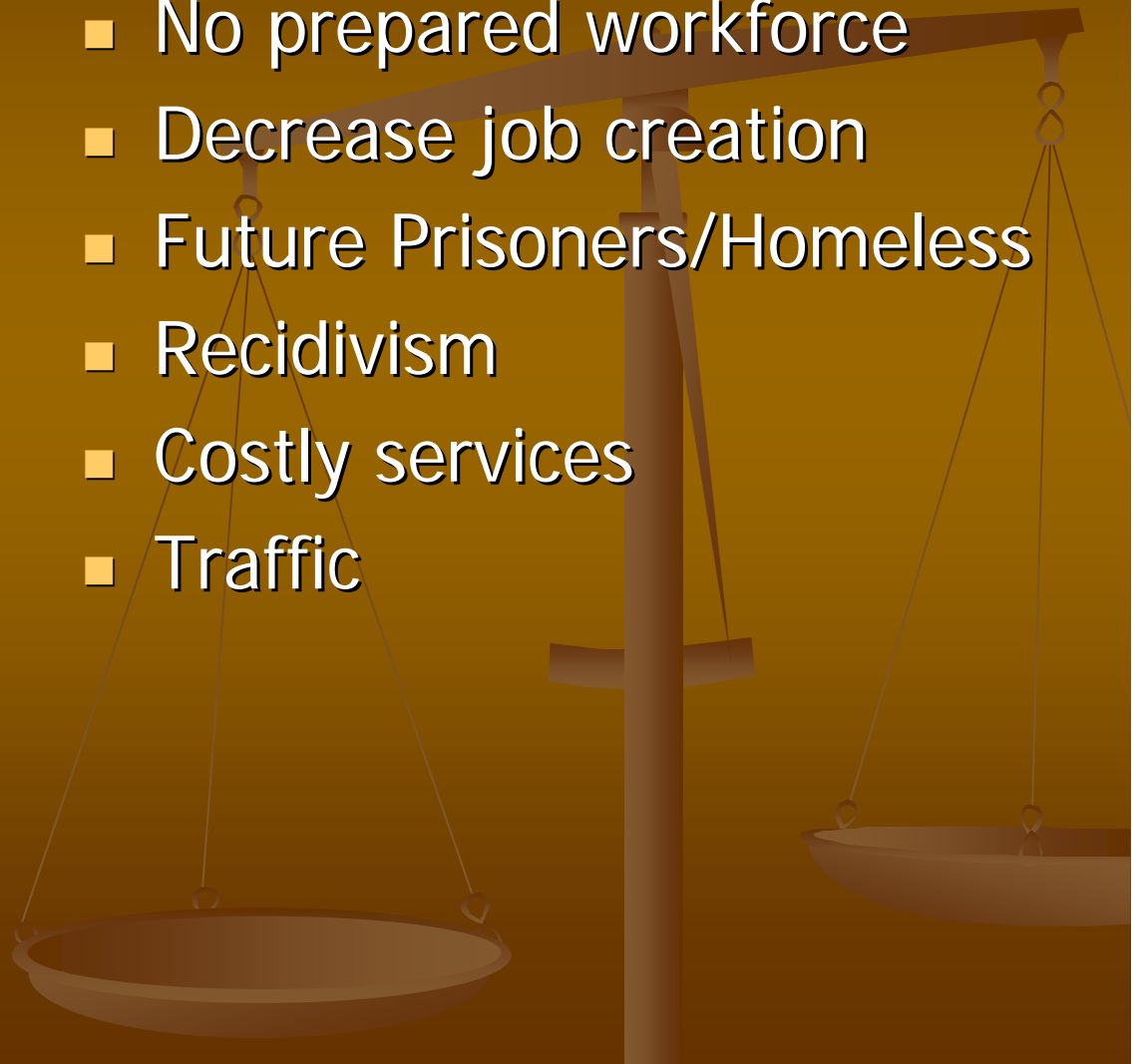
Budget Perspectives:

Pay NOW

- Education
- Higher Education
- Foster Children
- Parolees
- Seniors, disabled
- Freeways

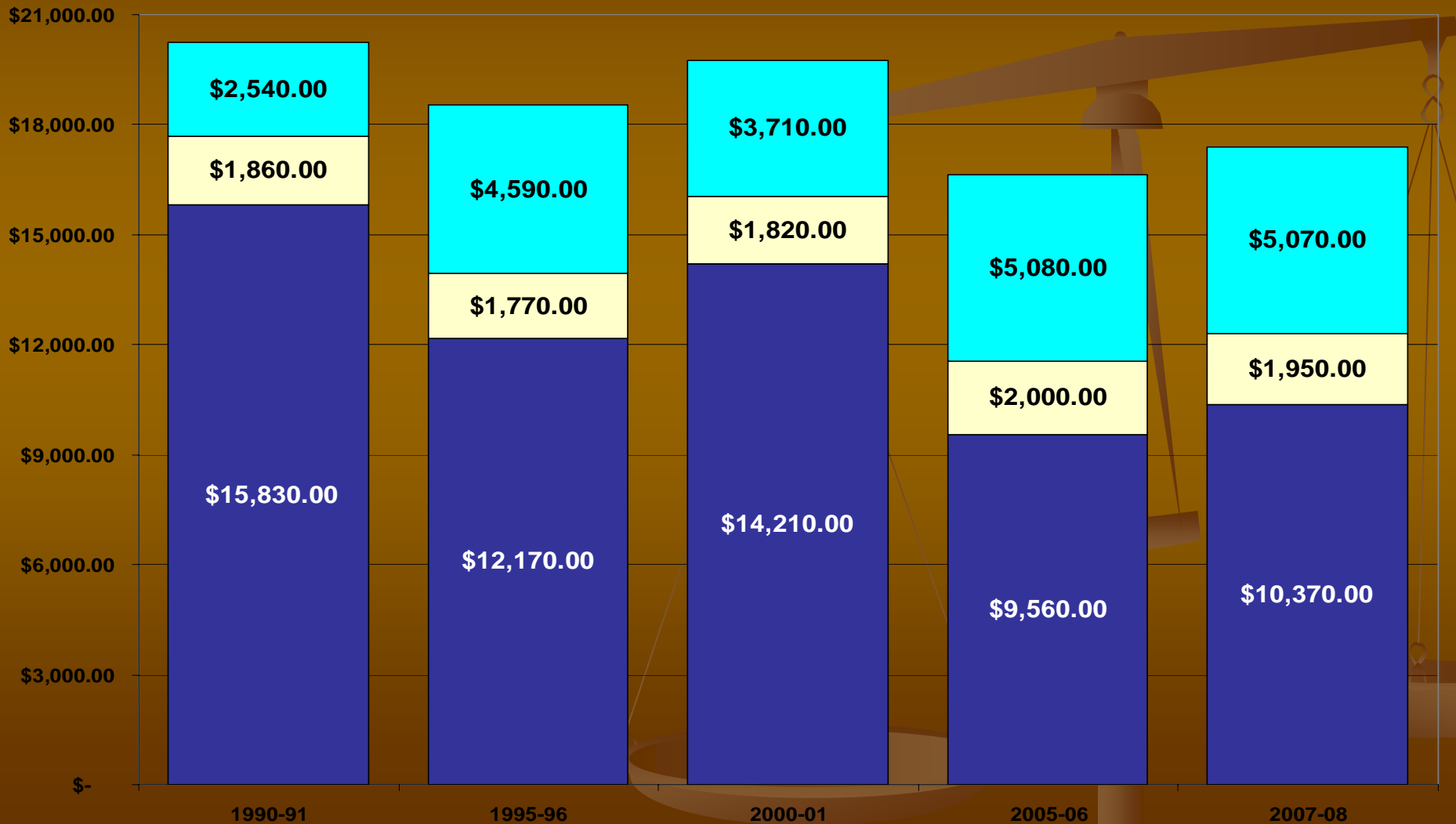
Pay LATER

- No prepared workforce
- Decrease job creation
- Future Prisoners/Homeless
- Recidivism
- Costly services
- Traffic



2008-09 UC Tuition Costs: *Students paying more, State paying less*

■ State General Fund ■ UC General Funds ■ Student Fees



2008-09 CSU Tuition Costs: *Students paying more, State paying less*

■ State Support/FTE

■ Fee Revenues/FTE

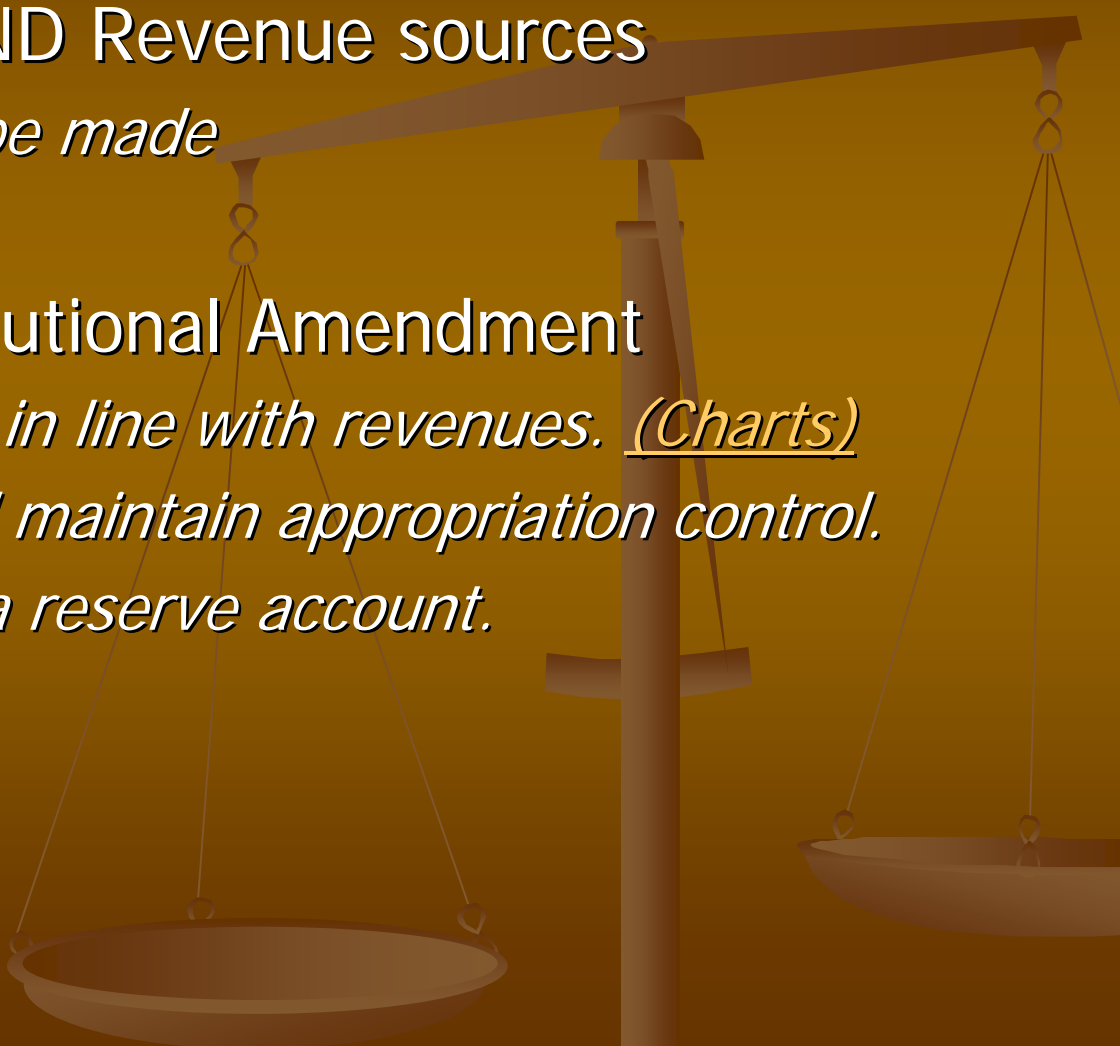


Governor's Budget: Fair for everyone?

KinGAP Family – former foster child that has behavioral/medical needs being cared for by grandparent

- **Foster care rate** – cut \$77 overall from monthly subsistence
- **SSI freeze**- \$18 of grandparent's already limited income
- **Medi-Cal Provider Rates**- access to doctors for *both* former foster child and elder caregiver will be impaired
- **Kinship Support Services Program**- child tutoring/ academic support, transportation training, and group counseling preventing delinquency
- **Transition Services**- youth services through the local Independent Living Program to help them transition into adulthood successfully
- **Education**- cuts to child's education

More Budget Perspectives

- Balance of cuts AND Revenue sources
 - *Cuts will have to be made*
 - Governor's Constitutional Amendment
 - *Keeping spending in line with revenues. (Charts)*
 - *Legislature should maintain appropriation control.*
 - *We already have a reserve account.*
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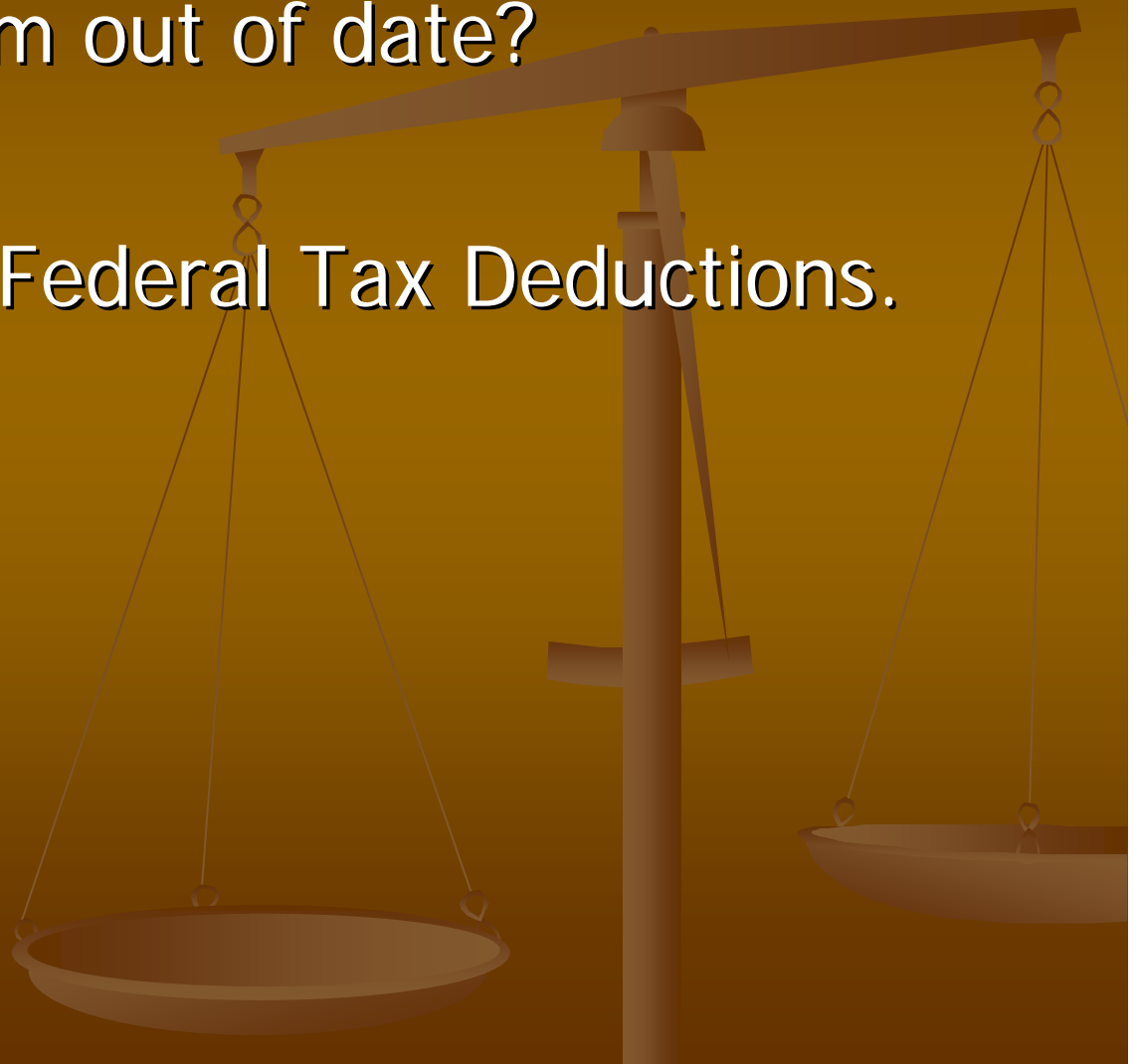
LAO's Revenue Enhancements

Summary of LAO Revenue-Increasing Proposals *(In Millions)*

	Revenue Gain	
	2008-09	2009-10
Proposals Unique to Personal Income Tax		
Reduce dependent credit	\$1,330	\$1,070
Eliminate senior credit	125	130
Eliminate partial exclusion of capital gains on small business stock	55	55
Subtotals	(\$1,510)	(\$1,255)
Proposals Applying to Both Personal Income and Corporation Tax		
Limit the research and development credit	\$335	\$290
Limit net operating loss deductions	330	410
Phase out enterprise zone programs	100	120
Eliminate exclusion for "like-kind" out-of-state property exchanges	25	50
Subtotals	(\$790)	(\$870)
Unique Sales and Use Tax Proposals		
Eliminate exemptions for industry-specific equipment	\$143	\$146
Eliminate certain diesel fuel exemptions	73	75
Eliminate exemption for leasing of films and tapes	65	70
Eliminate exemption for custom computer programs	53	48
Adopt one-year standard regarding use tax on out-of-state purchases	21	21
Subtotals	(\$355)	(\$360)
Totals	\$2,655	\$2,485

Restructuring Our Tax System

- Is our tax system out of date?
- Maximizing our Federal Tax Deductions.



Questions/Comments

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