



## **2010-11 Budget Proposal: Solving California's \$20 Billion Deficit**

*The Governor is proposing a responsible budget that fully funds education, provides Californians with a five cent tax cut per gallon of gas, and continues to build on bold reforms to contain future costs, streamline government and continue to put children first in our education system while closing a \$19.9 billion gap between revenues and projected state expenditures.*

*California's leaders have shown they can work together. Democrats and Republicans have bent party ideology to balance the budget, reform education and ensure a clean water supply for future generations. Now is the time to work together with our partners in the federal government to regain control of California's finances and put our leaders in charge of decisions impacting our state's tax payers.*

### **The \$19.9 billion budget deficit includes:**

- \$6.6 billion: Current budget year shortfall due to slow revenues and nearly \$5 billion worth of federal and state court decisions that mandated spending on programs cut in the 09-10 budget.
- \$12.3 billion: Projected shortfall for 2010-11 due to unfunded mandates and a still slow economy.
- \$1 billion: Modest reserve.

**To address the problem, the Governor's Budget proposes a combination of spending reductions, alternative funding, fund shifts and additional federal funds to close the \$19.9 billion budget gap.** The Governor is also declaring a fiscal emergency and immediately calling the legislature into a focused special session to prevent the shortfall from growing and to avoid further cuts.

### **The notable proposals to close the budget gap and live within our means include:**

#### **Employee Compensation Changes: \$1.4 billion**

State employees will continue their contribution to solving our State budget crisis as we approach another challenging year. The current furlough program will end on June 30 as scheduled and the following employee compensation changes will go into effect July 1, 2010:

- 5 percent increase in all employees' monthly pension contribution to CalPERS;
- 5 percent reduction in all salaries;
- 5 percent reduction in the cost of the state workforce payroll implemented by executive order S-01-10 which requires all department directors to reduce their payrolls by 5 percent before July 2010.

*Note: Approval for pension contribution change and pay reduction will require collective bargaining and statute changes.*

#### **Reforming the Federal-State Relationship: \$6.9 billion**

**The Governor was clear in his State of the State address that federal funds must be a part of the budget solution because the federal government is part of California’s budget problem.** The Governor is committed to building a fair and equitable financial relationship with the federal government. California must be reimbursed for unfunded and under-funded federal mandates and relieved of the overly restrictive maintenance-of-effort requirements placed on our programs that prohibit us from living within our means. Our state must be freed from unfunded mandates to thrive and continue serving the people who need help the most.

**Budget Safeguards: \$6.9 billion**

The Governor intends on the federal government paying California’s taxpayers the funds they are owed. Because he has a responsibility to Californians to ensure their budget is balanced under any circumstance, his budget identifies spending reductions and extension of revenue increases (listed below) that will go into effect in the event that the federal government fails to provide the \$6.9 billion of additional funding proposed in the budget.

These reductions impact spending that is within the state’s control and are allowable under existing federal law:

| <b>Savings</b>       | <b>State Service Impact</b>   |
|----------------------|---|
| \$1.0444 billion     | Eliminate the California Work Opportunity and Responsibility to Kids (CaWORKs) Program  |
| \$847 million        | Fund existing mental health services with Proposition 63 funds  |
| \$532 million        | Reduce Medi-Cal eligibility to the minimum allowed under current federal law and eliminate most remaining optional benefits   |
| \$508 million        | Reduce state employee salaries by an additional 5 percent   |
| \$495 million        | Eliminate the IHSS Program  |
| \$325 million        | Redirect additional county savings  |
| \$126 million        | Eliminate the Healthy Families Program  |
| \$280 million        | Eliminate non-court required inmate rehabilitation programs, implement banked parole for low-risk serious and violent offenders, expand crimes where convicted felons will serve time in local jails, and increase the number of parolees each agent will supervise |
| \$115 million        | Eliminate various health services programs funded by Proposition 99   |
| \$111.9 million      | Eliminate funding for enrollment growth at the University of California and the California State University   |
| \$100 million        | Make an unallocated reduction to trial courts   |
| \$79 million         | Freeze the level of the awards and income eligibility for Cal Grants  |
| \$36 million         | Eliminate funding for the Transitional Housing Placement for Foster Youth Plus Program  |
| <b>TOTAL</b>         |   |
| <b>\$4.6 billion</b> |   |

*(see below for revenue generating chart)*

These policies to **generate revenue** would be in place for fiscal year 2010-2011 if the federal government fails to pay their fair share to California:

| <b>Revenues Generated</b> | <b>Policy To Generate Revenue For Fiscal Year 2010-2011</b>  |
|---------------------------|--|
| \$1.2 billion             | Extend suspension of a business's ability to reduce taxable income by applying net operating losses from prior years to reduce current income  |
| \$504 million             | Extend reduction in the credit for each dependent on the personal income tax from \$319 to \$102   |
| \$315 million             | Delay use of business credits by unitary groups of corporations and instead retain current law which requires subsidiaries to have their own tax liability to use research and development and other credits |
| \$300 million             | Delay the change to the single sales factor allocation method for multi-state corporate income and instead retain the double weighted sales, property, and payroll formula                                   |
| \$20 million              | Lower to 30 percent the first year phase-in of the ability of corporations to carry back losses two years to offset prior tax profits  |
| <b>TOTAL</b>              |  |
| \$2.4 billion             |  |

In addition, there are [\\$11.7 billion](#) worth of spending reductions, alternative funding, fund shifts and additional federal funds to close the \$19.9 billion budget gap.