

# **\$41.7 Billion Gap**

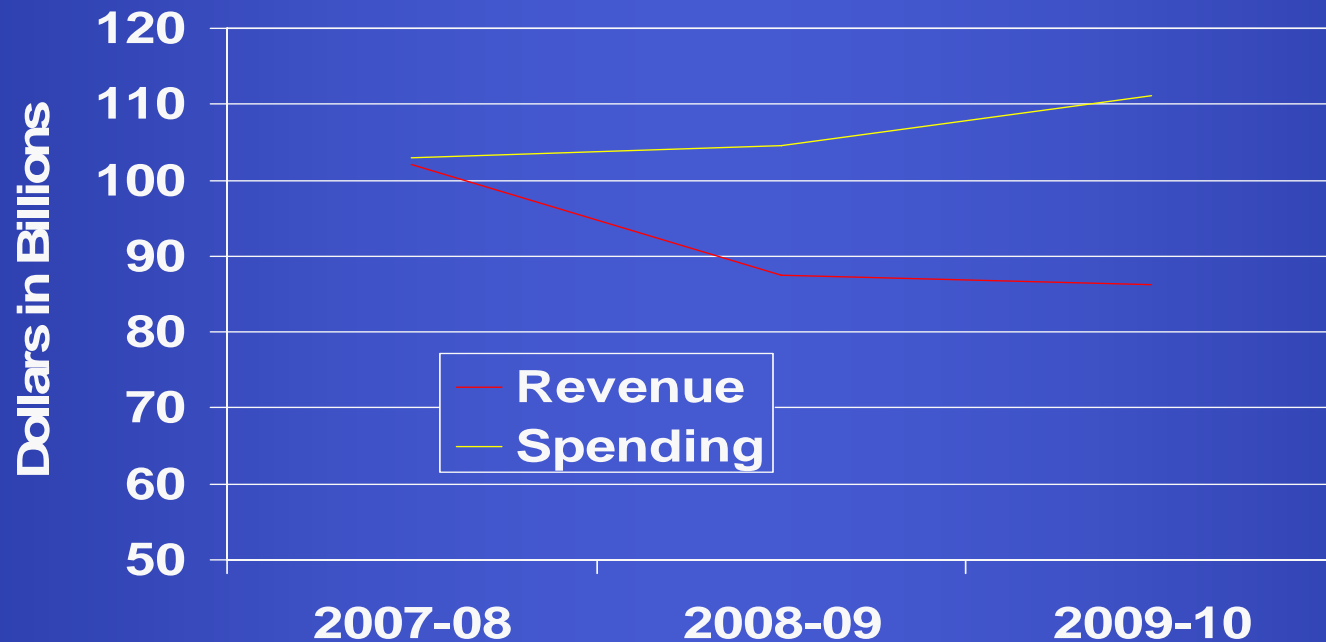
**“...most challenging budget in the state’s history.”**

***-Governor Schwarzenegger***

**“colossal” “...on the edge of fiscal disaster.”**

***-Mac Taylor, Legislative Analyst***

# Current Law Revenue and Spending



# Cash Crunch

- **Cash cushion “is unacceptably low”—Legislative Analyst**
- **Infrastructure projects already stopped.**

**“Balancing the budget—by increasing state revenues and decreasing expenditures—is the most important way that the Legislature can shorten the duration and severity of the state’s cash flow crisis.”**

***--Legislative Analyst***

# **“Four Legged Stool”**

**New revenues**  
**Spending cuts**  
**Economic stimulus**  
**Government efficiency**

# Closing the \$41.7 Billion Gap

<b>Cuts</b>	<b>\$17.4 billion</b>
<b>Revenue</b>	<b>\$14.3 billion</b>
<b>Lottery</b>	<b>\$5 billion</b>
<b>RAWs</b>	<b>\$4.7 billion</b>
<b>Borrowing</b>	<b>\$0.4 billion</b>

# Sales Tax Increase

- **1.5 cents**
- **Effective March 1, 2009**
- **Expire December 31, 2011**
- **\$2.35 billion in 2008-09**
- **\$7.114 billion in 2009-10**

# Tax Services

- **Effective March 1, 2009:**  
appliance, vehicle, & auto repair; veterinarian services
- **Effective April 1, 2009:**  
amusement parks, sporting events, golf



# Tax Services

- **\$272 million in 2008-09**
- **\$1.154 billion in 2009-10**
- **Local revenue:**
  - **\$113 million in 2008-09**
  - **\$479 million in 2009-10**

# Oil Severance Tax

- **9.9% of the gross value of each barrel**
- **Effective February 1, 2009**
- **\$358 million in 2008-09**
- **\$855 million; in 2009-10**

# Alcohol and Excise Taxes

- **5 cents a drink**
- **“Drink” = 1.5 oz distilled spirits, 12 oz beer, or 5 oz wine**
- **\$244 million in 2008-09**
- **\$585 million in 1009-10**

# Reduce Dependent Exemption Credit

- **Begin with 2008 tax year**
- **Reduce from \$309 to \$99 (same as personal exemption)**
- **\$1.44 billion in 2009-10**

# Proposed Mid-Year Cuts

- **Total General Fund = 10.6%**
- **K-12 = 14.6%**

## Put another way:

- **K-12 is 40% of budget but getting 55% of the cuts**

# Proposition 98 Proposal 2008-09

**Reduce apportionments: \$2.1 B**

**Defer apportionments: \$2.8 B**

**Retire settle up: \$1.1 B**

**Transportation funds: \$0.6 B**

**Total Prop 98 reduction: \$6.6 B**

# Proposed 2009-10 K-12 Cuts

**\$2.5 B: No COLA**

**\$1.1 B: Reduced Rev. Lim.**

**\$0.1 B: HPSG Program**

**\$3.7 B : Total (\$627/ADA)**

# Amount below Workload

- **Budget Act = \$2.8 B**  
– (**\$356/ADA**)
- **Mid-Year = \$4.9 B**  
– (**\$831/ADA**)
- **2009-10 = \$8.6 billion**  
– (**\$1,458/ADA**)



## **Governor shows 11.9% K-12 increase in 2009-10, but:**

- **That is from the reduced 2008-09 base**
- **It includes more money to backfill for loss of property taxes and lottery revenue**
- **Some of next year's money must pay this year's bills**

# The Real Story

**Increase:** **\$4.4 B**

**Backfill for 08-09**

**one-time solutions:** **\$5.1 B**

**Net year-to-year change:** **-\$0.7 B**

**Loss of COLA plus direct cuts to the revenue limit means that revenue limit funding will be 16.2% below statutory levels in 2009-10.**

# Flexibility Proposals

- **Categorical funds**
- **Routine maintenance**
- **Deferred maintenance**
- **Reserve requirements**
- **Shorter school year (2009-10)**

# Mandates

**Suspend all K-12 mandates except:**

- Interdistrict transfers (\$6.3 million)**
- CAHSEE (\$7.1 million)**

# More Information

[csba.org](http://csba.org)  
[dof.ca.gov](http://dof.ca.gov)  
[lao.ca.gov](http://lao.ca.gov)