2009-10 Governor's Budget

General Fund Proposals

Arnold Schwarzenegger
Governor
State of California

Introduction

California, like the rest of the nation is in the midst of a severe economic downturn. The combined effect of the state's continuing structural budget deficit and the loss of revenues resulting from the economic downturn results in a budget gap of $41.6 billion, just under half of the revenues projected for 2009-10. This is the most challenging budget in the state's history. It demands quick action and calls for every type of solution possible, including major spending cuts, revenue increases, borrowing and cash management strategies. The budget proposes a balanced approach that makes use of each of these types of solutions.

The Origin of the Budget Gap

In 1998-99, the state's budget was balanced and projected to remain in balance. Figure INT-01 displays General Fund revenue and spending growth since 1998-99. As the figure shows, one year later, revenues increased by 23 percent, due to a stock market and dot-com boom that drove unprecedented increases in stock option and capital gains income. These were magnified from a state revenue perspective because the state's income tax system relies disproportionately on the very high-end earners most likely to receive such gains.

The surge in revenues resulted in massive and unsustainable new spending commitments. When revenues declined, the state relied mostly on one-time measures, such as borrowing, to temporarily reduce spending without cutting back underlying program commitments. Thus, the structural deficit was born. When revenue

Revenue Volatility and Budget Reform

Recognizing that revenue volatility is at the heart of the state's chronic cyclical budget problems, the Governor has created the Commission on the 21st Century Economy to propose changes to the state's tax system that will, on a revenue-neutral basis, reduce volatility, improve the business climate and encourage job growth. In addition, the Legislature has put on the next ballot a budget reform measure proposed by the Governor that discourages the use of surges in revenues to fund increased ongoing spending programs and at the same time start to build a rainy day fund that will ultimately grow to an amount equal to 12.5 percent of General Fund revenues. The rainy day fund will only be available for use during economic downturns.

growth again surged in 2005-06, much of the growth was used to repay loans and backfill for the loss of temporary cost-saving steps.

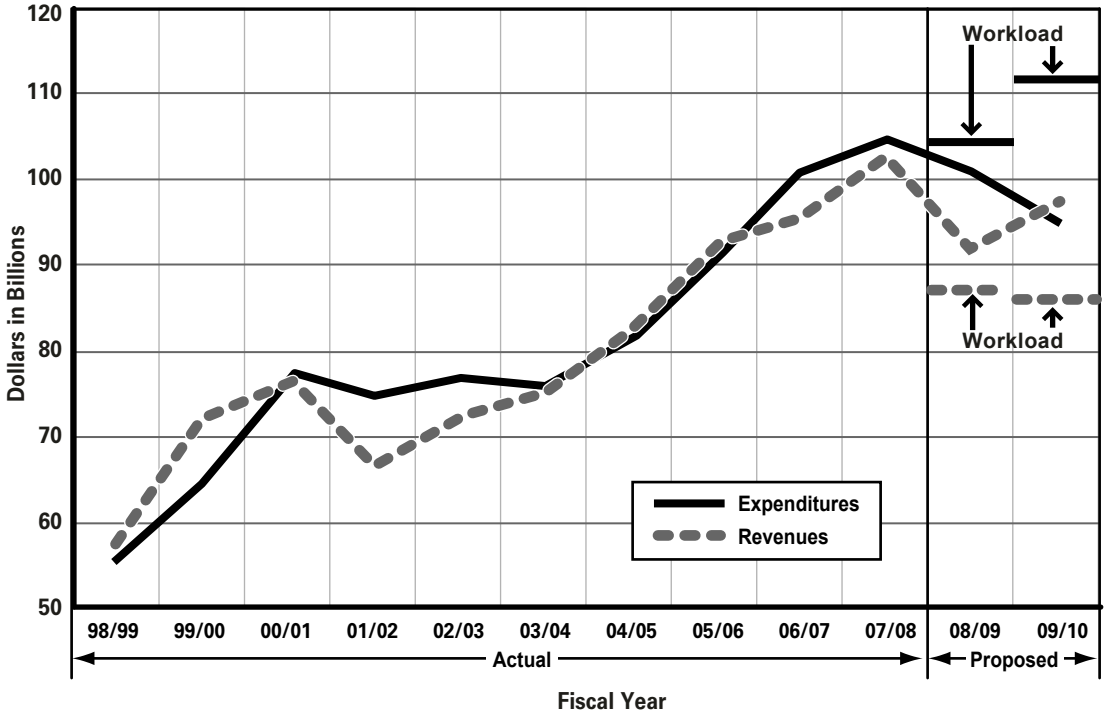
The budget estimates that workload revenues in the current year will drop dramatically – a year-over-year decline of $15.1 billion, or 14.7 percent – while, if unchecked, spending would increase by $1.5 billion or 1.5 percent. The budget projects continued revenue decline and spending increases in 2009-10 in the absence of any policy changes to bring the budget back into balance.

This figure tells a two-part story about the state's budget gap. First, it is partly due to the continued structural budget deficit that began ten years ago and that has never been completely eliminated. Second, a major part of the state's budget gap is due to the dramatic decline in revenues that has resulted from the current recession.

A Balanced Approach to Addressing the $41.6 Billion Budget Gap

The budget projects a deficit in the current year of $14.8 billion. If unaddressed, this deficit would grow to $41.6 billion by the end of the next fiscal year. The dual causes of the budget gap suggest both permanent and temporary solutions are necessary. Therefore, the budget proposes both.

Figure INT-01
General Fund Revenue and Spending Growth



"Workload" means the projected levels of spending and revenues if the state were to make no changes to current law or practice.

When the budget reflects spending that is lower than the workload level, that means spending cuts are proposed. When the budget reflects revenues that are higher than the workload level, that means revenue increases are proposed. As the figure shows, the budget proposes both spending cuts and revenue increases in 2008-09 and 2009-10.

Most budget solutions, spending cuts or revenue increases require significant time to achieve their full value. Therefore, it is imperative that solutions be enacted immediately, as opposed to waiting until the enactment of the 2009-10 Budget. That is why on November 6 and December 1, 2008, and again on December 19, 2008, the Governor declared a fiscal emergency, called special sessions of the Legislature and asked for the immediate enactment of many of the budget solutions.

Figure INT-02 displays the categories of solutions proposed and shows which are targeted for early enactment and which can be enacted next fiscal year. As the figure shows, the budget proposes a balanced approach to solving the $41.6 billion budget gap, with spending cuts being the largest category of solutions. While the magnitude of the budget shortfall requires reductions in services to the public, the budget also proposes cost-savings in the way the state provides services by consolidating administrative

Proposed Spending In Line with Population Growth and Inflation

As the figure shows, the budget proposal would bring spending and revenues back in line with historical levels. Specifically, the budget would result in spending and revenues in 2009-10 that would equate to an average annual percentage rate of growth since 1998-99 of 4.67 percent for spending and 4.75 percent for revenues. For perspective, the average annual combined increase in the state's population growth and inflation over the same period is 4.59 percent annually.

functions and reducing the size and cost of the state's workforce. Specific solutions are described in the Revenue Chapter and in the Summary of Major Changes.

The Budget Will Be Adjusted to Reflect Any Legislative Action in the Special Session.

The budget assumes that the Legislature will adopt the solutions proposed by the Governor when he called it into special session to address the fiscal emergency. To the extent that the Legislature adopts solutions other than those proposed, the budget will be adjusted to reflect the Legislature's actions.

Managing the Cash Shortfall and Selling Revenue Anticipation Warrants

The budget projects that even if the Legislature enacts all of the special session solutions by February 1, 2009, the state will be unable to pay all of its bills beginning in March. This will require deferral of some payments. Absent legislative action or if the solutions adopted by the Legislature fall short of the level proposed by the Governor, it may be necessary for the state to make some payments with registered warrants, or IOUs. In spite of these challenges, there is no reason to expect any delay in paying debt service or in repaying the $5 billion in short-term Revenue Anticipation Notes (RANs) sold in October.

Figure INT-02

Proposed Budget Solutions

(Dollars in Billions)

	December 19 Special Session Proposals		Additional Special Session Proposals		Proposals to be Enacted By July 1*		Total	
Expenditure Reductions	$9,811	44%	$4,049	87%	$3,567	24%	$17,427	42%
Revenues	12,505	56%	236	5%	1,545	10%	14,286	34%
Lottery	0	0%	0	0%	5,001	34%	5,001	12%
Borrowing	0	0%	358	8%	0	0%	358	1%
RAWs	0	0%	0	0%	4,673	32%	4,673	11%
Total	$22,316	100%	$4,643	100%	$14,786	100%	$41,745	100%

* Includes minor policy issues of $72m ($102m in revenues and -$30m in expenditures)

However, it will not be possible for the state to continue managing its cash flow into the budget year in the absence of a substantial infusion of cash. Therefore, the budget proposes selling Reimbursement Warrants (commonly known as RAWs) in July of 2009. While RANs must be repaid within the fiscal year in which they are sold, RAWs can be repaid in the subsequent fiscal year. Thus the budget proposes repaying the RAWs no later than June 30 of 2011.

The proposed use of RAWs to manage cashflow over multiple years is consistent with past practice. This sort of cashflow management has always been a last resort in times when a sudden drop in revenues produces a deficit too large to be addressed with spending cuts and revenue increases alone. Moreover, it will be very difficult for the state to sell RAWs in the current credit environment. In order to do so, three conditions will have to be met:

- The state must have a sustainable, balanced budget, with all required statutory changes enacted prior to selling the RAWs.
- The state must have a plausible plan for repaying the RAWs in the subsequent year.
- There will have to be legislation enacted prior to the sale of the RAWs that protects the RAWs holders. Such legislation could include a trigger that automatically

increases taxes or cuts programs if future events create uncertainty regarding the prompt payment of the RAWs.

Federal Economic Stimulus Proposals

It is widely believed that the incoming Congress will enact a major bailout bill for states. Relying on funds from a bailout to balance the state's budget, however, would not be prudent for several reasons. First, the state must balance its budget on its own to have any chance of re-entering the credit markets for General Obligation bonds or cash-flow borrowing. Second, any bailout would be temporary, and the state needs to make permanent changes to restore balance to its budget in the longer term. Third, most of the proposals for sending federal funds to states focus on infrastructure construction as a fiscal stimulus—not on giving states unencumbered money to balance their budgets. Finally, it is far from certain that a bailout will be provided or, if so, in what amount.

The administration would, however, support using increased federal funds to repay the RAWs or to reduce the size of the RAWs, if the funds are available in time.

Summary Charts

This section provides various statewide budget charts and tables.

Figure SUM-01

2009-10 Governor's Budget
General Fund Budget Summary
Workload Budget

(Dollars in Millions)

	2008-09	2009-10
Prior Year Balance	$3,326	-$13,692
Revenues and Transfers	$87,471	$86,300
Total Resources Available	**$90,797**	**$72,608**
Non-Proposition 98 Expenditures	$62,109	$68,708
Proposition 98 Expenditures	$42,380	$42,381
Total Expenditures	**$104,489**	**$111,089**
Fund Balance	**-13,692**	**-38,481**
Reserve for Liquidation of Encumbrances	$1,079	$1,079
Special Fund for Economic Uncertainties	-$14,771	-$39,560
Budget Stabilization Account	**-**	**-**
Total Available Reserve	**-$14,771**	**-$39,560**
Target Reserve		$2,000
Budget Gap		-$41,560

Figure SUM-02

2009-10 Governor's Budget
General Fund Budget Summary
Workload Budget With December 1 Special Session Proposals

(Dollars in Millions)

	2008-09	2009-10
Prior Year Balance	$3,326	-$6,771
Revenues and Transfers	$90,692	$96,000
Total Resources Available	**$94,018**	**$89,229**
Non-Proposition 98 Expenditures	$60,909	$63,676
Proposition 98 Expenditures	$39,880	$41,718
Total Expenditures	**$100,789**	**$105,394**
Fund Balance	**-6,771**	**-16,165**
Reserve for Liquidation of Encumbrances	$1,079	$1,079
Special Fund for Economic Uncertainties	-$7,850	-$17,244
Budget Stabilization Account	**-**	**-**
Total Available Reserve	**-$7,850**	**-$17,244**
Target Reserve		$2,000
Budget Gap		-$19,244

Figure SUM-03

2009-10 Governor's Budget
General Fund Budget Summary
With All Proposed Budget Solutions

(Dollars in Millions)

	2008-09	2009-10
Prior Year Balance	$2,375	$1,079
Revenues and Transfers	$91,117	$97,708
Total Resources Available	**$93,492**	**$98,787**
Non-Proposition 98 Expenditures	$56,630	$55,036
Proposition 98 Expenditures	$35,783	$40,488
Total Expenditures	**$92,413**	**$95,524**
Fund Balance	**1,079**	**3,263**
Reserve for Liquidation of Encumbrances	$1,079	$1,079
Special Fund for Economic Uncertainties	-	$2,184
Budget Stabilization Account	**-**	**-**
Total Available Reserve	**-**	**$2,184**

Figure SUM-04

General Fund Revenue Sources

(Dollars in Millions)

				Change from Revised 2008-09	
	2008-09 at Budget Act	Revised 2008-09	Proposed 2009-10	Dollar Change	Percent Change
Personal Income Tax	$55,720	$46,807	$47,942	$1,135	2.4%
Sales Tax	27,111	27,778	33,793	6,015	21.7%
Corporation Tax	13,073	10,197	10,445	248	2.4%
Motor Vehicle Fees	29	26	27	1	3.8%
Insurance Tax	2,029	1,831	1,798	-33	-1.8%
Liquor Tax	341	599	955	356	59.4%
Tobacco Taxes	114	113	111	-2	-1.8%
Oil Severance Tax	-	358	855	497	138.8%
Other	3,574	3,408	1,782	-1,626	-47.7%
Total	**$101,991**	**$91,117**	**$97,708**	**$6,591**	**7.2%**

Note: Numbers may not add due to rounding.

Figure SUM-05

General Fund Expenditures by Agency

(Dollars in Millions)

	2008-09 at Budget Act	Revised 2008-09	Proposed 2009-10	Change from Revised 2008-09 Dollar Change	Change from Revised 2008-09 Percent Change
Legislative, Judicial, Executive	$3,816	$3,779	$3,772	-$7	-0.2%
State and Consumer Services	563	566	577	11	1.9%
Business, Transportation & Housing	1,628	1,466	2,336	870	59.3%
Resources	1,832	2,030	1,922	-108	-5.3%
Environmental Protection	81	83	79	-4	-4.8%
Health and Human Services	31,121	30,935	29,996	-939	-3.0%
Corrections and Rehabilitation	10,342	10,310	9,615	-695	-6.7%
K-12 Education	41,579	35,499	39,721	4,222	11.9%
Higher Education	12,113	11,745	12,389	644	5.5%
Labor and Workforce Development	98	102	104	2	2.0%
General Government:					
Non-Agency Department	387	411	595	184	44.8%
Tax Relief/Local Government	779	647	463	-184	-28.4%
Statewide Expenditures	-938	-5,160 [1/]	-6,045 [2/]	-885	17.2%
Total	**$103,401**	**$92,413**	**$95,524**	**$3,111**	**3.4%**

[1/] Includes $4.7 billion of reimbursements from proceeds of revenue anticipation warrants.

[2/] Includes $6.1 billion of reimbursements from proceeds of lottery securitization and lottery revenues.

Note: Numbers may not add due to rounding.

Summary of Major Changes by Major Program Areas

The Budget Act held spending essentially at the same level as spending in 2007-08 and was less than $2 billion more than the 2006-07 level reflecting relatively flat spending growth for three years. Given the revenue decline and emergence of a $14.8 billion of current year General Fund gap, the Governor has proposed savings which, when combined with other adjustments, reduce spending from $103.4 billion to $92.4 billion. With the proposed program reductions, 2008-09 General Fund expenditures will decrease by $11 billion from the 2008 Budget Act level and then increase by 3.4 percent in 2009-10 compared to the revised 2008-09 expenditure estimate.

The Governor's Budget projects that with the proposed revenue measures, 2008-09 General Fund revenues will still decrease by $10.9 billion from the 2008 Budget Act level. With the revenue measures proposed, revenues will increase by 7.2 percent in 2009-10 compared to the revised 2008-09 revenue estimate.

Figure MPA-01 reflects the General Fund revenues and expenditures as of 2008 Budget Act. It compares General Fund revenues and expenditures in 2009-10 to the revised 2008-09 revenue and expenditure estimates. Major expenditure changes are highlighted below.

Legislative, Judicial, and Executive

General Fund expenditures are proposed to decrease by $11.4 million, or 0.3 percent.

Figure MPA-01
General Fund Revenues and Expenditures
2008-09 vs. 2009-10 Proposed
(Dollars in Millions)

	2008-09 at Budget Act	Revised 2008-09	Proposed 2009-10	Change from Revised 2008-09 Dollar Change	Change from Revised 2008-09 Percent Change
Revenues and Transfers	**$101,991.4**	**$91,116.9**	**$97,708.0**	**$6,591.1**	**7.2%**
Expenditures					
Non-Proposition 98					
Legislative, Judicial, and Executive	$3,786.3	$3,751.1	$3,739.7	-$11.4	-0.3%
State and Consumer Services	557.5	559.8	568.6	8.8	1.6%
Business, Transportation and Housing	1,448.7	1,367.5	1,766.7	399.2	29.2%
Resources	1,210.2	1,429.1	1,171.3	-257.8	-18.0%
Environmental Protection	71.2	73.5	73.4	-0.2	-0.2%
Health and Human Services	31,034.6	30,855.8	29,830.8	-1,025.1	-3.3%
Corrections	9,677.9	9,685.0	8,843.2	-841.9	-8.7%
K-12 Education	1,190.7	1,190.3	1,301.7	111.4	9.4%
Higher Education	6,937.1	6,866.7	6,799.1	-67.7	-1.0%
Labor	98.3	101.9	104.4	2.5	2.5%
General Government:					
Non-Agency Department	377.2	379.1	550.2	171.0	45.1%
Tax Relief/Local Government	778.5	647.3	463.0	-184.3	-28.5%
Statewide Expenditures	-712.0	-4,961.4 [1]	-6,395.7 [2]	-1,434.3	28.9%
Debt Service	4,788.7	4,468.1	5,874.3	1,406.2	31.5%
Infrastructure	212.9	216.6	345.4	128.8	59.5%
Total, Non Proposition 98	**$61,457.8**	**$56,630.6**	**$55,035.9**	**-$1,594.7**	**-2.8%**
Proposition 98	**41,943.0**	**35,782.6**	**40,487.7**	**4,705.1**	**13.1%**
Total, All Expenditures	**$103,400.8**	**$92,413.2**	**$95,523.6**	**$3,110.4**	**3.4%**

[1/] Includes $4.7 billion of reimbursements from proceeds of revenue anticipation warrants.
[2/] Includes $6.1 billion of reimbursements from proceeds of lottery securitization and lottery revenues.

The major General Fund workload adjustments are as follows:

- Growth Factor Increase for the State Trial Courts—An increase of $32.5 million for the Trial Courts related to the estimated growth in the State Appropriations Limit.

- Restoration of one-time Reductions for the Judicial Branch—An increase of $109.3 million for the State Judiciary and Trial Courts related to the restoration of one-time savings included in the 2008 Budget Act.
- Guardianship and Conservatorship Reform Act—An increase of $17.4 million related to the implementation of the Guardianship and Conservatorship Reform Act.
- New Judgeships—The Budget proposes $71.4 million to fund additional Trial Court judgeships. These additional judgeships will increase access to the courts, address backlogs, and provide equitable justice throughout the state. Legislation is required to create the new judgeships for 2009-10.

The major General Fund policy adjustments are as follows:

- Reduction of the Legislature's Budget—A reduction of $18.3 million in 2008-09 and $24.9 million in 2009-10 to the Legislature. $18.3 million in 2008-09 and $18.3 million in 2009-10 are related to reducing the Legislature's budget by 10 percent, consistent with reductions adopted by state operations and for other constitutional officers reflected in the 2008 Budget Act. The balance is related to not providing funding growth in the budget year.
- Courts Reductions—A reduction of $146 million to the State Judiciary and Trial Courts related to making permanent the one-time reductions that were included in the 2008 Budget Act, and not providing funding growth in the budget year.
- Delay Implementation of the Guardianship and Conservatorship Reform Act—A reduction of $17.4 million related to delaying the implementation of the Guardianship and Conservatorship Reform Act.
- Governor's Office Reduction—A decrease of $191,000 for the Governor's Office related to not providing funding growth in 2009-10.
- Elimination of Cesar Chavez Day Grant Program—A decrease of $1.5 million in 2008-09 and $2.5 million in 2009-10 for the Office of Planning and Research related to the elimination of the Cesar Chavez Day grant program.
- Eliminate Public Safety Grants—A decrease of $23.9 million in 2008-09 and $57.4 million in 2009-10 for California Emergency Management Agency (CalEMA) related to the elimination of local public safety grant funding. 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.

- Board of Equalization (BOE) Facilities Needs—An increase of $3.3 million General Fund and $2.5 million special fund to address problems caused by overcrowding in the Sacramento headquarters building. The funds will support relocation and rental costs for approximately 500 employees who have been added to the budget in recent years due to workload growth and efforts to improve collections.
- Flavored Malt Beverage Taxation—An increase of $1.3 million to collect revenues resulting from BOE regulations that require flavored malt beverages to be taxed at the distilled liquor rate of $3.30 per gallon, as opposed to the beer rate of 20 cents per gallon. BOE estimates the regulations will generate $38.3 million in General Fund revenue in 2009-10.
- Chief Information Officer Education Data System Strategic Plan—An increase of $2 million General Fund and one position to develop a strategic plan for education data systems by September 1, 2009, as required by Chapter 8, Statutes of 2008, which would provide an overall structural design to link education data systems.
- Chief Information Officer Workload—An increase of $3.7 million General Fund and $2.7 million other funds to fund 28 positions to provide sufficient resources to carry out the duties of the Chief Information Officer to provide information technology strategic vision and planning, enterprise-wide standards, information technology policy, and project approval and oversight.

Non-General Fund expenditures are proposed to decrease by $205.8 million, or 4.5 percent.

The major Non-General Fund workload adjustments are as follows:

- Trial Court Facilities—An increase of $17.5 million for the Courts to implement Chapter 311, Statutes of 2008, related to Trial Court facility modifications.
- Removal of One-time Costs-A decrease of $146.8 million various special funds related to the removal of one-time costs for the Secretary of State, California Gambling Control Commission, Department of Insurance, State Controller's Office, Judiciary, and School Finance Authority.

- Interoperability Communication Grants—An increase of $4.5 million Federal Funds for the CalEMA related to Pubic Safety Interoperability Communications grants.

The major Non-General Fund policy adjustments are as follows:

- Court Case Management System—An increase of $119.3 million in various special funds in 2008-09 and $78.4 million in 2009-10 for the Courts to implement a comprehensive case management system.
- Emergency Response Initiative—An increase of $17.1 million Emergency Response Fund for the CalEMA related to the implementation of the Emergency Response Initiative intended to enhance the State's emergency response capabilities. This initiative will be funded through a 2.8% surcharge on all residential and commercial property insurance statewide.

State and Consumer Services

General Fund expenditures are proposed to increase by $8.8 million, or 1.6 percent.

The major General Fund workload adjustments are as follows:

- Business License Information Sharing—An increase of $3.1 million to implement legislation (SB 1146, Statutes of 2008) that allows local governments to share business license information with the Franchise Tax Board (FTB) to identify persons and entities who are not filing state tax returns. FTB estimates the associated General Fund revenues at $4 million in 2009-10, increasing to $40 million in 2013-14.
- Enterprise Data to Revenue (EDR) Project—An increase of $3.9 million for first-year information technology project costs to expand the amount of usable information entered into the FTB database from personal income tax and business entity tax returns. These additional data will be leveraged for audit leads and to identify costly errors in multi-page tax returns. The EDR will generate $14 million in General Fund revenues in 2009-10, due largely to clearing an existing backlog of business entity tax returns. Once fully implemented in 2012-13, FTB estimates EDR will generate a minimum of $90 million per year in General Fund revenues.
- Enterprise Customer, Asset, Income, and Return Information Technology Project —An increase of $1.3 million for the first year of a multi-year project to expand the capacity of FTB technology data that serve as a repository for personal income tax

and corporation tax returns to facilitate improved collections. This project is expected to produce more revenues than it costs.

The major General Fund policy adjustments are as follows:

- Delay Science Center Expansion—A reduction of $4.1 million due to the delay in the planned opening of Phase II—World of Ecology by one year.

Non-General Fund expenditures are proposed to increase by $1.8 billion, or 7.0 percent.

The major Non-General Fund workload adjustments are as follows:

- Benefit Payments for State Annuitants—An increase of $758.8 million in the California Public Employees Retirement System to fund benefit payments for state annuitants.
- Benefit Payments for Retired Teachers—An increase of $972.4 million in the California State Teachers Retirement System to fund benefit payments for retired teachers.

The major Non-General Fund policy adjustments are as follows:

- Comprehensive Healing Arts Board Fingerprinting Program—An increase of $5.8 million to fingerprint and conduct background checks for all licensees of the Department of Consumer Affairs healing arts boards to enhance consumer protection.
- Energy Efficiency in State-Owned Buildings—A one-time increase of $7.2 million Service Revolving Fund for the Department of General Services to support retro-commissioning activities that will decrease energy usage in state-owned buildings.

Business, Transportation, and Housing

General Fund expenditures are proposed to increase by $399.2 million, or 29.2 percent.

The major General Fund policy adjustments are as follows:

- The increase in 2009-10 funding over 2008-09 is due to the increase in the Proposition 42 sales tax revenues driven by the 1.5-cent sales tax rate increase and the sales tax on selected services that are proposed as part of the overall

General Fund budget solution. Of note, though, base Proposition 42 revenues have declined from the 2008 enacted Budget by $81.3 million in 2008-09 and $233.6 million in 2009-10, due to economic conditions.

While not reflected in expenditure numbers for this Agency, the following policy proposals contribute to balancing the General Fund budget:

- The budget proposes the elimination of $153.2 million in 2008-09 and $306 million in 2009-10 for local transit grants previously funded with sales tax on fuels. Funds made available by this proposal are shifted to transportation programs previously funded by the General Fund including Home-to-School Transportation (see Education).
- The budget proposes trailer bill language that would redirect the $100.8 million in annual tribal gaming revenues from funding transportation projects to the General Fund in 2008-09 and 2009-10 (see Revenues). Because this would result in a $100.8 million reduction in resources in both years for State Highway Operation and Protection Program (SHOPP) and Traffic Congestion Relief Program (TCRP), 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. These quarterly transfers would stop in the event that litigation that has prevented tribal gaming bonds from being sold is successfully resolved and when the transaction requires the availability of those funds.
- An increase of $12 in annual vehicle registration fees to support the Department of Motor Vehicles to replace funds shifted to local government public safety programs.

The major Non-General Fund policy adjustments are as follows:

State Transit Assistance

- The estimated revenues from fuel sales tax spillover have dropped from the $1.4 billion level estimated in the 2008 Budget Act to $1.0 billion in 2008-09, and are forecast to drop to only $90 million in 2009-10, due to the steep decline in gas prices.
- As part of the Governor's economic stimulus package, the proposed budget provides an additional $800 million in Proposition 1B funding for local transit projects, and another $350 million in 2009-10.

Department of Transportation (Caltrans)

- Legislation provides that for all future spillover revenues go to the Mass Transportation Fund to fund transportation programs previously funded by the General Fund. Given current economic projections, it is not likely that there will be much, if any, spillover revenue in the next few years.
- An economic stimulus package that includes $2.1 billion in 2008-09 and $165 million in 2009-10 as follows:
  - Exemptions for a limited number of projects from the California Environmental Quality Act (CEQA) to accelerate project delivery. Caltrans estimates that this exemption will bring forward a total of $822 million in projects funded from Proposition 42, Grant Anticipation Revenue Vehicles (GARVEE) bonds, Proposition 1B bonds, and local reimbursements.
  - Expanded authority for Caltrans to use design-build contracting to accelerate projects.
  - Expanded authority for Caltrans to do performance-based projects.
  - Increased appropriations by an additional $700 million in Proposition 1B bond funds in 2008-09 for local road maintenance, provided that these funds could be spent by December 31, 2009.
- A 2008-09 increase in federal funds anticipation bonds of $769 million to accelerate three major State Highway Operation and Protection Program (SHOPP) projects. This action will save the state over $13.6 million in net debt service costs over multiple years and future cost escalation as compared to when these projects would have been done on a pay-as-you-go basis.
- An increase of $53.4 million State Highway Account to replace and retrofit Caltrans vehicles to meet state, federal, and local air quality requirements.

High-Speed Rail

- An increase of $123.4 million from Proposition 1A of 2008 bonds for High-Speed Rail projects to begin the detailed engineering, design, and environmental work needed to ready segments for construction funding.

California Highway Patrol

- An increase of $34.9 million Motor Vehicle Account to fund 240 new California Highway Patrol officer and related support positions. This is part of a concerted five-year effort to improve public safety through proactive road patrols and reduced response times to major collisions and to persons needing assistance on state highways.
- An increase of $11.9 million Motor Vehicle Account to replace the California Highway Patrol Computer Aided Dispatch (CAD) system. This is part of an effort that will total $38.8 million to improve dispatching of emergency calls from the public in need of assistance.

Department of Motor Vehicles

- An increase of $11 million Motor Vehicle Account and 16 positions for production of the new driver license/identification/sales person cards. The new cards will meet the enhanced federal security requirements under REAL ID and will require a $3 increase in driver's license fees. An increase of $4.2 million and 45.1 positions is proposed to implement improved driver license/identification card procedures to begin to bring California into compliance with the REAL ID Act.

Department of Housing and Community Development

- The Budget includes $487 million from Proposition 1C to assist in the development of affordable housing, including $190 million for the Infill Incentive Grant program, $34 million for the Transit Oriented Development program, and $10 million for the Housing–Related Parks program.
- The Budget includes $140 million from federal funds in 2008-09 for local governments to rehabilitate neighborhoods with abandoned or foreclosed homes. Funding may be used by local governments to purchase and rehabilitate these homes to sell or lease them to low- or moderate-income families.

Resources

General Fund expenditures are proposed to decrease by $257.7 million, or 18 percent. This decrease is primarily attributable to the Department of Forestry and Fire Protection's (CAL FIRE's) significant emergency fire suppression expenditures in the current year.

The major General Fund workload adjustments are as follows:

- A decrease of $248 million for CAL FIRE's emergency fire suppression expenditures. As a result of the severe summer lightning fires and additional Southern California wildfires in October 2008, CAL FIRE's emergency fire costs are estimated to be $437 million in 2008-09. The Budget proposes $189 million for CAL FIRE's emergency fire expenditures in 2009-10, which reflects the historical average of firefighting costs over the past five years and additional federal reimbursements.

The major General Fund policy adjustments are as follows:

- An increase of $3.8 million to reflect the full-year cost for the Department of Conservation to administer and collect a severance tax on oil extracted from California's soil or water. The proposal to establish a 9.9-percent oil severance tax is estimated to generate $358 million in 2008-09 and $855 million in 2009-10.
- A decrease of $17 million to realign the Conservation Corps. This proposal will provide additional support in future years for the 12 certified non-profit local conservation corps by eliminating the state-level Conservation Corps and increasing state grant funding to the local corps.
- A fund shift of $11 million in 2008-09 and $8 million in 2009-10 to Proposition 84 funds for implementation of the Department of Parks and Recreation's Americans with Disabilities Act multi-year compliance plan.

Non-General Fund expenditures are proposed to decrease by $1.2 billion, or 11 percent.

The major Non-General Fund workload adjustments are as follows:

- A decrease of $332 million related to the Department of Water Resources' (DWR's) expiring long-term energy contracts entered into during the 2001 energy crisis.

The major Non-General Fund policy adjustments are as follows:

- An increase of $38.4 million, including $30.9 million Proposition 84, for recreation and fish and wildlife enhancements at State Water Project facilities. This proposal also includes amendments to the Davis-Dolwig Act to clarify the Legislature's constitutional appropriation authority and provide an annual transfer of $7.5 million from Harbors and Watercraft Fund to DWR for boating-related recreation and fish and wildlife enhancements.

- An increase of $684.5 million in Proposition 84 and 1E bond funds for multiple flood control projects and levee improvements in the Delta and Central Valley.
- An increase of $2.2 million State Water Project funds and 16.1 positions to support the development of an Environmental Impact Report/Environmental Impact Statement for alternative Delta conveyance options, consistent with the recommendations of the Delta Vision Task Force.
- An increase of $3 million reimbursements and 20.9 positions for the Department of Fish and Game to develop a Natural Community Conservation Plan to facilitate environmental permitting of renewable energy generation projects in the Colorado and Mojave Desert regions. Related to this effort, the California Energy Commission will receive $2.6 million Energy Resources Programs Account and 10 positions to assist DFG and to work with the Bureau of Land Management to facilitate the development of solar projects while minimizing environmental impacts.
- An increase of $3 million Fish and Game Preservation Fund for 14.2 additional warden positions to improve enforcement of fish, wildlife, pollution, and habitat protection laws.

Environmental Protection

General Fund expenditures are proposed to decrease by $3.9 million, or 4.7 percent.

The major General Fund workload adjustments are as follows:

- A decrease of $2.7 million for capital outlay and $1.1 million for general obligation bond debt service.

Non-General Fund expenditures are proposed to decrease by $155.2 million, or 8.3 percent.

The major Non-General Fund workload adjustments are as follows:

- An increase of $2.9 million in various special funds to provide grant funding to small, disadvantaged communities for wastewater projects per Chapter 609, Statutes of 2008 and to develop pilot projects in the Tulare Lake Basin and the Salinas Valley that focus on nitrate contamination in groundwater.
- An increase of $682,000 Air Pollution Control Fund and 1.9 positions for the Air Resources Board to implement Chapter 728, Statutes of 2008. The Air Resources

Board, in consultation with the California Transportation Commission and the Department of Transportation, will prepare specific guidelines for the travel demand models used in the development of transportation plans by regional transportation planning agencies by January 1, 2010, and will maintain such models thereafter, along with providing greenhouse gas emission reduction targets for 2020 and 2035.

- A decrease of $193.5 million in carryover and one-time expenditures of bond and special funds from Fiscal Year 2008-09.

The major Non-General Fund policy adjustments are as follows:

- An increase of $8.6 million Tire Recycling Management Fund and 4.3 positions to implement Waste Tire Recycling Management Program activities including a new equipment loan program, local assistance grants, and public outreach and education.
- An increase of $1.6 million Motor Vehicle Account and 4.8 positions for the Air Resources Board to provide compliance assistance and outreach to businesses and individuals subject to new heavy-duty diesel-powered vehicle regulations aimed at reducing toxic emissions to meet federal clean air standards.
- An increase of $675,000 Safe Drinking Water and Toxic Enforcement Fund and 4.3 positions for the Office of Environmental Health Hazard Assessment to identify and list additional chemicals subject to the provisions of Proposition 65.

Health and Human Services

The Governor's Budget includes significant reductions necessary to address the state's fiscal shortfall. The Administration remains committed to supporting improved outcomes for children and youth in foster care, ensuring more children are enrolled in no- and low-cost health coverage programs, better linking the needs of seniors and persons with disabilities with appropriate services, protecting the health and safety of Californians served by Health and Human Services Agency-licensed facilities, and ensuring the state's public health system is ready to respond to natural and manmade disasters and incidents.

General Fund expenditures are proposed to decrease by $1.025 billion in 2009-10, or 3.3 percent.

The major General Fund workload adjustments are as follows:

- An increase of $2.407 billion for enrollment, caseload and population driven programs including:
  - $1.085 billion in the Department of Health Care Services, primarily due to caseload and rate adjustments in the Medi-Cal Program;
  - $907.4 million in the Department of Social Services primarily due to caseload increases in the CalWORKs and Supplemental Security Income/State Supplementary Payment programs, as well as caseload growth and provider wage and benefit increases in the In-Home Supportive Services program;
  - $382.5 million in the Department of Developmental Services resulting from increased population and service utilization in the Regional Centers; and
  - $38.7 million in the Department of Mental Health primarily due to higher services costs, increased service utilization, and increased caseload in the Early and Periodic Screening, Diagnosis, and Treatment program.
- An increase of $106 million for statutorily required cost-of-living adjustments (COLAs) to monthly benefit payment levels for programs in the Department of Social Services.

The major General Fund policy adjustments are as follows:

- A decrease of $275 million through elimination of the California Children and Families Commission and redirection of all state funds and 50 percent of local funds to support children's programs administered by the Department of Social Services. This reduction would target resources to high-priority state programs that would otherwise require General Fund support, while also allowing some funding to be retained by counties to continue to fund local priorities. This proposal does not impact local fund reserves.
- A decrease of $24.7 million for suspending the statutory COLA for County Administration in the Medi-Cal Program.

- A decrease of $50.8 million in 2008-09 and $668.7 million in 2009-10 for various eligibility and benefit changes in the Medi-Cal Program, including:
  - $39.4 million ($19.7 million General Fund) in 2008-09 and $258.8 million ($129.4 million General Fund) in 2009-10 by eliminating certain Medi-Cal optional benefits for adults, including dental, optometry, and psychology.
  - $4.4 million ($9.4 million General Fund and increased federal funds of $5 million due to diminished recoupments) in 2008-09 and $64.6 million ($139.9 million General Fund and increased federal funds of $75.3 million) in 2009-10 by providing "limited-scope" benefits to newly qualified immigrants and immigrants who permanently reside under the color of law.
  - $9.6 million ($4.8 million General Fund) in 2008-09 and $142.4 million ($71.2 million General Fund) in 2009-10 by implementing month-to-month eligibility for undocumented immigrants unless a subsequent emergency ensues.
  - $5.2 million ($2.6 million General Fund) in 2008-09 and $176.4 million ($88.6 million General Fund) by reducing income eligibility for the Medi-Cal 1931(b) program and modifying eligibility for two parent families by redefining under-employment.
  - $54.2 million General Fund and an increase of $54.2 million in federal funds in 2009-10 by reducing reimbursement rates for public hospitals and instead using the federal funds for particular public health programs.
  - $28.6 million ($14.3 million General Fund) in 2008-09 and $371.6 million ($185.8 million General Fund) in 2009-10 by increasing the Medi-Cal share of cost requirement to the 2001 eligibility level for the Aged, Blind, and Disabled program.
- A shift of $85.5 million from 2008-09 to 2009-10 to reflect a one-month delay in checkwrite payments to Medi-Cal fee-for-service providers. This proposal is in addition to a previously authorized two-week delay under current law.
- A decrease of $334 million in 2009-10 in the Department of Developmental Services (DDS) Regional Centers. The DDS Regional Centers continue to experience significant and unsustainable expenditure growth. The DDS will work closely with the regional centers to manage program expenditures while meeting consumer service needs within the existing 2008-09 appropriation authority. For 2009-10,

the DDS estimates that absent changes to contain costs, there will be significant caseload and expenditure growth. The budget establishes a savings target of $334 million. The DDS will work with the Legislature and stakeholders in the coming months to develop proposals to maintain the 2008-09 fund level and achieve the targeted savings while maintaining the entitlement and ensuring program and service integrity.

- A decrease of $24.6 million in 2008-09 for DDS regional centers, annualized to $60.2 million in 2009-10, related to a 3-percent discount of payments made to service providers by regional centers and a reduction of regional center operations costs by 3 percent effective February 1, 2009. The savings in this proposal reflect a reduction of $4.1 million in 2008-09, and $12.2 million in 2009-10 to adjust for the proposed reduction of the State Supplemental Payment (SSP) to the federal minimum.
- A decrease of $226.7 million General Fund in 2009-10 by instead funding Mental Health Managed Care with Proposition 63 funds. This requires amending the non-supplantation requirement of the Mental Health Services Act (Proposition 63) to allow the use of Proposition 63 funds for Mental Health Managed Care. Also, the Department of Mental Health will work with the counties and other stakeholders on changes necessary to provide greater local flexibility regarding the maintenance of effort and non-supplantation requirements of the Act. Implementation of this proposal will require passage of a voter initiative.
- A decrease of $79.1 million in 2009-10 by suspending the July 2009 CalWORKs COLA.
- A decrease of $40 million in CalWORKs in 2009-10 by suspending the Pay for Performance county incentive program.
- A decrease of $27 million in 2009-10 by suspending the June 2010 state Supplemental Security Income/State Supplementary Payment (SSI/SSP) COLA. The annualized savings resulting from this COLA suspension is estimated to be $323.9 million beginning in 2010-11.
- A decrease of $14.6 million due to delaying by six months the replacement of Los Angeles County's automated benefit and eligibility determination system.
- A decrease of $200.1 million in 2008-09 and $1.247 billion in 2009-10 in the SSI/SSP program by reducing the SSP grant to the federally required minimum and eliminating the Cash Assistance Program for Immigrants.

- A decrease of $123.5 million in 2008-09 and $696.9 million in 2009-10 for the CalWORKs program. These savings would be achieved by modifying the Safety Net program to reward working families who are fully participating in federal work requirements with continued maximum Safety Net benefits, imposing a 60-month time limit on assistance for certain child-only cases, implementing a six-month self sufficiency review requirement to engage families who are not participating in work requirements, and reducing monthly assistance payments by 10 percent. Due to the shifting of federal funds, these proposals also result in General Fund savings of $24.3 million in the DDS budget and $192.6 million in the California Student Aid Commission budget.
- A decrease of $62.7 million in 2008-09 and $384.2 million in 2009-10 for the In-Home Supportive Services (IHSS) program. These savings would result from providing non-medical services to the neediest IHSS recipients, eliminating the state's share of cost contribution for the least-needy recipients, and reducing state participation in IHSS provider wages to the minimum wage.
- A decrease of $37.8 million in 2009-10 from eliminating the California Food Assistance Program effective July 1, 2009.
- An increase of $584,000 for enhancing Medi-Cal Program Integrity and Eligibility Verification.
- An increase of $448,000 for readily available pharmaceutical cache supplies to treat patients at state-owned Mobile Field Hospitals in a disaster situation. The pharmaceutical vendor will ensure delivery of appropriate pharmaceutical supplies to the designated location within 48 hours of activation of the Mobile Field Hospitals.
- A decrease of $8.3 million and an increase of $8.3 million Cigarette and Tobacco Products Surtax Fund for certain costs for hospital services reimbursed by the Medi-Cal program.

The major Non-General Fund workload adjustments are as follows:

- A decrease of $511 million Local Revenue Fund attributable to revenue declines in the State-Local Realignment program.
- An increase of $86.1 million AIDS Drug Assistance Program (ADAP) Rebate Fund for the ADAP to fund a projected increase in prescription drug costs and number of clients served.

- An increase of $3.5 million Technical Assistance Fund for the Department of Social Services Community Care Licensing Division to provide for investigations of Registered Sex Offenders and investigation of serious crime arrests of licensees. Licensing fees would be increased as needed to offset the General Fund impact of this proposal.

The major Non-General Fund policy adjustments are as follows:

- A shift of $365.5 million from the General Fund to the newly created Drug and Alcohol Prevention and Treatment Fund to support existing alcohol and drug programs. Beginning July 1, 2009, these programs will be supported by a proposed increase to the existing alcohol excise tax, estimated to generate an additional $585 million in General Fund revenues annually. A portion of these revenues will also offset $219.5 million General Fund costs for alcohol and drug programs administered by the California Department of Corrections and Rehabilitation.

Corrections and Rehabilitation

General Fund expenditures are proposed to decrease by $841.9 million, or 8.7 percent.

The major General Fund workload adjustments are as follows:

- Full-Year Cost of Approved Programs—An increase of $232.1 million to reflect the full-year cost of new and expanded programs, including increases to continue the previously approved rollout of substance abuse and other programs under AB 900 ($56.7 million), contracted out-of-state beds ($34.0 million), activation of the Northern California Reentry Facility ($47.2 million), and rehabilitative programs for female offenders ($94.2 million).
- Price Increase—An increase of $88.3 million to adjust the California Department of Corrections and Rehabilitation (CDCR) operating budget for anticipated price increases.

The major General Fund policy adjustments are as follows:

- Substance Abuse Treatment Programs Fund Shift—A decrease of $219.5 million to reflect a funding shift for correctional drug and alcohol treatment programs from the General Fund to a special fund with revenues to be derived from a new drink tax. Similar fund shifts, which provide General Fund relief while instituting a permanent

and appropriate new fund source, are proposed in the Department of Drug and Alcohol Programs and the Department of Social Services.

- Prison and Parole Reforms—A decrease of $598.4 million General Fund related to various prison and parole reforms, as proposed by the Administration in the Special Session. This savings would be generated through enhanced credit earnings for inmates, including providing continuous day-for-day credits for inmates who are in jail pending transfer to a state prison and providing program credits for each program successfully completed by an eligible inmate, eliminating parole for non-serious, non-violent, and non-sex offenders, and by adjusting the threshold value for property crimes to reflect inflation since 1982.
- Unallocated Reduction to Receiver's Budget—A decrease of $180.8 million as a result of a 10-percent unallocated reduction to the Receiver's Medical Services Program budget.
- Reduction of Public Safety Grants—A reduction of $181.2 million General Fund for local public safety grants administered by the Corrections Standards Authority. Specifically, the budget proposes to eliminate General Fund local assistance funding of $151.8 million to support local juvenile probation activities and $29.4 million to offset costs of operating juvenile camps and ranches. The reduction of General Fund resources for juvenile probation activities is largely offset by a backfill of Vehicle Licensing Fee funds of $135.9 million.

Non-General Fund expenditures are proposed to increase by $219.9 million, or 87.2 percent.

The major Non-General Fund policy adjustments are as follows:

- Substance Abuse Treatment Programs Fund Shift—An increase of $219.5 million to reflect expenditures from a special fund with revenues to be derived from a proposed increase to the existing alcohol excise tax (See Revenues).

Higher Education-Non Proposition 98 Programs

General Fund expenditures for Higher Education agencies, including the University of California (UC), California State University (CSU), Hastings College of Law (HCL), California Postsecondary Education Commission (CPEC), the Student Aid Commission (CSAC), and the California Community Colleges (CCC) are proposed at approximately

$6.9 billion for 2008-09 and $6.8 billion for 2009-10, reflecting a decrease of $67.7 million, or 1.0 percent.

Non-General Fund expenditures are proposed to increase by $717.3 million, or 2.9 percent.

All Proposition 98-related program expenditures for the Community Colleges are reflected in a separate Proposition 98 section below. Also, General Obligation Bond and Lease-Revenue Debt Service associated with higher education construction is addressed in a separate Infrastructure Section below.

General Fund

The major General Fund workload adjustments are as follows:

- $427.7 million increase pursuant to the Higher Education Compact for UC ($209.9 million), CSU ($217.3 million) and HCL ($531,000) reflecting 4 percent for general operating costs, 1 percent for core needs that impact instruction, and 2.5 percent enrollment growth for UC and CSU. Growth adjustments include $71.6 million for 8,786 Full Time Equivalent Students (FTES) for CSU and $56.2 million for 5,086 FTES for UC.
- $174.1 million increase to CSAC local assistance for projected increased costs in the CalGrant program ($150.4 million) resulting primarily from a current-year surge in renewals and higher than expected new awards, anticipated undergraduate fee increases for UC and CSU (9.3 percent and 10 percent, respectively), plus $24 million to backfill the use of one-time Student Loan Operating Fund resources. A net current-year estimated shortfall of $62.6 million General Fund local assistance is recognized, as well.
- $12.1 million increase for annuitant retirement benefits (primarily $11.3 million for UC).
- $6.4 million increase to the State Teacher Retirement System for additional costs for CCC employees based on 8.02 percent of applicable payroll.
- $5 million increase to UC to backfill use of one-time federal funds in 2008-09 for the Subject Matter Projects.
- $1.5 million increase to UC to fund the next phase of medical enrollments for the PRIME program.

- $5 million decrease to UC to reflect phase-out of the UC Merced campus startup funding.
- $1 million decrease to CSAC state operations to remove one-time funding for relocation of CSAC.

The major General Fund policy adjustments are as follows:

- $427.7 million cost avoidance decrease to reflect elimination of the Higher Education Compact funding as part of solutions to address the fiscal crisis.
- $192.6 million decrease to CSAC local assistance resulting from shifting a portion of CalGrant costs in the budget year to Temporary Assistance for Needy Families (TANF) reimbursements as part of the Administration's proposed solution on TANF Maintenance of Effort.
- $132.1 million ongoing decreases commencing in the current year for unallocated reductions proposed for UC ($65.5 million), CSU ($66.3 million), and HCL ($402,000).
- $87.5 million decrease to CSAC's CalGrants local assistance to reflect cost savings measures proposed to keep costs flat from year to year. Those policy proposals include: freezing income eligibility limits ($7 million); reducing the maximum award for students attending private institutions from $9,708 to $8,322 ($11 million); elimination of the CalGrant Competitive Program ($52.9 million); and partially decoupling awards to public institutions from fee increases ($16.6 million —which reflects approximately one-third of the undergraduate fee increases assumed for UC and CSU in 2008-09 as noted below).
- $2 million decrease for anticipated savings from a proposal to consolidate the functions of CPEC and CSAC through a reorganization proposal and to decentralize the administration of financial aid, including CalGrants, to the higher education segments. This reorganization is intended to eliminate duplicative handling of financial aid awards, to reduce administrative costs at the segment level, to eliminate duplicative overhead costs in state operations, and to create one-stop packaging of financial aid that will benefit students.
- $79.5 million estimated ongoing increase to replace the segments' shares of Lottery proceeds related to securitization of the Lottery pursuant to Chapter 764, Statutes of 2008 ($49.6 million for CSU, $29.8 million for UC and $170,000 for Hastings).

- $3.6 million increase to CSU to fund an additional cohort of 340 undergraduate nursing enrollments at full cost.
- $1.1 million increase to UC to fund an additional cohort of 50 undergraduate and 42 master's level nursing enrollments at full cost.
- $280,000 increase to the Chancellor's Office for CCC to address critical state operations workloads.

Other Funds

The major Non-General Fund workload adjustments are as follows:

- $300.7 million increase to reflect assumed fee increases of 9.3 percent for UC ($166.1 million), 10 percent for CSU ($130.4 million), and 13 percent for HCL ($4.2 million). Systemwide undergraduate fees are assumed to increase from $7,126 to $7,788 for UC and from $3,048 to $3,354 for CSU. These increases would apply to professional and graduate students at UC and CSU. Consistent with current policy, at least one-third of additional fee increase revenue would be set aside for institutional financial aid to preserve equitable access for low-income students. For HCL, enrollment fees will increase from $26,003 to $29,383. Fees for most professional schools at UC will increase by an average of about 12 percent ranging from 5 percent to 24 percent.

The major Non-General Fund policy adjustments are as follows:

- $167.5 million decrease to CCC local assistance for removal of Lottery revenue to reflect the shift to General Fund for the Lottery Securitization proposal in the budget year pursuant to Chapter 764, Statutes of 2008.
- $79.5 million total decrease for UC, CSU and HCL for removal of Lottery revenue to reflect the shift to General Fund for the Lottery Securitization proposal in the budget year.
- $132,000 increase in current year ($92,000) and in budget year ($40,000) from a federal grant for CCC state operations and local assistance activities to better coordinate math- and science-related professional development improvements.

K-12 Education-Non Proposition 98 Programs

General Fund expenditures for K-12 agencies, including the Department of Education (CDE), California State Library (CSL), Teacher Credentialing Commission (CTC), and others are proposed at approximately $1.2 billion in 2008-09 and $1.3 billion in 2009-10, reflecting an increase of $111.4 million, or 9.4 percent.

Non-General Fund expenditures are anticipated to decrease by $5 billion, or 19 percent.

All Proposition-98 related program expenditures for K-12 agencies are reflected in a separate Proposition 98 Section below. Also, General Obligation Bond and Lease-Revenue Debt Service associated with K-12 construction is addressed in a separate Infrastructure Section below.

General Fund

- The major General Fund workload adjustments are as follows:
- $108.6 million net increase to the State Teacher Retirement System (STRS) for additional K-12 employee costs, including $21.1 million for the Defined Benefits Program based on 2.017 percent of applicable payroll, $30.5 million for the STRS Supplemental Benefits Maintenance Account (SBMA) based on 2.5 percent of applicable payroll, and $57 million as the first interest payment on settlement of the SBMA lawsuit.
- $2.2 million increase to CDE for the purpose of funding the next phase of the California Longitudinal Teacher Integrated Data Education System (CALTIDES), the new teacher information database.
- $195,000 increase for growth in nutrition programs at private entities.
- $3.4 million net decrease to CSL for one-time costs for the Integrated Library System Replacement project (-$1.3 million) and for costs of relocation during renovation (-$2.0 million). The budget continues to provide ($81,000) and ($549,000), respectively, for these same programs.
- $1.7 million decrease to CDE to align High School Exit Examination legal defense costs with expected expenditures.

The major General Fund policy adjustments are as follows:

- $3.8 million increase to CDE to offset a reduction to the State Special Schools that was made possible by use of one-time federal funds in the current year.
- $500,000 increase to the State Board of Education (in CDE budget) for legal defense costs related to Federal Algebra I reporting requirements.

Other Funds

The major Non-General Fund workload adjustments are as follows:

- $3.9 billion current year increase in estimated expenditures of bond funds for the K-12 School Facilities Aid Program. This virtually exhausts balances in the 2002 and 2004 K-12 facilities bond funds; thereby resulting in a large decrease in 2009-10 by comparison.
- $10.7 million increase to CDE from federal Title VI funds for the next phase of the California Longitudinal Pupil Achievement Data System (CALPADS) implementation and development, which will establish a longitudinal student level database.
- $1.7 million increase to CDE from federal funds for extension of limited-term positions for the Child Nutrition Information and Payment (CNIPS) System.
- $1 million increase to CDE from reimbursement authority for local assistance, for a total of $4 million, pursuant to an interagency agreement with the CCC Chancellor's Office for the second year of the $12 million Green Partnership Academies program that was funded from the Public Interest Research, Development, and Demonstration Fund in legislation enacted to implement the budget in 2008. This funding provides three-year start-up funding for dozens of new academies throughout the state focused on clean energy and other technologies that improve the environment utilizing the statutory academy funding model.
- $736,000 increase to CDE from federal funds for the next phase of implementation of the Child Care Provider Accounting and Reporting Information System (PARIS).
- $568,000 net increase to CDE from federal funds to align the testing appropriation with anticipated contract costs and the one time availability of federal carryover funds.

- $474,000 increase to CDE from reimbursements for oversight of State Board of Education-authorized charter schools.
- $100,000 increase to CDE from reimbursements for the costs of California High School Proficiency Exam.
- $945,000 decrease to CDE from federal funds for elimination of the Compliance, Monitoring, Intervention, and Sanctions Program. These funds will be shifted to offset General Fund costs related to the next development phase of CALTIDES.

The major Non-General Fund policy adjustments are as follows:

- $891.6 million decrease to CDE local assistance for removal of Lottery revenue associated with the Lottery Securitization proposal. Under the proposal, this funding is shifted to General Fund in 2009-10.
- $1 billion increase to CDE local assistance ($618.7 million in current year and $398.5 million in budget year) to directly fund Home-to-School Transportation from the Public Transportation Account and Motor Vehicle Transportation Fund.
- $4 million increase to CDE local assistance from federal funds for the Fresh Fruit and Vegetable Program, which provides an additional free fresh fruit or vegetable snack to students during the school day.
- $1.2 million increase to CTC from the Teacher Credential Fund for the following state operations purposes: $248,000 for funding positions for the next phase of CALTIDES development, $413,000 for the Credential Web Interface Project, and $515,000 for revalidation of the Formative Assessment for California Teachers.
- $1.1 million increase to the Scholarshare Investment Board from the Scholarshare Administrative Fund to initiate a new outreach and public education program focused on young families and state employees that promotes systematic saving for college through the Golden State Scholarshare College Savings Trust Program.
- $172,000 increase in the current year and $193,000 in the budget year to CTC from federal funds for foreign language professional development.

Proposition 98

Total Proposition 98 expenditures are proposed to decrease from the $58.1 billion amount assumed for the enacted budget to the minimum required guarantee of $51.5 billion in 2008-09 reflecting a decrease of $6.6 billion, or 11.4 percent.

The budget also funds the minimum required guarantee in the budget year at $55.9 billion, reflecting an increase of $4.4 billion, or 8.5 percent, compared to the current year minimum level.

2008-09

The major General Fund workload adjustments for K-12 entities are as follows:

- An increase of $430 million to backfill significant reductions in school district and county office of education property tax revenues. In general, increases in local property tax revenues decrease the amount of state General Fund costs for revenue limit apportionments.

The major General Fund workload adjustments for Child Care are as follows:

- A decrease of $42 million to reflect expected savings in CalWORKs Stage 2 Child Care ($27 million) and CalWORKs Stage 3 ($15 million) caseload-driven programs based on revised estimates in November.

The major General Fund workload adjustments for Community Colleges are as follows:

- Although current year property tax revenue estimates are revised down by $4 million, increases in estimated current year fee revenue plus oil and mineral revenue will more than offset that amount; thus, no deficit in Apportionments should result.

The major General Fund policy adjustments for K-12 entities are as follows:

- The budget includes proposals to reduce the 2008-09 Proposition 98 Guarantee that do not directly reduce program spending in the current year. These include the multi-year deferral of $2.6 billion of school district revenue limit and K-3 Class Size Reduction program payments from April of the 2008-09 fiscal year to July of the 2009-10 fiscal year, the use of $1.1 billion in settle-up monies, owed in satisfaction of prior year Proposition 98 minimum guarantees which were underappropriated, for school district revenue limit costs and the use of $618.7 million of Public

Transportation Account and Mass Transportation Fund resources for the Home-to-School Transportation program.

- As a result of the proposals identified above to reduce the Proposition 98 Guarantee without reducing program spending, actual reductions proposed in 2008-09 are limited to the elimination of the $247.1 million cost of living adjustment included in the 2008 Budget Act and a further decrease of $1.6 billion to school district and county office of education revenue limits to bring Proposition 98 funding to the minimum guarantee for 2008-09.
- A decrease of $55.5 million in 2008 Budget Act appropriations to reflect anticipated savings in various programs including CDE's Economic Income Aid ($48.5 million), High Speed Network ($2 million), National Board Certification ($2 million), Certificated Staff Mentoring ($1 million), Pupil Retention Block Grant ($1 million), and CTC's Paraprofessional Teacher Training ($1 million).
- These proposals are accompanied by a comprehensive package of flexibility proposals intended to help schools minimize impacts to essential classroom instruction including:
  - Authorizing local education agencies (LEAs) to transfer any categorical allocations received to their general fund for any purpose, without dollar limitation. In order to utilize this flexibility, LEAs would be required to sunshine those decisions in public hearings.
  - Reducing required contributions into restricted routine maintenance accounts from 3 percent of an LEA's general fund expenditures to 1 percent in current and budget year.
  - Eliminating Deferred Maintenance Program matching requirements of one-half of one percent of revenue limit funding.
  - Reducing budget reserve requirements in half for at least the current and budget years.
  - Utilizing prior-year, restricted fund reserves, with certain limitations, for any purpose in the current year.

The major General Fund policy adjustments for Child Care are as follows:

- A decrease of $55 million to reflect a permanent reduction of anticipated savings for child care programs that show significant and recurring amounts of savings each

year, including General Child Care and Preschool, among others. No reduction in families served should result.

- Reappropriation of an additional $108 million of anticipated savings in prior-year child care programs to address shortfalls in the one-time sources used to partially fund CalWORKs Stage 2 and Stage 3 in the current year.

The major General Fund policy adjustments for Community Colleges are as follows:

- A decrease of $230 million to Apportionments to reflect an ongoing deferral of a portion of payments in January and February of the current fiscal year to July of the subsequent fiscal year. This deferral lowers the Proposition 98 guarantee in the current year, but does not reduce program spending.
- A decrease of $39.8 million to eliminate the partial 0.68-percent COLA authorized in legislation enacted to implement the budget in 2008.
- The proposals above are accompanied by significant categorical spending flexibility, similar to that described for K-12 entities, by authorizing college districts to transfer any categorical allocations received to their general fund, without dollar limitation, in order to maximize course offerings aligned with the system's highest priorities for transfer, basic skills and career preparation. In order to utilize this flexibility, districts would be required to sunshine those decisions in public hearings.

2009-10

The major General Fund workload adjustments for K-12 entities are as follows:

- An increase of $268.2 million to backfill significant reductions in property tax revenues. In general, increases in local property tax revenues decrease the amount of state General Fund costs for revenue limit apportionments.
- An increase of $83.2 million for growth for the following programs: Adult Education ($19.3 million), Child Nutrition ($8.4 million), Charter School Categorical Block Grant ($42.6 million), K-3 Class Size Reduction ($9.1 million), and Teacher Credentialing Block Grant ($3.8 million).
- An increase of $35.5 million to reflect increased Deferred Maintenance program allocations.

- A decrease of $152.7 million to school district and county office of education revenue limits due to a decline in average daily attendance and other miscellaneous adjustments.
- A decrease of $4.5 million to align the testing appropriation with anticipated contract costs and one time availability of federal carryover funds.

The major General Fund workload adjustments for Child Care are as follows:

- An increase of $287.5 million to backfill one-time sources used to fund the current year and to adjust for revised estimates in the caseload-driven CalWORKs Stage 2 and 3 programs, which are estimated to decrease by $35.7 million and $1.4 million, respectively, compared to revised current year costs.
- An increase of $18.9 million for 1.23-percent statutory growth based on the age 4 and under population change.

The major General Fund workload adjustments for Community Colleges are as follows:

- An increase of $185.4 million for 3-percent growth in apportionments and categorical programs. The apportionment growth amount is estimated to fund approximately 36,000 FTES.
- A net decrease of $24 million for other baseline adjustments including estimated increases in local property taxes ($6.1 million), fee revenue ($17.6 million) and oil and mineral revenues ($1.2 million) which offset General Fund plus an increase in amounts necessary to compensate colleges for administration of fee waivers ($934,000).
- A decrease of $1.3 million in estimated lease purchase payments.

The major General Fund policy adjustments for K-12 entities are as follows:

- A cost avoidance of $2.5 billion for statutory and discretionary cost of living adjustments for K-12 education programs.
- A decrease of $1.5 billion to school district and county office of education revenue limits to bring Proposition 98 funding to the minimum guarantee for 2009-10.
- A decrease of $1.1 billion commensurate with allowing school districts to reduce the school year by five days.

- A decrease of $398.5 million to reflect the use of an identical amount of Public Transportation Account and Mass Transportation Fund resources for the Home-to-School Transportation program. The total funded amount for this program in 2008-09 is $618.7 million from all sources, including $220.2 million Proposition 98 General Fund.
- Cost avoidance of $150 million due to prepayment of Proposition 98 settle-up funding owed to schools. This funding was scheduled to be provided to schools to reimburse them for outstanding mandate claims in 2009-10.
- A decrease of $114.2 million to eliminate the High Priority Schools Grant Program.
- An additional decrease of $1 million for the National Board Certification Incentive Program to suspend new teacher participants from entering the program.
- An increase of $891.6 million to replace the allocation of State Lottery revenues to school districts and county offices of education with Proposition 98 General Fund pursuant to Chapter 764, Statutes of 2008.
- An increase of $65 million to fund Special Education Behavior Intervention plans.
- A net increase of $13.4 million for K-12 mandates. As a result of a lawsuit that requires all education mandates be paid or suspended, the Administration proposes to suspend all education mandates with the exception of the following mandates which will be fully funded:
    - An increase of $6.3 million for mandated costs related to interdistrict and intradistrict transfers.
    - An increase of $7.1 million for mandated costs related to the California High School Exit Exam.
- An increase of $5.1 million to replace one-time federal funding included in the 2008 Budget Act to fund State Special School instructional costs.
- Continuation of the comprehensive flexibilities described for 2008-09.
- In recognition of the current fiscal constraints that schools face and to assist them absorb the reductions in state aid that are necessary due to the current economic downturn, the Administration also proposes to allow schools complete and permanent flexibility with respect to categorical funding. This will allow schools and districts flexibility to use education funds on the basis of their

individual needs. Categorical funds often fall short in providing the targeted assistance needed to significantly improve achievement, particularly with respect to low achieving students. Under current law and practice schools and school districts often are forced to focus on how they spend their funds, instead of improving student achievement. While many funding streams offer latitude to use funds in different ways, more local discretion is needed to provide support services and additional instruction to those students most in need.

The major General Fund policy adjustments for Child Care are as follows:

- A cost avoidance of $79.5 million for the 5.02-percent COLA, consistent with all other Proposition 98 programs.
- A decrease of $38.7 million to reflect a policy proposal to reduce reimbursement rate limits in voucher-based programs from the 85th percentile of the market to the 75th percentile, based on the 2007 regional market rate survey, effective July 1, 2009. Although this proposal affects all voucher programs, including the Alternative Payment Program, the savings are only scored in the caseload-driven CalWORKs Stage 2 ($20.3 million) and Stage 3 ($18.4 million) programs.
- A decrease of $14.4 million to reflect a revised family fee schedule. The revised fee schedule retains a flat fee per family, begins at income levels where families currently begin paying fees, increases fees by $2 per day at the low end, and increases fees thereafter on a sliding scale up to 10 percent of income which occurs at a lower point in the income eligibility spectrum when compared to the current schedule. Although this proposal would apply to all means-tested child care programs, the savings are only scored in the caseload driven CalWORKs Stage 2 ($5.8 million) and Stage 3 ($8.6 million) programs. This proposal would not reduce the number of families served because fee revenue augments provider contract amounts.

The major General Fund policy adjustments for Community Colleges are as follows:

- A cost avoidance of $322.9 million for the budget year 5.02-percent COLA, consistent with all other Proposition 98 programs.
- A decrease of $4 million by suspending all community college reimbursable state mandates, consistent with the proposal for K-12 mandates.
- An increase of $167.5 million to replace the allocation of State Lottery revenues to community college districts with Proposition 98 General Fund pursuant to Chapter 764, Statutes of 2008.

- Continuation of the categorical flexibility described for 2008-09.
- The Administration will sponsor legislation that will reduce or eliminate the annual uncertainty districts face with regard to property tax revenue which currently funds a substantial portion of the colleges' general purpose revenue.

Labor and Workforce Development

General Fund expenditures are proposed to increase by $2.5 million, or 2.5 percent.

The major General Fund workload adjustments are as follows:

- Automated Collection Enhancement System—A net increase of $6.6 million for continuation of the Employment Development Department's Automated Collection Enhancement System (ACES).

The major General Fund policy adjustments are as follows:

- Division of Labor Standards Enforcement Fund Shift—A reduction of $2.5 million General Fund to be replaced with $2.5 million from the Uninsured Employers Benefits Trust Fund (UEF). Activities within the Department of Industrial Relations include identification and enforcement of uninsured employers which are appropriately funded by UEF.

Non-General Fund expenditures are proposed to decrease by $1.7 billion, or 10.1 percent from the revised 2008-09 Budget.

The major Non-General Fund workload adjustments are as follows:

- Employment Development Department October Benefit Estimate—The October Revise reflects Unemployment Insurance and Disability Insurance benefit payment increases of $3.1 billion in the current year and $1.5 billion in the budget year when compared to the May 2008 estimate.

The major Non-General Fund policy adjustments are as follows:

- Employment Training Panel—An increase of $20 million Employment Training Fund to provide additional training funds to California employers to reduce unemployment.

General Government: Non-Agency Departments

General Fund expenditures are proposed to increase by $171 million, or 45.1 percent.

The major General Fund workload adjustments are as follows:

- Veterans Homes Activation—An increase of $18.5 million and 172.5 positions for continued activation of the veterans homes in West Los Angeles, Lancaster, and Ventura. By the end of the 2009-10 fiscal year these homes will provide residential care, skilled nursing, memory care and adult day health care to more than 100 veterans. When fully operational, these homes will serve approximately 500 veterans.
- Mandates Payments—An increase of $222 million for state reimbursable mandates, consisting of $131 million for current mandates and $91 million for the 2009-10 payment of the mandates obligation for costs incurred prior to 2004-05.

The major General Fund policy adjustments are as follows:

- Education Benefit Program—An increase of $1.8 million for the Military Department to establish an education benefit program for members of the California National Guard, to improve retention of Guard members and their respective skill sets, thereby providing a more experienced, effective reserve force. Fifty-one other states and territories offer some sort of education benefit program, which has proven to be an effective recruitment and retention tool for National Guard membership.
- Service Member Care—An increase of $1 million for the Military Department to support the mental health readiness needs of California National Guard service members by providing mental health prevention services, training, intervention, and reintegration assistance during pre- and post-mobilization activities. These resources will also enhance mission readiness, mitigate risk of injury or death, and ensure our commitment to the well-being and fitness of service members.
- Veterans Homes Resident Fees—An increase of $2.8 million (from $17.2 million to $20 million) in fees collected from the residents of the Veterans Homes. Currently residents pay fees based on a percentage of their income, up to a dollar cap, with the percentage and cap increasing as the level of care increases. This proposal would increase resident fees by removing the dollar caps, increasing the percentage for the Residential Care for the Elderly (RCFE), and revising the fee structure for non-veteran spouses to more accurately reflect their share of costs.

- Mandates Deferral—A one-time decrease of $91 million by deferring the 2009-10 payment of the mandates obligation for costs incurred prior to 2004-05 which are statutorily required to be completely paid by 2020-21. The balance will be refinanced over the remaining payment period.

Non-General Fund expenditures are proposed to increase by $167.7 million, or 4.0 percent.

The major Non-General Fund policy adjustments are as follows:

- Emergency Response Initiative—An increase of $2.2 million Emergency Response Fund in 2009-10 to purchase airborne fire suppression systems as part of the enhanced emergency response capability proposed in the Emergency Response Initiative. These new systems will enhance the Military Department's ability to fight wildland fires by providing more accurate water dropping dispersion and increased efficiency in existing helicopters.
- CARE Program—An increase of $129.6 million Gas Consumption Surcharge Fund to programs for low-income utility customers. The programs are operated by investor-owned utilities (IOUs) and are funded by natural gas surcharges on utility ratepayers. The funding supports weatherization and other programs for low income residents. The IOUs remit surcharges to the State Board of Equalization quarterly, which are in turn deposited into the Gas Consumption Surcharge Fund with the State Treasurer. These monies are continuously appropriated to the Public Utilities Commission (PUC), which reimburses utilities for their costs.
- California Advanced Services Program—An increase of $25 million for the PUC to implement the California Advanced Services program pursuant to Chapter 393, Statutes of 2008. The program will encourage the deployment of broadband infrastructure in unserved and underserved areas in California.
- Rail Safety and Security Information Management System—An increase of $1.4 million in various special funds, and one position, to develop the Rail Safety and Security Information Management System. The PUC will develop an integrated work and records management system that will be utilized to address rail safety and security. The system will integrate the PUC's three out dated databases as well as various other electronic and non-electronic media.
- Renewable Portfolio Standard—An increase of $322,000 Public Utilities Commission Utilities Reimbursement Account and three positions to implement a 33-percent

Renewable Portfolio Standard (RPS) by 2020. The requested positions will work to ensure that transmission infrastructure is permitted and constructed on an accelerated basis in order to achieve the RPS goal.

General Government: Tax Relief and Local Government

The budget proposes to reduce General Fund expenditures in 2008-09 by $316.2 million, or 41 percent from the baseline level. Expenditures are proposed to decrease by $184.3 million, or 28.5 percent from 2008-09 to 2009-10.

The major General Fund policy adjustments are as follows:

- The creation of a new Local Safety and Protection Account beginning in 2008-09 to serve as a stable, ongoing funding source for the Citizens Option for Public Safety/ Juvenile Justice Crime Prevention Act (COPS/JJ) program, Juvenile Probation grants, and the Booking Fees program. Funding for the Account will come from vehicle license fee revenue formerly used to support the Department of Motor Vehicles (discussed in Business, Transportation and Housing).
    - In 2008-09 the COPS/JJ program will be funded with $53.8 million from the Local Safety and Protection Account. This will increase to $191.6 million in 2009-10. Of the amount provided for the COPS/JJ program, 50 percent for countywide juvenile crime prevention initiatives, 39.7 percent is for front-line law enforcement activities, 5.15 percent is for county jail operation, and 5.15 percent is for district attorneys. Funds are apportioned on a population basis, with each police department and sheriff's department guaranteed at least $100,000.
    - Juvenile Probation grants are funded at $38.2 million in 2008-09, and $135.9 million in 2009-10. The Juvenile Probation program supports a broad spectrum of local juvenile probation activities statewide.
    - The Booking Fees program will be funded at $31.5 million in 2009-10. The program provides payments to county sheriffs departments that eliminate the need for them to charge booking fees to other law enforcement agencies that book arrestees into county jails.
    - Overall expenditures for these programs will be reduced by $60.6 million in 2008-09 and $38.5 million in 2009-10. This preserves 90 percent of the funding for these programs in 2009-10.

- A decrease of $18.5 million by eliminating state funding for the Small/Rural Sheriffs program. The program provides $500,000 grants to 37 specified smaller county sheriffs departments. The funds were used for discretionary law enforcement purposes.
- A decrease of $34.7 million for the Williamson Act in both 2008-09 and 2009-10. This represents elimination of reimbursements to local governments that defray the property tax revenues lost due to contracts with landowners who agree to only use of their land for agricultural or open space purposes in exchange for reduced property taxes.
- A decrease of $32 million by suspending new property tax deferrals under the Senior Citizen's Property Tax Deferral program beginning February 1, 2009. Savings of $6.5 million are estimated for 2008-09. Year over year expenditures are reduced by $25.5 million. Under specified conditions, this program pays the property tax for eligible senior and blind/disabled citizens. The state is repaid after the recipient relinquishes ownership through death or sale of the property.

General Government: Statewide Expenditures

The major General Fund workload adjustments are as follows:

- An increase of $95.7 million to restart state employer contributions to the University of California Retirement System.

The major General Fund policy adjustments are as follows:

- A decrease of $6.143 billion in 2009-10 to reflect expenditure offsets provided by the securitization of future lottery revenues, including $5.0 billion in bond proceeds and $1.143 billion in lottery revenues. A corresponding increase of $6.143 billion from the Debt Retirement Fund is proposed to reflect the above General Fund offset.
- A decrease of $4.7 billion in 2008-09 to reflect expenditure offsets provided by the issuance of Revenue Anticipation Warrants in 2009-10 for costs incurred in 2008-09.
- A decrease of $414.6 million in state employee compensation costs in 2008-09 resulting from: two days furlough per month beginning February 1, 2009 ($375.8 million); elimination of two state holidays and premium pay for hours worked on holidays ($26.3 million); and computation of overtime pay based on actual time worked ($12.5 million).

- A decrease of $1.006 billion in state employee compensation costs in 2009-10 resulting from: two days furlough per month (one-time, $901.8 million); elimination of two state holidays and premium pay for hours worked on holidays ($74.5 million); and the computation of overtime pay based on actual time worked ($30 million).
- A decrease of $150 million through layoff of current state employees as well as efficiencies and other savings.
- A decrease of $132.2 million in health care costs beginning in January 2010 by contracting for lower cost health care coverage directly from an insurer rather than through CalPERS. Savings beginning in 2010-11 will prefund Other Post-Employment Benefit costs.
- A decrease of $75.7 million to restart state employer contributions to the University of California Retirement System at $20 million.

The major Non-General Fund policy adjustments are as follows:

- A decrease of $283.1 million from various special funds in state employee compensation costs in 2008-09 resulting from: two days furlough per month beginning February 1, 2009 ($282.4 million); and elimination of two state holidays and premium pay for hours worked on holidays ($0.8 million).
- A decrease of $679.9 million from various special funds in state employee compensation costs in 2009-10 resulting from: two days furlough (one-time, $677.8 million); and elimination of two state holidays and premium pay for hours worked on holidays ($2.1 million).
- A decrease of $47.9 million from various special funds in health care costs by contracting for lower cost health care coverage directly from an insurer rather than through CalPERS. Savings beginning in 2010-11 will prefund Other Post-Employment Benefit costs.

Debt Service

General Fund expenditures for debt service will increase by $1.410 billion, or 30.9 percent, due to the projected sale of bonds to pay for infrastructure projects, the complete erosion of debt service offsets provided from the Transportation Debt Service Fund (Spillover), and higher short-term borrowing costs (RANs/RAWs).

The major General Fund workload adjustments are as follows:

- An increase of $1.219 billion in General Obligation bond debt service to reflect increased sales and reduced transportation bond debt service offsets.
- An increase of $82 million in lease revenue bond debt service to reflect recent bond sales.
- An increase of $106 million in short-term borrowing costs (RANs/RAWS) due to insufficient internal cash flow resources.

Infrastructure

General Fund expenditures are proposed to increase by $129 million, or 59.5 percent, which includes carryover funding from the current year to the budget year. Infrastructure budgets are zero-based, whereby funding requirements are determined each year. The budget proposes a total of $345 million for critical projects that are essential to protect the state's citizens and employees' health and safety.

This page intentionally blank to facilitate double-sided printing.

Economic Outlook

Falling home prices, worsening credit availability, shrinking equity values, and growing job losses delivered a crushing blow to the national and California economies in 2008. Consumer and business spending—the core of both economies—plunged during the year. Looking back, the committee of economists that officially dates the troughs and peaks of the national economy decided in late 2008 that the US was in recession and has been since December 2007. While there is no official dating of business cycles for states, it is unlikely that the California economy fared better than the national economy in this difficult environment.

Despite several efforts by the U.S. Treasury, the Federal Reserve, Congress, and the White House to stimulate the national economy and free up credit in 2008, credit appeared to be less available and economic output fell as 2008 unwound. Much more will have to be done in the first half of 2009 to stimulate the economy and free up credit. Economic output will likely fall in 2009 for the first time since 1991.

The outlook for the national economy is for negative growth in 2009, weak growth in 2010, and good growth in 2011:

- Real GDP is projected to fall 1.1 percent in 2009, and grow 1.7 percent in 2010 and 2.9 percent in 2011, as compared to the 1.3-percent growth in 2008.
- Nonfarm payroll employment is forecast to fall by 1.5 percent in 2009, and grow 0.1 percent in 2010 and 1.3 percent in 2011, as compared to a decline of 0.1 percent in 2008.

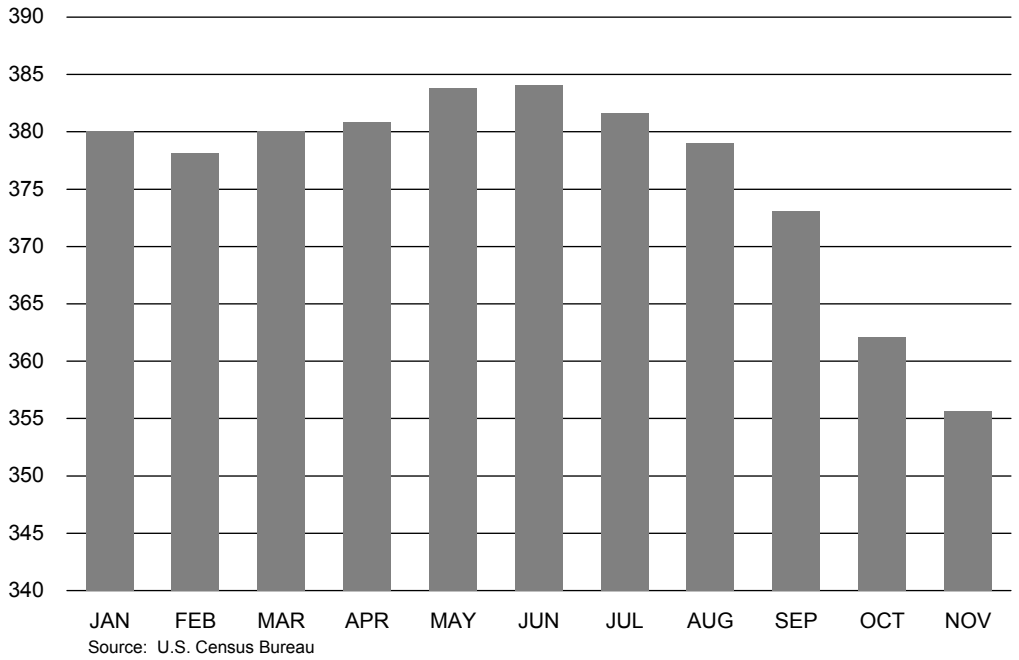
The outlook for the California economy is also for negative growth in 2009 followed by weak growth in 2010, and better growth in 2011:

- Personal income is projected to grow 2 percent in 2009, 2.1 percent in 2010, and 4.6 percent in 2011, as compared to 3.7 percent in 2008.
- Nonfarm payroll employment is forecast to fall by 1.6 percent in 2009 and 0.5 percent in 2010, and grow 1.4 percent in 2011, as compared to a 0.6-percent decline in 2008.

The Nation—In a Worsening Recession

What started as a housing sector slump in 2005 turned into a generalized economic slump in 2008. Most major industry sectors were affected by year-end, most notably retail trade and manufacturing. Consumers pulled back considerably in the second half of 2008, as evidenced by a string of five consecutive monthly declines in retail sales as of November (Figure ECO-01). Total consumer expenditures, adjusted for inflation, fell for the fifth consecutive month in October.

Figure ECO-01
U.S. Total Retail Sales, 2008
$Billions, Seasonally Adjusted



Source: U.S. Census Bureau

With consumers cutting back, companies have reduced their spending on new equipment and structures. Shipments of and orders for non-defense capital goods, excluding aircraft, plunged in the three months ending in October 2008. In addition, the Institute for Supply Management's manufacturing index fell in November to its lowest level since May 1982—a level that is consistent with recessions in the manufacturing sector and the general economy.

In the meantime, the nation's housing sector continued to struggle. Housing starts fell in November to their lowest level since records began to be kept in 1959. New home sales remained very low and mortgages difficult to get. Residential construction continues to be a sizable drag on overall growth in the national economy.

The continuing problems in the housing sector, cooling of the manufacturing sector and, particularly, the cutback in spending by consumers have slowed the national economy considerably. The economy has been in recession for 12 months, and should it remain there for another five months it would be the longest recession in the post-World War II era. Economic output fell slightly in the fourth quarter of 2007 and the third quarter of 2008, but the monthly data on the fourth quarter of 2008 suggest that economic output fell sharply in the fourth quarter.

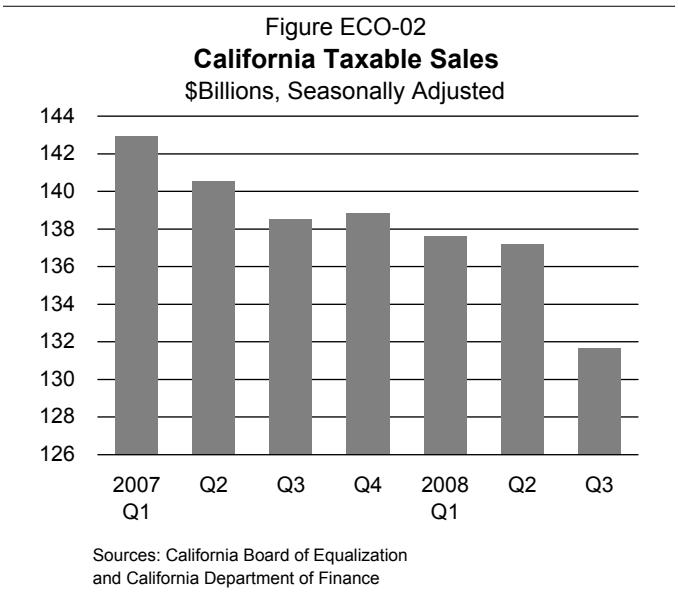
Data from the labor markets also portray a worsening recession. Nonfarm payroll employment peaked in December 2007 and has declined every month since then. In addition, nonfarm payroll employment was 0.8 percent higher in December 2007 than a year earlier, while in November 2008, nonfarm payroll employment was 1.4 percent below a year earlier. Also, the national unemployment rate rose from 5 percent in December 2007 to 6.7 percent in November 2008.

California—Facing a Similar Challenge

The California economy decelerated in step with the national economy during 2008. According to the U.S. Commerce Department, total personal income grew more slowly in the second half than in the first half of 2008. The deceleration in taxable sales has been even faster, with third quarter 2008 sales 4 percent lower than second quarter sales (Figure ECO-02). Deceleration in new vehicle registrations started earlier—in 2007.

The state's monthly job losses have grown as 2008 has progressed. Through November, California lost 147,400 jobs, or 13,400 jobs per month. But in the first five months of the year, the average monthly loss was 5,200 jobs, whereas in the next six months, the average loss was 20,300. The state's unemployment rate rose from 5.9 percent

in January to 8.4 percent in November.



The state's housing sector, however, does not show many signs of additional slowing. In part, that is because the downturn started there. Residential permits, for example, have stabilized at low levels, and monthly construction job losses have become smaller. Sales of existing homes have picked up considerably, but distressed properties are accounting for a good number of those sales. Still, sales of non-distressed existing homes will likely be higher in 2008 than in 2007.

Private-sector nonresidential building is slowing and will be down considerably from 2007. The value of permits fell every month from July to November.

The Forecast

The California and national economies will enter 2009 with very little, if any, momentum. As a result, the two economies are likely to be very weak in the first half of the year. How long it will be before the economies will be healthy again is difficult to gauge. The economies are not likely to improve much until credit becomes much more available (Figure ECO-03).

Demographic Information

Population Overview

Current administrative records, which are the indicators used in the population estimates methodology, do not show sharp effects on the state's migration or birth rate patterns due to the recent economic downturn. Thus the projections used for the budget do not reflect any that may occur in the future.

Figure ECO-03

Selected Economic Data for 2008, 2009, and 2010

United States	2008 (Est.)	2009 (Projected)	2010 (Projected)
Real gross domestic product (2000 CW* $, percent change)	1.3	(1.1)	1.7
Personal consumption expenditures	0.4	0.1	1.8
Gross private domestic investment	(6.1)	(15.6)	10.7
Government purchases of goods and services	2.6	0.3	(0.3)
GDP deflator (2000=100, percent change)	2.4	1.8	1.3
GDP (current dollar, percent change)	3.7	0.8	3.1
Federal funds rate (percent)	2.04	0.50	1.20
Personal income (percent change)	4.2	2.1	2.4
Corporate profits before taxes (percent change)	(13.9)	2.5	10.1
Nonfarm wage and salary employment (millions)	137.5	135.4	135.6
(percent change)	(0.1)	(1.5)	0.1
Unemployment rate (percent)	5.7	7.7	8.2
Housing starts (millions)	0.93	0.71	1.08
(percent change)	(30.9)	(23.8)	52.8
New car sales (millions)	6.8	6.8	7.5
(percent change)	(10.2)	(1.0)	10.6
Consumer price index (1982-84=100)	216.0	218.2	222.3
(percent change)	4.2	1.0	1.9
California			
Civilian labor force (thousands)	18,415.2	18,570.4	18,783.1
(percent change)	1.2	0.8	1.1
Civilian employment (thousands)	17,115.2	16,876.7	17,010.0
(percent change)	(0.5)	(1.4)	0.8
Unemployment (thousands)	1,299.9	1,693.7	1,773.1
(percent change)	32.8	30.3	4.7
Unemployment rate (percent)	7.1	9.1	9.4
Nonfarm wage and salary employment (thousands)	15,093.3	14,859.1	14,791.3
(percent change)	(0.6)	(1.6)	(0.5)
Personal income (billions)	1,576.8	1,608.7	1,642.9
(percent change)	3.7	2.0	2.1
Housing units authorized (thousands)	65.3	56.9	80.9
(percent change)	(41.9)	(12.9)	42.2
Corporate profits before taxes (billions)	169.1	164.5	179.9
(percent change)	(6.8)	(2.8)	9.3
New auto registrations (thousands)	1,422.3	1,513.4	1,521.0
(percent change)	(8.4)	6.4	0.5
Total taxable sales (billions)	535.0	503.0	521.4
(percent change)	(4.5)	(6.0)	3.7
Consumer price index (1982-84=100)	225.6	229.2	234.6
(percent change)	3.8	1.6	2.3

* CW: Chain Weighted

Note: Percentage changes calculated from unrounded data.

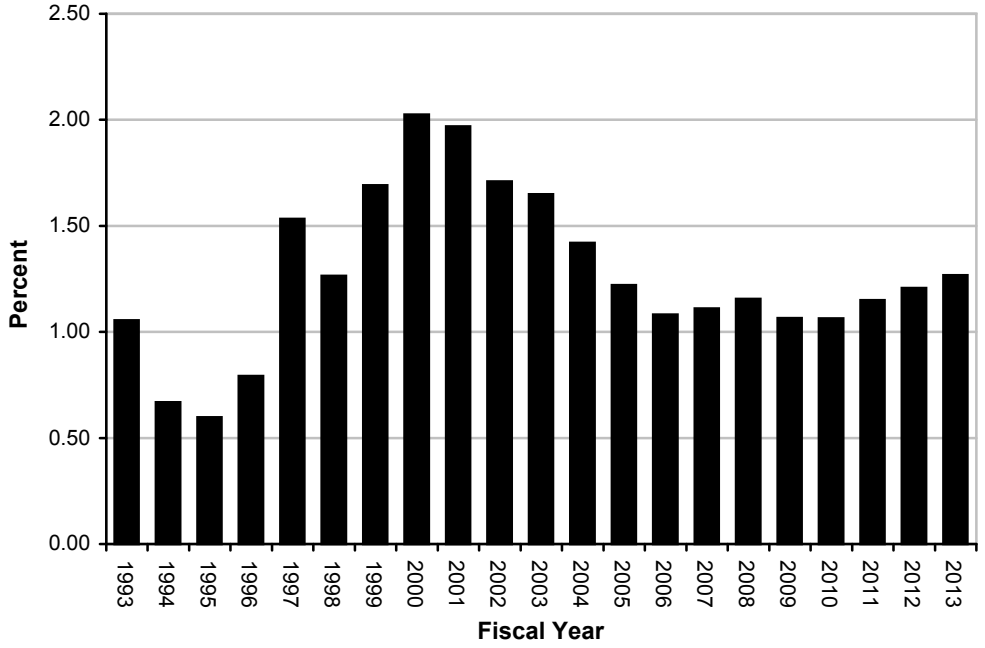
With more than 38 million people as of mid-2008, California's population continues to grow. Despite a slowdown in the mid-1990s, the state has grown in excess of 1 percent per year since 1997.

- The July 1, 2008, estimate of the population is 38,148,000.
- It is forecast to be 38,555,000 in 2009 and 38,965,000 in 2010. This reflects a short-term annual growth rate of almost 1.1 percent.

Through the next five years, the state will grow by an average of 449,000 people each year. Natural increase (more children being born than people dying) will account for three times as much growth (76 percent vs. 24 percent) as net migration (people moving to California from other states and other countries, less those moving out). By July 2013, California will add more than 2.2 million people to exceed 40 million, a five-year growth rate of 5.9 percent (Figure ECO-04).

Figure ECO-4

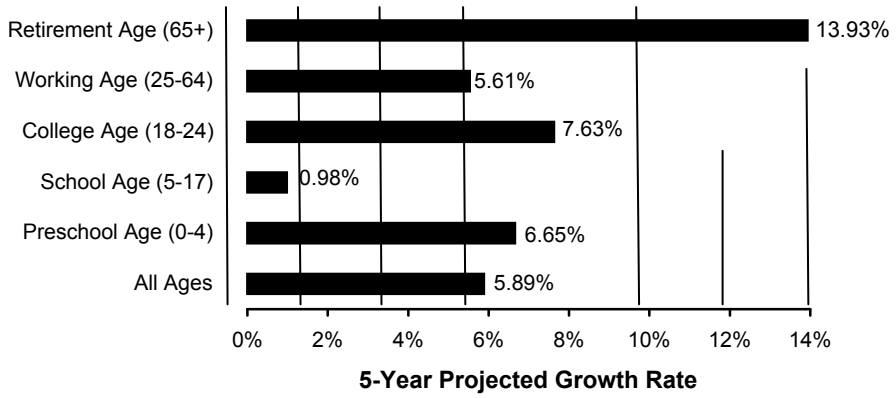
California's Annual Population Growth Rate



- Population growth rates vary significantly by age group. The state's projected total five-year population growth of 5.9 percent is lower than the 6.7-percent growth in

the preschool age group. By far, the slowest growing age group over the next five years is the school-age group with a growth rate of 1 percent. On the other hand, the college-age group will grow 7.6 percent. The working age population will grow by 1.1 million, or 5.6 percent and retirement-age group will soar nearly 14 percent (Figure ECO-05).

Figure ECO-05
Projected California Population Growth Rate by Age Group (2007-2012)



- In fall 2007, K-12 public school enrollment was a little less than 6.3 million students. Starting in 2003 and continuing through 2012, school enrollment growth will be slower than that of the general population because the number of births in the state declined in the 1990s. However, it should be noted that births increased again in 2007 for the sixth year in a row.
- Beginning in 2003 and continuing in 2004, K-12 public school enrollment growth was below 1 percent. Prior to these years, enrollment growth had not been less than 1 percent since 1983. School enrollment growth rates turned negative in 2005 and are expected to continue to decline through 2010, at which point they are expected to turn positive. There was a slight jump in school enrollment in fall 2006, but this was due to a change in reporting rather than an actual increase in school enrollment.

This page intentionally blank to facilitate double-sided printing.

Revenue Estimates

The revenue estimates reflect the broad-based decline in the global, national and state economies, which became undeniably apparent in late October 2008. Key factors negatively affecting California's revenue collections include the distressed stock markets, as well as the on-going credit crunch, and continued fall-out from the depressed housing market. As a result, corporate profits, individual income, and consumer spending have all contracted.

Baseline revenues in 2008-09 are now expected to total $87.5 billion–$3.9 billion below the 2008-09 November Special Session forecast and $14.5 billion below the estimate at the time the 2008 Budget was enacted in late September. For 2009-10, baseline revenues are expected to decline further to $86.3 billion, a 1.4-percent decrease from 2008-09. With the Administration's revenue proposals for addressing the budget shortfall, revenues are estimated to be $91.1 billion in the current year and $97.7 billion in budget year.

Figure REV-01 displays the forecast changes between the 2008 Budget Act and the Governor's Budget. The Governor's Budget forecast was prepared in early December, before individuals and corporations made final withholding and estimated payments for the 2008 tax year, and before consumers completed their December purchases. These critical December and January receipts can have a large impact on state revenues. This forecast will be revised in early May when these data and April income tax receipts are available.

Major Revenue Proposals

- Temporary 1.5-cent increase in the Sales and Use Tax rate.
- Broaden the Sales and Use Tax base to include certain services.
- Increase the Beverage excise tax by a per gallon surtax equivalent to a "nickel-per-drink."
- Adopt a 9.9-percent Oil Severance Tax.
- Reduce the personal income tax dependent exemption credit to equal the personal exemption credit.
- Increase the vehicle registration fees. (See "Special Fund Revenue" section below)
- Shift Tribal Revenues from Transportation to General Fund
- Transfer and borrow balances from special funds

The state's tax system is outlined in Figure REV-02.

Major Revenue Proposals

The following tax law changes are proposed, including those proposed by the Governor for the 2008-09 November and December Special Sessions:

Temporary Sales Tax Increase: Effective March 1, 2009, the General Fund Sales and Use tax rate would be temporarily increased by 1.5 cents, from 5.0 percent to 6.5 percent. The proposed tax rate increase would be in effect through December, 2011. On January 1, 2012, the General Fund Sales and Use tax rate would return to 5 percent. This proposal is expected to generate additional sales tax revenues of $2.35 billion in 2008-09 and $7.114 billion in 2009-10 for the General Fund. These amounts include $356 million that will be transferred under Proposition 42 to the Transportation Investment Fund in 2009-10.

Broaden the Sales and Use Tax to Include Certain Services: Effective March 1, 2009, the sales and use tax would be extended to appliance and furniture repair, vehicle repair, and veterinarian services. Effective April 1, 2009, the sales and use tax rate would be

Figure REV-01

2009-10 Governor's Budget
General Fund Revenue Forecast
Summary Table
Reconciliation with the 2008-09 Budget Act
(Dollars in Millions)

Source	Budget Act	Governor's Budget				
		Baseline	Change From Budget Act	Proposed	Change From Budget Act	
Fiscal 07-08						
Personal Income Tax	$54,380	$54,234	-$146	$54,234	-$146	-0.3%
Sales & Use Tax	26,813	26,613	-200	26,613	-200	-0.7%
Corporation Tax	11,926	11,849	-77	11,849	-77	-0.6%
Insurance Tax	2,171	2,173	2	2,173	2	0.1%
Alcoholic Beverage	334	327	-7	327	-7	-2.1%
Cigarette	114	110	-4	110	-4	-3.5%
Other Revenues	6,077	6,031	-46	6,031	-46	-0.8%
Transfers	1,212	1,237	25	1,237	25	2.1%
Total	**$103,027**	**$102,574**	**-$453**	**$102,574**	**-$453**	**-0.4%**
Fiscal 08-09						
Personal Income Tax	$55,721	$46,807	-$8,914	$46,807	-$8,914	-16.0%
Sales & Use Tax	27,111	25,154	-1,957	27,778	667	2.5%
Corporation Tax	13,073	10,197	-2,876	10,197	-2,876	-22.0%
Insurance Tax	2,029	1,831	-198	1,831	-198	-9.8%
Alcoholic Beverage	341	326	-15	599	258	75.7%
Cigarette	114	113	-1	113	-1	-0.9%
Oil Severance Tax	N/A	0	NA	358	358	N/A
Other Revenues	2,787	2,229	-558	2,323	-464	-16.6%
Transfers	816	819	3	1,111	295	36.2%
Total	**$101,992**	**$87,476**	**-$14,516**	**$91,117**	**-$10,875**	**-10.7%**
Change from Fiscal 07-08	-$1,035	-$15,098		-$11,457		
% Change from Fiscal 07-08	-1.0%	-14.7%		-11.2%		
Fiscal 09-10						
Personal Income Tax	$55,863	$46,493	-$9,370	$47,942	-$7,921	-14.2%
Sales & Use Tax	29,248	25,515	-3,733	33,793	4,545	15.5%
Corporation Tax	11,982	10,441	-1,541	10,445	-1,537	-12.8%
Insurance Tax	2,135	1,798	-337	1,798	-337	-15.8%
Alcoholic Beverage	348	331	-17	955	607	174.4%
Cigarette	112	111	-1	111	-1	-0.9%
Oil Severance Tax	N/A	0	NA	855	855	N/A
Other Revenues	2,906	1,573	-1,333	1,677	-1,229	-42.3%
Transfers	15	33	18	132	117	780.0%
Total	**$102,609**	**$86,295**	**-$16,314**	**$97,708**	**-$4,901**	**-4.8%**
Change from Fiscal 08-09	$617	-$1,181		$6,591		
% Change from Fiscal 08-09	0.6%	-1.4%		7.2%		
Three-Year Total			**-$31,283**		**-$16,229**	

Figure REV-02
Outline of State Tax System as of January 1, 2009

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	$0.20	Equalization	General
Distilled Spirits	Gallon	$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	$0.20	Equalization	General
Sparkling Wine	Gallon	$0.30	Equalization	General
Hard Cider	Gallon	$0.20	Equalization	General
Corporation:				
General Corporation	Net income	8.84% [1]	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65% [1]	Franchise	General
Tobacco:				
Cigarette	Package	$0.87 [2]	Equalization	See below[2]
Other Tobacco Products	Wholesale price	45.13% [3]	Equalization	See below[3]
Energy Resources Surcharge	Kilowatt hours	$0.0002	Equalization	Energy Resources Surcharge Fund
Horse Racing License	Amount wagered	0.4-2.0%	Horse Racing Bd.	See below[4]
Estate	Taxable Fed. Estate	0% [6]	State Controller	General
Insurance	Gross Premiums	2.35% [7]	Insurance Dept.	General
Liquor License Fees	Type of license	Various	Alc. Bev. Control	General
Motor Vehicle:				
Vehicle License Fees (VLF)	Market value	0.65% [8]	DMV	Motor VLF, Local Revenue[9]
Fuel—Gasoline	Gallon	$0.18	Equalization	Motor Vehicle Fuel[10]
Fuel—Diesel	Gallon	$0.18	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	$56.00	DMV	Motor Vehicle[11]
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway[12]
Personal Income	Taxable income	1.0-9.3%	Franchise	General
Proposition 63 Surcharge	Taxable income > $1 million	1.0%	Franchise	Mental Health Services
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
Private Railroad Car	Valuation	[13]	Equalization	General
Retail Sales and Use	Sales or lease of taxable item	5.75% [14]	Equalization	See below[14]

[1] Min. tax $800 per year for existing corporations. New corporations are exempt from the min. tax for the first two years
[2] This tax is levied at the combined rate of 10 cents/pack of 20 cigarettes for the General Fund, 25 cents/pack for the Cigarette and Tobacco Products Surtax Fund, 2 cents/pack for the Breast Cancer Fund, and 50 cents/pack for the California Children and Families First Trust Fund.
[3] A tax equivalent to the tax on cigarettes. The rate reflects the 50 cents/pack established by the California Children and Families First Initiative, with funding for Cigarette and Tobacco Products Surtax Fund and California Children and Families First Trust Fund
[4] The Fair and Exposition Fund supports county fairs and other activities, the Satellite Wagering Account funds construction of Satellite Wagering Facilities and health and safety repairs at fair sites. Wildlife Restoration Fund and General Fund also receive monies.
[6] The Economic Growth and Tax Relief Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act eliminates the State pick-up tax beginning in 2005. The federal Act sunsets after 2010; at that time, the federal estate tax will be reinstated along with the State's estate tax, unless future federal legislation is enacted.
[7] Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, and nonadmitted insurance.
[8] Department of Motor Vehicles. Beginning January 1, 1999, vehicle owners paid only 75 percent of the calculated tax, and the remaining 25 percent (offset percentage) was paid by the General Fund. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35-percent offset through June 30, 2001, and provided for an additional 32.5-percent reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF offset was set at 67.5 percent. From June 30, 2003, through November 18, 2003, the VLF reduction was suspended. On November 17, 2003, Governor Schwarzenegger rescinded the suspension, thereby reinstating the offset. Effective January 1, 2005, the VLF rate is 0.65 percent.
[9] For return to cities and counties. Trailer coach license fees are deposited in the General Fund.
[10] For administrative expenses and apportionment to State, counties and cities for highways, airports, and small craft harbors.
[11] For support of State Department of Motor Vehicles, California Highway Patrol, other agencies, and motor vehicle related programs.
[12] For State highways and State Department of Motor Vehicles administrative expense. Chapter 861, Statutes of 2000, replaced the fee schedule for trucks, based on the unladen weight of commercial trucks and trailers, with a new schedule based on the gross weight capacity of trucks alone, in order to comply with the International Registration Plan standards. Chapter 719, Statutes of 2003, increased weight fees to achieve revenue neutrality as specified in Chapter 861.
[13] Average property tax rate in the State during preceding year.
[14] Includes a 5 percent rate for the State General Fund, a 0.25 percent rate for the Economic Recovery Fund, and a 0.50 percent rate fo the Local Revenue Fund.

applied to amusement parks, sporting events, and golf. Selection of these services was based on ease of implementation as these services are generally provided by entities that already have a relationship with the Board of Equalization. Assuming a 6.5-percent General Fund tax rate, this proposal is expected to generate additional General Fund sales tax revenue of $272 million in 2008-09 and $1.154 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 $113 million in 2008-09 and $479 million in 2009-10, including $21 million for local public safety funds in 2008-09 and $89 million in 2009-10.

Oil Severance Tax: Effective February 1, 2009, an oil severance tax would be imposed 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 thirty dollars ($30) per barrel, will be exempt from this tax. This proposal is expected to generate additional revenues of $358 million in 2008-09 and $855 million in 2009-10.

Increase Alcohol and Excise Taxes by 5 Cents a Drink: Alcohol excise taxes would be raised by five cents per drink beginning February 1, 2009, with the proceeds to be used for substance abuse and prevention treatment programs. A drink is defined as 1.5 ounces of distilled spirits, 12 ounces of beer, or 5 ounces of wine, which equates to a per-gallon tax of $0.53 for beer, $1.28 for wine, and $4.27 for distilled spirits. This increase is estimated to raise $244 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. The Governor's Budget proposes that beginning July 1, 2009, proceeds generated from the additional excise tax be transferred from the General Fund to a newly created Drug and Alcohol Prevention and Treatment Fund.

Personal Income Tax Dependent Exemption Credit: Beginning with the 2009 tax year, the dependent exemption credit would be reduced to equal the amount of the personal exemption credit. Both credits are indexed annually for inflation. For the 1997 tax year, both exemption credits were $68. Chapter 612, Statutes of 1997, and Chapter 322, Statutes of 1998, increased the dependent exemption credit to $253 for the 1998 tax year and $227 for 1999, and indexed the credit for inflation each year thereafter. For the 2008 tax year, the personal exemption credit is $99 per filer (joint filers may claim $198) and the dependent exemption credit is $309 per dependent. Equalizing the credit amounts is expected to generate additional revenues of $1.44 billion 2009-10.

General Fund Revenue

General Fund revenues and transfers represent 76 percent of total revenues reported in the Governor's Budget. The remaining 24 percent are special fund revenues dedicated to specific programs. The revenue estimates noted in the following discussion include the impact of the tax proposals noted above under "Major Tax Proposals" as well as $31 million in 2008-09 and $61 million in 2009-10 from increased efforts to collect under existing law.

Percent of General Fund Revenues and Transfers

Personal income tax	49.1 percent
Sales and use taxes	34.6 percent
Corporation tax	10.7 percent
All other	5.6 percent

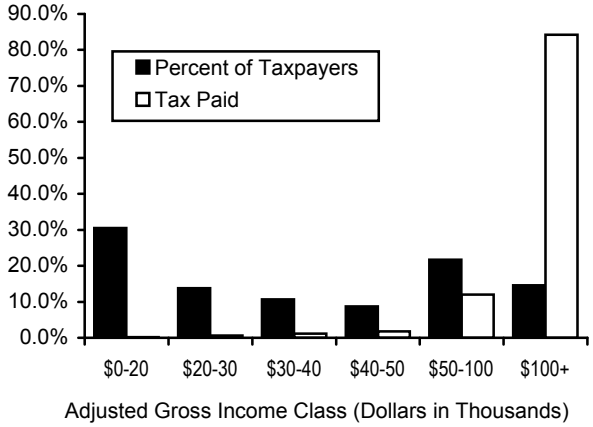
Personal Income Tax

The personal income tax is the state's largest single revenue source, representing 49.1 percent of all General Fund revenues and transfers in 2009-10. Income tax revenues are expected to decrease by 13.7 percent for 2008-09, and then increase by 2.4 percent for 2009-10. Revenues in 2009-10 reflect $1.44 billion from the proposed reduction of the dependent exemption credit.

Personal Income Tax Revenue (In Billions)

2007-08	$54.234
2008-09 (Forecast)	$46.807
2009-10 (Forecast)	$47.942

Figure REV-03
Percent of Taxpayers and Percent of Tax Paid by Adjusted Gross Income Class
2006 State Tax Data



Modeled closely on the federal income tax law, California's personal income tax is imposed on net taxable income: that is, gross income less exclusions and deductions. The tax is steeply progressive, with rates ranging from 1 percent to 9.3 percent. Figure REV-03, which shows the percent of total returns and tax paid by adjusted gross income class, illustrates the progressivity. In 2006, the top 15 percent of state taxpayers, those with adjusted gross incomes (AGI) over $100,000, paid 84 percent of the personal income tax. The top 1 percent of state taxpayers, those with AGI over $480,940, paid 48 percent of the personal income tax. Changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

Income ranges for all tax rates are adjusted annually by the change in the California Consumer Price Index. This prevents taxpayers moving into higher tax brackets because of inflation without a real increase in income. Tax rates apply to total taxable income, after which taxpayers can reduce their gross tax liability by claiming different credits.

An alternative minimum tax, imposed at a rate of 7 percent, ensures that income taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.

Capital gains have a substantial impact on state revenues. Gains reported by taxpayers increased 4.4 percent in 2006 and an estimated 8 percent in 2007; they are expected to decline 55 percent in 2008 and 10 percent in 2009. Figure REV-04 shows the portion of General Fund revenues from capital gains.

Some personal income tax revenue is deposited into a special fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over $1 million in addition to the 9.3 percent rate. Revenue from the surcharge is transferred to the Mental Health Services Fund for county mental health services. Revenues of $1.512 billion are estimated for the 2007-08 fiscal year. Annual revenues of $981 million

Additional Information

The Franchise Tax Board, which administers the personal income tax and corporation tax, prepares an annual report providing information on income subject to tax, tax rates, tax collections, and taxpayer characteristics. Its website, www.ftb.ca.gov, includes this annual report. Information on personal income tax and corporation tax exclusions, deductions, and credits is also available in the Department of Finance's Tax Expenditure Report, published annually on the Internet at www.dof.ca.gov in "Reports and Periodicals."

Figure REV-04

Capital Gains
As a Percent of General Fund Revenues

(Dollars in Billions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007 p	2008 e	2009 e
Capital Gains Income	$91.0	$117.6	$50.7	$35.5	$47.6	$76.3	$112.4	$117.3	$126.7	$57.0	$51.3
Tax at 9%	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Capital Gains Tax	$8.2	$10.6	$4.6	$3.2	$4.3	$6.9	$10.1	$10.6	$11.4	$5.1	$4.6
Total General Fund Revenues & Transfers	$71.9	$71.4	$72.3	$71.3	$74.9	$82.2	$93.5	$95.5	$99.3	$91.1	$97.7
Capital Gains as % of General Fund											
	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
Capital Gains	11.4%	14.8%	6.3%	4.5%	5.7%	8.3%	10.8%	11.1%	11.5%	5.6%	4.7%

[p] Preliminary

[e] Estimated

Note: Totals may not add due to rounding
2002-03 revenues do not include $9.242 billion in economic recovery bonds.
2003-04 revenues do not include $2.012 billion in economic recovery bonds.
2007-08 revenues do not include $3.313 billion in economic recovery bonds.

for 2008-09, and $887 million for 2009-10 are projected, reflecting the substantial declines in incomes of higher income tax payers. Substantial portions of these revenues are received in the Mental Health Services Fund as settle-up transfers the second year following the year for which they are paid. (See the Department of Mental Health Services budget for information on transfers to and expenditures from the Mental Health Services Fund.)

The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2007-08 through 2009-10 are shown in Figure REV-05.

Figure REV-05

Personal Income Tax Revenue

(Dollars in Thousands)

	2007-08 Preliminary	2008-09 Forecast	2009-10 Forecast
General Fund	$54,233,970	$46,807,000	$47,942,000
Mental Health Services Fund	1,512,000	981,000	887,000
Total	**$55,745,970**	**$47,788,000**	**$48,829,000**

Sales and Use Tax

Receipts from sales and use taxes, the state's second largest revenue source, are expected to contribute 34.6 percent of all General Fund revenues and transfers in 2009-10. Figure REV-06 displays sales and use tax revenues for the General Fund, as well as special funds, for 2006-07 through 2008-09. Revenues in 2008-09 and 2009-10 reflect the proposed sales tax increase and the proposal to extend the sales tax to additional services. The sales tax rate increase is expected to generate revenues of $2.35 billion in 2008-09 and $7.114 billion in 2009-10. Broadening the base to include certain services is estimated to raise revenues of $272 million in 2008-09, and $1.154 billion in 2009-10.

Figure REV-06

Sales Tax Revenue

(Dollars in Thousands)

	2007-08 Preliminary	2008-09 Forecast	2009-10 Forecast
General Fund	$26,613,264	$27,778,000	$33,793,000
Sales and Use Tax-Realignment	2,805,238	2,665,951	2,652,357
Public Transportation Account	535,405	619,639	317,071
Mass Transportation Fund	621,967	939,408	47,447
Economic Recovery Fund	1,397,000	1,315,000	1,321,000
Total	**$31,972,874**	**$33,317,998**	**$38,130,875**

The sales tax applies to sales of tangible personal property in California; the companion use tax applies to property purchased outside the state for use within California. Most retail sales and leases are subject to the tax. Exemptions from the tax for necessities such as food for home consumption, prescription drugs, and electricity make the tax less regressive. Other exemptions provide tax relief for purchasers of particular products — e.g., farm equipment, custom computer programs, or materials used in space flights.

The largest single component of the sales tax base is new motor vehicle dealer sales, accounting for 10.6 percent of all sales in 2006. Service station sales represented 7.8 percent of all sales in 2006, while building-related purchases accounted for 14.1 percent. Detailed taxable sales data by component is not yet available for all of 2007.

Sales and Use Tax Revenue (In billions)

2007-08	$26.613
2008-09 (Forecast)	$27.778
2009-10 (Forecast)	$33.793

Additional Information

The Board of Equalization, which administers the sales and use tax, tobacco tax, alcoholic beverage taxes, and fuel taxes provides additional information in its annual report, which is available on its website, www.boe.ca.gov. Information on sales tax exemptions is included in the Department of Finance's Tax Expenditure Report, published annually on the Internet at www.dof.ca.gov in "Reports and Periodicals."

Taxable sales grew by an estimated 0.2 percent in 2007 (fourth quarter 2007 sales tax data is preliminary). Preliminary data for the first three quarters indicate that taxable sales for the year are expected to decline by 4.5 percent in 2008. The slowdown in 2008 is attributed to continued weakness in the housing market, declining auto sales, tight credit markets, and rising unemployment. Taxable sales under current law are anticipated to further decline in 2009 by an estimated 7 percent. In 2010, a modest recovery is expected to yield taxable sales growth of 3.7 percent.

Sales and use tax revenues are forecast relating taxable sales to economic factors such as income, employment, housing starts, new vehicle sales, and inflation.

Current law requires that a portion of the sales tax on gasoline and diesel fuel go to the Public Transportation Account (PTA) and the Mass Transportation Fund (MTF). (The transportation community refers to the gasoline tax portion of this as "spillover" sales tax revenues.) Beginning in 2008-09, the first $939 million of spillover revenues that would otherwise be transferred to the PTA will be transferred to the MTF. Including the sales tax on diesel fuel, an estimated $1.557 billion in sales tax revenue will go to the PTA and MTF in 2008-09, and an estimated $365 million in 2009-10. Spillover and diesel revenues are expected to decrease significantly in 2009-10 due to much lower fuel prices.

Figure REV-07 displays the individual elements of the state and local sales tax rates. Figure REV-08 shows combined state and local tax rates for each county.

Corporation Tax

Corporation tax revenues are expected to contribute 10.7 percent of all General Fund revenues and transfers in 2009-10. After growth of 14.9 percent in 2007-08, corporation tax revenues are expected to decline 13.9 percent in 2008-09, and grow 2.4 percent in 2009-10.

Corporation tax revenues are derived from the following sources:

- The franchise tax and the corporate income tax are levied at a rate of 8.84 percent on net profits. The former is imposed on corporations that do business in California, while the latter is imposed on corporations that derive income from California sources without doing business in the state. For example, a corporation that maintains a stock of goods in California to fill orders taken by independent dealers would be subject to the corporate income tax.

Figure REV-07

State and Local Sales and Use Tax Rates

State Rates		
General Fund	4.75% or 5.00%	Pursuant to Sections 6051.3 and 6051.4 of the Revenue and Taxation Code, this rate is 5%, but may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. During 2001, the rate was 4.75%, and during 2002 and thereafter, this rate is 5.00%.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 state-local realignment.
Economic Recovery Fund	0.25%	Beginning on July 1, 2004, a new temporary 0.25% state sales tax rate was imposed, with a corresponding decrease in the Bradley-Burns rate. These revenues are dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this tax will sunset and the Bradley-Burns rate will return to 1%.
Local Uniform Rates[1]		
Bradley-Burns	0.75%[2] or 1.00%	Imposed by city and county ordinance for general purpose use.[3]
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.
Local Add-on Rates[4]		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments[5] up to a combined maximum of 2.00% in any county.[6] Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.

[1] These locally-imposed taxes are collected by the State for each city and county and are not included in the State's revenue totals.

[2] The 1 percent rate was temporarily decreased by 0.25 percent on July 1, 2004, and a new temporary 0.25 percent tax imposed to repay Economic Recovery Bonds. Cities and counties will receive additional property tax revenues equal to the 0.25 percent local sales tax reduction.

[3] The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area (or 0.75 percent during the period when Economic Recovery Bonds are being repaid).

[4] These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the State for each jurisdiction and are not included in the State's revenue totals.

[5] Increments imposed at 0.125 percent are only allowed when revenues are dedicated for library purposes.

[6] An exception to the 2 percent maximum is Los Angeles County, which may impose up to 2.5 percent.

- Corporations that have a limited number of shareholders and meet other requirements to qualify for state Subchapter S status are taxed at a 1.5-percent rate rather than the 8.84 percent imposed on other corporations.
- Banks and other financial corporations pay the franchise tax plus an additional 2-percent tax on net income. This "bank tax" is in lieu of local personal property and business license taxes.

Figure REV-08

Combined State and Local Sales and Use Tax Rates by County

(Rates in Effect on October 1, 2008)

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	8.75%	Madera	7.75%	San Joaquin [18/]	7.75%
Alpine	7.25%	Marin [9/]	7.75%	San Luis Obispo [19/]	7.25%
Amador	7.25%	Mariposa	7.75%	San Mateo	8.25%
Butte	7.25%	Mendocino [10/]	7.25%	Santa Barbara	7.75%
Calaveras	7.25%	Merced [11/]	7.25%	Santa Clara	8.25%
Colusa [1/]	7.25%	Modoc	7.25%	Santa Cruz [20/]	8.00%
Contra Costa [2/]	8.25%	Mono	7.25%	Shasta	7.25%
Del Norte	7.25%	Monterey [12/]	7.25%	Sierra	7.25%
El Dorado [3/]	7.25%	Napa	7.75%	Siskiyou	7.25%
Fresno [4/]	7.975%	Nevada [13/]	7.375%	Solano	7.375%
Glenn	7.25%	Orange [14/]	7.75%	Sonoma [21/]	7.75%
Humboldt [5/]	7.25%	Placer	7.25%	Stanislaus [22/]	7.375%
Imperial	7.75%	Plumas	7.25%	Sutter	7.25%
Inyo	7.75%	Riverside	7.75%	Tehama	7.25%
Kern [6/]	7.25%	Sacramento	7.75%	Trinity	7.25%
Kings	7.25%	San Benito [15/]	7.25%	Tulare [23/]	7.75%
Lake [7/]	7.25%	San Bernardino [16/]	7.75%	Tuolumne [24/]	7.25%
Lassen	7.25%	San Diego [17/]	7.75%	Ventura	7.25%
Los Angeles [8/]	8.25%	San Francisco	8.50%	Yolo [25/]	7.25%
				Yuba	7.25%

[1/] 7.75% for sales in the City of Williams.
[2/] 8.75% for sales in the Cities of Richmond, Pinole, and El Cerrito.
[3/] 7.50% for sales in the City of Placerville and 7.75% for sales in the City of South Lake Tahoe.
[4/] 8.475% for sales in the Cities of Reedley and Selma and 8.725% for sales in the City of Sanger.
[5/] 8.25% for sales in the City of Trinidad.
[6/] 8.25% for sales in the City of Delano.
[7/] 7.75% for sales in the City of Clearlake and the City of Lakeport.
[8/] 8.75% for sales in the Cities of Avalon and Inglewood and 9.25% for sales in the City of South Gate.
[9/] 8.25% for sales in the City of San Rafael.
[10/] 7.75% for sales in the Cities of Fort Bragg, Point Arena, Ukiah, and Willits.
[11/] 7.75% for sales in the City of Merced and the City of Los Banos.
[12/] 7.75% for sales in the Cities of Salinas and Sand City and 8.25% in the Cities of Del Rey Oaks, Pacific Grove, and Seaside.
[13/] 7.875% for sales in the Cities of Truckee and Nevada City.
[14/] 8.25% for sales in the City of Laguna Beach.
[15/] 8.00% for sales in the City of San Juan Bautista and 8.25% for sales in the City of Hollister.
[16/] 8.00% for sales in the City of Montclair and the City of San Bernardino.
[17/] 8.25% for sales in the Cities of El Cajon and Vista and 8.75% for sales in National City.
[18/] 8.00% for sales in the City of Stockton and 8.25% for sales in the City of Manteca.
[19/] 7.75% for sales in the Cities of Arroyo Grande, Morro Bay, Grover Beach, San Luis Obispo, and Pismo Beach.
[20/] 8.25% for sales in the Cities of Watsonville and Capitola and 8.50% for sales in the Cities of Scotts Valley and Santa Cruz.
[21/] 8.00% for sales in the City of Sebastopol and the City of Santa Rosa.
[22/] 7.875% for sales in the City of Ceres.
[23/] 8.00% for sales in the City of Visalia. 8.25% for sales in the Cities of Farmersville, Porterville, and Tulare.
8.50% for sales in the City of Dinuba.
[24/] 7.75% for sales in the City of Sonora.
[25/] 7.75% for sales in the Cities of Woodland, West Sacramento, and Davis.

Corporation Tax Revenue
(In Billions)

2007-08	$11.849
2008-09 (Forecast)	$10.197
2009-10 (Forecast)	$10.445

- The alternative minimum tax is similar to that in federal law. Imposed at a rate of 6.65 percent, the alternative minimum tax ensures that corporate taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.
- A minimum franchise tax of $800 is imposed on corporations subject to the franchise tax, but not on those subject to the corporate income tax. An $800 minimum tax is also imposed on Limited Liability Companies, Limited Partnerships and Limited Liablility Partnerships.
- In addition to an annual tax of $800, a fee is imposed on Limited Liability Companies (LLC) based on total income. The fee ranges from $900 for LLCs with income between $250,000 and $499,000, to $11,790 for LLCs with income of $5 million or more. LLCs with total income of less than $250,000 do not pay this fee.
- The corporation tax forecast is based on an analysis of California taxable profits, employment rates, proprietors' income, and actual cash receipts.

From 1943 through 1985, corporation tax liability as a percentage of profits closely tracked the corporation tax rate. Since 1986, tax liability as a percentage of profits has dropped below the expected level of 8.84 percent. Increasing S-corporation activity and use of credits have been the primary factors contributing to a divergence between profit and tax liability growth. Businesses that elect to form as S-corporations pay a reduced corporate rate, with the income and tax liability on that income passed through to owners and thus shifted to the personal income tax.

Insurance Tax

Most insurance written in California is subject to a 2.35-percent gross premiums tax. This premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. In general, the basis of the tax is the amount of "gross premiums" received, less return premiums.

Insurance Tax Revenue (In Billions)

2007-08	$2.173
2008-09 (Forecast)	$1.831
2009-10 (Forecast)	$1.798

The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from a sample representing about 40 percent of the dollar value of premiums written in California.

In 2007, $124.1 billion in taxable premiums were reported, a decrease of 0.1 percent over 2006. The most recent survey indicates that total premiums will decrease by 7.0 percent, and increase by 1.2 percent in 2008, and 2009, respectively. As reforms in workers' compensation insurance continue to take hold, taxable premiums from workers' compensation insurance continue to decrease. Survey respondents reported declines of 16.3 percent in 2008 and 1.1 percent in 2009.

Alcoholic Beverage Taxes

In addition to the sales tax paid by retail purchasers, California levies an excise tax on distributors of beer, wine, and distilled spirits.

Alcoholic beverage revenue estimates are based on projections of total and per capita consumption for each type of beverage. Consumption of alcoholic beverages is expected to remain relatively flat over the forecast period.

Alcoholic Beverage Tax Rates Per Gallon (January 1, 2009)

$0.20 for beer, dry wine, and sweet wine

$0.30 for sparkling wine

$3.30 for distilled spirits

An increase of $244 million in 2008-09 and $585 million in 2009-10 is included to reflect the proposed nickel-per-drink tax increase, effective February 1, 2009. Under the proposal, the alcoholic beverage tax rates per gallon would become $0.73 for beer, $1.48 for wine, and $7.57 for distilled spirits.

Revenues forecasted for 2008-09 and 2009-10 and 2007-08 collections are shown in Figure REV-09.

Figure REV-09
Beer, Wine, and Distilled Spirits Revenue
(Dollars in Millions)

	2007-08 Preliminary	2008-09 Forecast	2009-10 Forecast
Beer and Wine	$157.6	$338.2	$597.0
Distilled Spirits	169.7	260.8	358.3
Total	**$327.3**	**$599.0**	**$955.3**

Cigarette Tax

The state imposes an excise tax of 87 cents per pack of 20 cigarettes on distributors selling cigarettes in California. An excise tax is also imposed on distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff. The rate on other tobacco products is calculated annually by the Board of Equalization based on the wholesale price of cigarettes.

Revenues from the tax on cigarettes and other tobacco products are distributed as follows:

- Ten cents of the per-pack tax is allocated to the state General Fund.
- Fifty cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution according to the provisions of Proposition 10 of 1998.
- Twenty-five cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Projections of cigarette tax revenues are based on total and per capita consumption of cigarettes while revenue estimates for other tobacco products rely on wholesale price data. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, and state anti-smoking campaigns funded by Proposition 99 revenues and revenues from the Master Tobacco Settlement has considerably reduced cigarette consumption.

Annual per capita consumption (based on population ages 18-64) declined from 123 packs in 1989-90 to 84 packs in 1997-98 and 47 packs in 2007-08, the latest year of actual data available. The long-term downward trend in consumption should continue to reduce cigarette tax revenues.

Figure REV-10 shows the distribution of tax revenues for the General Fund and various special funds for 2007-08 through 2009-10.

Figure REV-10

Tobacco Tax Revenue

(Dollars in Millions)

	2007-08 Preliminary	2008-09 Forecast	2009-10 Forecast
General Fund	$109.9	$113.0	$111.0
Cigarette and Tobacco Products Surtax Fund	327.0	315.0	310.0
Breast Cancer Fund	22.0	23.0	22.0
California Children and Families First Trust Fund	577.0	581.0	570.0
Cigarette and Tobacco Products Compliance Fund	1.9	1.3	1.3
Total	**$1,037.8**	**$1,033.3**	**$1,014.3**

Property Taxes

Article XIIIA of the State Constitution (Proposition 13) provides that property is assessed at its 1975 fair market value until it changes ownership. When ownership changes, the assessed value is redetermined based on the property's current market value. New construction is assessed at fair market value when construction is completed. A property's base year value may be increased by an inflation factor, not to exceed two percent annually.

Although the property tax is generally considered a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools offset General Fund expenditures. Assessed value growth is estimated based on twice-yearly surveys of county assessors and evaluation of real estate trends. Assessed value is estimated to grow 4.4 percent in 2008-09 and 0.3 percent in 2009-10.

Property taxes received by school districts and reflected in the Department of Education and Community Colleges budgets are significantly below projections used for the 2008-09 Budget. While a recent audit performed by the State Controller indicates local allocations of revenues are being performed correctly, the audit did not provide clear indications regarding the reasons why school property tax receipts are less than estimated using assessed value growth. Estimates for the Governor's Budget reflect $474 million in lower actual receipts in 2007-08 and that base is carried forward in subsequent years.

Estate/Inheritance/Gift Taxes

Proposition 6, adopted in June 1982, repealed the inheritance and gift taxes and imposed a tax known as "the pick-up tax," because it was designed to pick up the maximum state credit allowed against the federal estate tax without increasing total taxes paid by the estate. The pick-up tax is computed based on the federal "taxable estate," with tax rates ranging from 0.8 percent to 16 percent.

The Economic Growth and Tax Relief Reconciliation Act of 2001 phases out the federal estate tax by 2010. The Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminated it beginning in 2005. The provisions of the federal Act sunset after 2010, at which time the federal and state estate taxes will be reinstated.

Some revenues from this tax continue to be collected from estates established prior to 2005.

Other Revenues

Indian Gaming

Indian gaming revenues that are deposited in the General Fund are estimated to be $362 million in 2008-09 and $393 million in 2009-10, reflecting reduced estimates of $123 million and $192 million respectively, due to the decision by one tribe not to ratify their new compact and the reduction in cash receipts in the last quarter from existing operations, which are driven by the downturn in the economy.

Unclaimed Property

The Governor's Budget reflects revenues of $162 million in 2008-09 and $153 million in 2009-10 from unclaimed property, reflecting reduced estimates of $122 million in 2008-09 and 2009-10. This is due to increased returns to property owners and reduced earnings on securities.

EdFund

The estimate of $500 million from the sale of the EdFund has been removed from the revenue estimates for 2009-10. While the Administration is continuing to pursue the sale of EdFund, the timing and value of that sale are unclear at this point given the many changes that have occurred in the capital markets and federal student loan guarantee policy.

State Lands Royalties

Royalties on state land oil and gas production is estimated at $327 million in 2008-09 and $90 million in 2009-10, reflecting reduced estimates of $252 million and $272 million respectively. This is due to the rapid decline in oil prices.

Special Fund Loans and Transfers

Additional transfers of surplus balances in special funds of $34.2 million are proposed in 2008-09. Loans from special funds, which will not harm the essential funtions of those special funds' programs, of $264 million in 2008-09 and $94.4 million in 2009-10 are also proposed.

Special Fund Revenue

The California Constitution and state statutes specify into which funds certain revenues must be deposited and how they are to be spent. Special fund revenues consist of

- Receipts from tax levies allocated to specified functions, such as motor vehicle taxes and fees.
- Charges such as business and professional license fees.
- Rental royalties and other receipts designated for particular purposes, such as oil and gas royalties.

Taxes and fees related to motor vehicles comprised about 35 percent of all special fund revenue in 2007-08. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2008-09, it is expected that $8.9 billion in revenues will be derived from the ownership or operation of motor vehicles, a 3.1 percent increase from 2007-08. About 37 percent of all motor vehicle taxes and fees will be returned to local governments, and the remaining portion will be used for state transportation programs.

Motor Vehicle Fees

Motor vehicle fees consist of vehicle license, registration, weight, and driver's license fees, and other charges related to vehicle operation. Figure REV-11 displays revenue from these sources from 2007-08 through 2009-10.

Figure REV-11

Motor Vehicle Fees Revenue

(Dollars in Thousands)

	2007-08 Preliminary	2008-09 Forecast	2009-10 Forecast
Vehicle License Fees	$557,759	$533,800	$544,868
Realignment	1,685,480	1,610,221	1,643,248
Registration, Weight, and Other Fees	2,942,205	3,440,818	3,993,204
Total	**$5,185,444**	**$5,584,839**	**$6,181,320**

Proposal to Increase Vehicle Registration and Driver's License Fees: The Budget proposes an increase of $12 per vehicle to the registration fee to support state vehicle registration operations. This will generate $92 million in 2008-09 for partial year implementation, increasing to $359 million for full-year implementation in 2009-10. Vehicle License Fee (VLF) revenues will in turn be directed to local public safety programs. Additionally, the Budget also proposes an increase of $3 to the driver's license fee, which will generate an estimated $16.5 million in budget year. The revenues will fund the increased costs of new driver license/identification/sales person cards, as well as increased DMV staffing costs to begin implementation of REAL ID, which strengthens driver license/identification card integrity by requiring minimum security standards.

The VLF is imposed on vehicles that travel on public highways in California. This tax is imposed instead of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. Revenues from the existing VLF rate, other than administrative costs and fees on trailer coaches and mobile homes, are constitutionally dedicated to local governments.

The number of vehicles in the state, the ages of those vehicles, and their most recent sales price affect the amount of VLF raised. The total number of vehicles in California —autos, trucks, trailers, and motorcycles as well as vehicles registered in multiple states —is estimated to be 31,174,000 in 2008-09 and 30,997,000 in 2009-10. The forecast assumes that there will be 1,994,000 new vehicles in 2009-10.

The VLF is calculated on the vehicle's "market value," adjusted for depreciation. The motor vehicle schedule is based on an 11-year depreciation period; for trailer coaches it is an 18-year period. A 0.65-percent rate is applied to the depreciated value to determine the fee.

Chapter 87, Statutes of 1991, revised the VLF depreciation schedule and required the Department of Motor Vehicles to reclassify used vehicles based on their actual purchase price each time ownership is transferred. Revenue from this base change is transferred to the Local Revenue Fund for state-local program realignment.

Chapter 322, Statutes of 1998, established a program to offset a portion of the VLF paid by vehicle owners at the 2-percent rate. The state paid or "offset" a portion of the amount due and taxpayers paid the balance. This General Fund offset gave taxpayers significant tax relief and compensated local governments. A permanent offset of 25 percent of the amount of the VLF owed became operative in 1999. Chapter 74,

Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35-percent offset through June 30, 2001, and provided an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF was reduced by 67.5 percent. As the amount paid by taxpayers decreased, the amount backfilled by the General Fund increased.

The VLF reduction was suspended for a 141-day period beginning July 1, 2003. Executive Order S-1-03, issued November 17, 2003, rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible.

Chapter 211, Statutes of 2004, eliminated the VLF offset and reduced the VLF tax rate to 0.65 percent. Local governments now receive property tax revenues to compensate them for the loss of VLF revenue. In 2004-05 and 2005-06, that replacement revenue was reduced by $1.3 billion to assist the state.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations (mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF. All trailer coach license fees are deposited in the General Fund.

In addition to the VLF, commercial truck owners pay a fee based on vehicle weight. Chapter 861, Statutes of 2000, and Chapter 719, Statutes of 2003, revised the fee schedules to conform to the federal International Registration Plan.

Motor Vehicle Fuel Taxes

The motor vehicle fuel tax, diesel fuel tax, and the use fuel tax are the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Just over one-third of these revenues is apportioned to local jurisdictions for street and highway use.

Gasoline consumption fell by 2.7 percent during 2007-08, due primarily to substantially higher pump prices. Gasoline consumption is expected to decrease 1.4 percent in 2008-09 and 1.6 percent in 2009-10.

Because most diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Diesel fuel consumption fell 2.9 percent in 2007-08, and is expected to decline 1 percent in 2008-09 and 0.8 percent in 2009-10.

Motor vehicle fuel tax collections are shown in Figure REV-12.

Figure REV-12

Motor Vehicle Fuel Tax Revenue

(Dollars in Thousands)

	2007-08 Preliminary	2008-09 Forecast	2009-10 Forecast
Gasoline [1]	$2,826,150	$2,729,976	$2,686,986
Diesel	591,824	556,458	552,572
Total	**$3,417,974**	**$3,286,434**	**$3,239,558**

[1] Does not include jet fuel.

The motor vehicle fuel tax (gas tax) is collected from distributors when fuel is loaded into ground transportation for transport to retail stations. This fuel is taxed at a rate of 18 cents per gallon. Fuels subject to the gas tax include gasoline, natural gas, and blends of gasoline and alcohol sold for use on public streets and highways.

Distributors pay the diesel fuel tax, which applies to both pure diesel fuel and blends, at the fuel terminal. Diesel fuel for highway use is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for off-highway uses such as farm equipment, is not taxed.

The use fuel tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing 15 percent or less gasoline and diesel fuel). These fuels are taxed only when they are dispensed into motor vehicles used on the highways. Current use fuel tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LPG and LNG, 7 cents per 100 cubic feet for CNG, and 9 cents per gallon for alcohol fuel. Users of LPG, LNG, or CNG may elect to pay a flat rate of tax based on vehicle weight instead of the per-gallon tax.

An excise tax of 2 cents per gallon is levied on aircraft jet fuel sold at the retail level. This tax does not apply to commercial air carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Local transit systems, school and community college districts, and certain common carriers pay 1 cent per gallon on the fuel they use instead of the tax rates described above.

Executive Office

Michael C. Genest
Director of Finance
(916) 445-4141

Ana J. Matosantos
Chief Deputy Director, Budget
(916) 445-9862

Thomas L Sheehy
Chief Deputy Director, Policy
(916) 445-8610

Fred Klass
Chief Operating Officer
(916) 445-4923

Jennifer Rockwell
Special Counsel
(916) 324-4856

Vacant
Deputy Director, Legislation

H.D. Palmer
Deputy Director, External Affairs
(916) 323-0648

Budget Program Areas

Revenue Forecasting; Economic Projections; Demographic Data; Business, Transportation, and Housing; Local Government	**Mark Hill,** *PBM** . . . . . (916) 322-2263
Education	**Jeannie Oropeza,** *PBM* . . . (916) 445-0328
Health and Human Services	**Lisa Mangat,** *PBM* . . . . . (916) 445-6423
Corrections and Rehabilitation, Judicial, Justice, General Government, State and Consumer Services	**Todd Jerue,** *PBM* . . . . . (916) 445-8913
Resources, Energy, Environment, Capital Outlay	**Karen Finn,** *PBM* . . . . . (916) 324-0043
Employee Relations, Retirement Systems, Departmental Administration, Local Mandates, Audits and Evaluations, Information Technology Consulting	**Diana L. Ducay,** *PBM* . . . . . (916) 445-3274
Budget Planning and Preparation, Cash Management, Statewide Issues CALSTARS, FSCU	**Veronica Chung-Ng,** *PBM* . (916) 445-5332
Financial Information System for California	**Titus Toyama,** *PE*** . . . . . (916) 445-8918

*Program Budget Manager
** Project Executive