

A BALANCED APPROACH TO SOLVING THE \$41.6 BILLION BUDGET GAP

The Budget Act adopts a balanced approach to solving the budget gap. As shown on INT-01 the solutions consist of a balanced approach including spending cuts, tax increases, borrowing and the use of federal stimulus funds.

Figure INT-01
How to Solve the Budget Gap
(Dollars in Millions)

Budget Gap as of Governor's Budget			-\$41,560	
	<u>2008-09</u>	<u>2009-10</u>		
Expenditure Solutions	\$6,724	\$9,004	15,728	38%
Revenue Increases	1,533	10,980	12,513	30%
Federal Stimulus Funds	2,825	5,191	8,016	19%
Borrowing	268	5,135	5,403	13%
Total	<u>\$11,350</u>	<u>\$30,310</u>	<u>\$41,660</u>	100%

EXPENDITURE REDUCTIONS

Figure INT-02 displays the General Fund spending reductions included in the 2009 Budget Act and in the amendments to the 2008 Budget Act. The reductions are described in greater detail below.

Proposition 98. The \$8.4 billion reduction reflects the reduction in the Proposition 98 minimum guarantee that results from the decline in General Fund revenues. In order to protect classroom funding to the maximum extent possible during this financial downturn, the Budget includes the following actions which are not expected to affect program delivery:

- \$3.24 billion of deferrals from the 2008-09 fiscal year to July of the 2009-10 fiscal year from school district revenue limits, K-3 Class Size Reduction and community college apportionment payments;

Figure INT-02
2009 Budget Act
Expenditure Solutions
(Dollars in Millions)

Major General Fund Programs ^{1/}	2008-09	2009-10	Total
Proposition 98	\$5,774.9	\$2,646.9	\$8,421.8
Corrections and Rehabilitation	0.0	709.3	709.3
Higher Education (excluding Comm Colleges)	132.2	1,171.6	1,303.8
Trigger Reductions *	0.0	100.0	100.0
Medi-Cal	0.0	24.7	24.7
Trigger Reductions *	0.0	183.6	183.6
SSI/SSP	79.8	514.3	594.1
Trigger Reductions *	0.0	267.8	267.8
Developmental Services	24.6	160.2	184.8
Mental Health	0.0	226.7	226.7
CalWORKs	0.0	133.7	133.7
Trigger Reductions *	0.0	146.9	146.9
IHSS	0.0	0.0	0.0
Trigger Reductions *	0.0	78.0	78.0
Other HHS	27.0	617.6	644.6
Courts	0.0	163.4	163.4
Trigger Reductions *	0.0	171.4	171.4
Debt Service	0.0	200.0	200.0
Public Transit	153.2	306.4	459.6
Employee Compensation	333.4	833.9	1,167.3
Law Enforcement Grants	86.4	3.3	89.7
Others	112.6	344.7	457.3
Totals	\$6,724.1	\$9,004.4	\$15,728.5

* The Budget includes \$947.7 million in General Fund reductions that will be "triggered off" (i.e., they will not go into effect) if the state receives funding in the federal stimulus bill that will provide at least \$10 billion in General Fund relief during 2008-09 and 2009-10 combined. This amount would be sufficient to eliminate the need for the state to sell \$6.0 billion revenue anticipation warrants (RAWs) next year, and fund the costs of both the trigger cuts and lost revenue from triggering off a 1.25 percent on net tax liability on the Personal Income Tax.

^{1/}Includes vetoes of \$957.2 million.

- \$1.7 billion in fund shifts, consisting of
 - \$1.1 billion in settle-up monies, owed in satisfaction of prior-year Proposition 98 minimum guarantees, and
 - \$618.7 million of Public Transportation Account and Mass Transportation Fund resources for the Home-to-School Transportation program.

The Budget also contains the following reductions and changes in the way the total Proposition 98 funding is allocated to various programs:

- Eliminates the \$286.9 million cost-of-living adjustment (COLA) included in the 2008 Budget Act;
- Reduces \$943.8 million to school district and county office of education revenue limits in 2008-09, and makes an additional reduction to revenue limits of \$267.5 million in 2009-10;
- Reduces \$1,211.3 million from most all K-12 categorical programs, which consists of:
 - A reduction of \$943.8 million in 2008-09, and
 - An additional reduction of \$267.5 million in 2009-10.
- In order to increase school districts flexibility to accommodate these reductions, the Budget provides 100-percent flexibility for 42 of the 61 categorical programs (See details under Budget and Government Reform).

Corrections. The \$709.3 million reduction reflects (a) a ten-percent reduction to the Receiver's Medical Services Program, consistent with the ten-percent across-the-board reductions applied to most other state operations in last year's budget (\$180.8 million), (b) legislative elimination of the operating expenses and equipment price adjustment for the department (\$92.8 million), (c) legislative elimination of a proposed increase in the department's overtime budget (\$35.7 million), and (d) The Governor's veto of \$400 million – to reflect additional savings to be achieved as a result of various reforms and actions to be implemented by the department, consistent with promoting rehabilitation and preserving public safety.

Higher Education. The \$793.8 million reduction reflects (a) an ongoing reduction beginning in the current year to achieve the 10-percent reduction initially proposed in the January, 2008 Governor's Budget (\$132.2 million in both years), (b) elimination of the Higher Education Compact-related increases scheduled for the budget year (\$427.6 million), (c) elimination of the anticipated budget year increase to restart state contributions to UC's retirement system (\$95.7 million) including legislative elimination of the proposed \$20 million partial year start-up proposed by the Administration, and (d) legislative elimination of proposed new cohorts of nursing and medical enrollments for the budget year (\$6.1 million).

Reduce General Fund for Higher Education to be Backfilled with Federal Funds. The Budget Act includes unallocated reductions, through a veto, of \$255 million each from the University of California and California State University. The additional reductions will be offset by funding intended for restoration from the State Fiscal Stabilization Fund under the Federal American Recovery and Reinvestment Act of 2009. Consequently, this veto will not impact the segments' core instructional functions.

Higher Education Trigger Reduction. The \$100 million reduction, subject to triggering off based on receipt of sufficient federal funds to offset General Fund costs, reflects an additional unallocated reduction in the budget year.

Medi-Cal. The \$24.7 million reduction reflects elimination of the four-percent COLA for county administration, which would have taken effect on July 1, 2009.

Medi-Cal Trigger Reduction. The \$183.6 million reduction, subject to triggering off based on receipt of sufficient federal funds to offset General Fund costs, reflects (a) elimination of nine optional benefits (the largest being dental coverage) for adults (\$129.4 million) and (b) a 10-percent reduction in public hospital reimbursement rates (\$54.2 million).

Supplemental Security Income/State Supplementary Payment (SSI/SSP). The \$594.1 million savings reflects (a) suspending the June 2010 state COLA and (b) reducing SSI/SSP grants, effective May 1, 2009, to the levels in effect in December of 2008. This reduces the state's SSP portion of the grant by the amount of the 5.8-percent federal SSI COLA, which took effective January 1, 2009. The total SSI/SSP grant for individuals would decrease from \$907 per month to \$870 per month, while for couples, grants would decrease from \$1,579 to \$1,524 per month. This reduction will effect 1,126,000 recipients in 2009-10.

SSI/SSP Trigger Reduction. The \$267.8 million reduction, subject to triggering off based on receipt of sufficient federal funds, reflects an additional 2.3-percent reduction to monthly SSI/SSP grants.

Developmental Services (DDS). The \$184.8 million reduction reflects (a) a \$100 million cost-containment target for the state's 21 Regional Centers, with the specific cost-containment measures to be developed by the Department in consultation with stakeholders over the next several months and (b) a three-percent payment discount for Regional Center services and a three-percent reduction in Regional Center operating costs (\$84.8 million).

Mental Health. The \$226.7 million reduction reflects the use of Proposition 63 funds to offset General Fund costs for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program. This redirection will only occur in 2009-10 and 2010-11. It will require voter approval.

California Work Opportunities and Responsibility to Kids (CalWORKs). The \$133.7 million reduction reflects (a) suspending the 2.94-percent July 2009 COLA (\$79.1 million), (b) eliminating the Pay-for-Performance program, which provides incentives for counties to increase recipients' work participation (this \$40 million program has never been funded), and (c) a six-month delay in beginning the process of replacing the automated welfare case management system in Los Angeles County (\$14.6 million).

CalWORKs Trigger Reduction. The \$146.9 million reduction, subject to triggering off based on receipt of sufficient federal revenue sharing, reflects a reduction of four percent to the maximum monthly aid payments for all 528,000 CalWORKs cases in 2009-10 (these cases consist of a total of 1,313,000 individuals).

In-Home Supportive Services (IHSS) Trigger Reductions. The \$78 million reduction, subject to triggering off based on receipt of sufficient federal funds, consists of (a) \$74.2 million in savings from reducing state financial participation in costs of IHSS worker wages and benefits to \$10.10 per hour, down from the current limit of \$12.10 per hour and (b) \$3.8 million in savings by eliminating the state's share of cost contribution for new IHSS cases.

Other Health and Human Services. This reduction of \$644.1 million consists of (a) \$608 million, including up to \$340 million one-time from state reserves, and \$268 million from the shift of half of state and local Proposition 10 revenues for five years to offset General Fund costs in various health and human services programs, subject to voter approval, and (b) \$36.1 million in savings for a one-year delay in implementing changes to the automated child support system.

Courts. The \$163.4 million reduction reflects (a) \$146 million unallocated reduction equal to (1) the amounts provided to the Trial Courts State Appropriations Limit adjustment and workload growth for the state-level judiciary, and (2) the amounts restored from the 2008 Budget Act one-time reductions and fund shifts and (b) \$17.4 million in savings from a delay in the implementation of the Guardianship and Conservatorship Act.

Courts Trigger Reductions. The \$171.4 million reduction, subject to triggering off based on receipt of sufficient federal funds, consists of (a) a \$100 million unallocated reduction to

the Trial Courts and (b) \$71.4 million related to the elimination of funding for 100 additional judgeships.

Debt Service. The \$200 million reduction reflects reduced debt service costs that result from the delay the state has experienced in selling bonds due to both the state's protracted budgetary and cash crises and the lack of liquidity in the municipal bond markets over the past several months.

Public Transit. The \$459.6 million reduction reflects suspension of state general purpose grants to transit agencies as of the third quarterly payment in 2008-09, continuing through 2012-13. These funds are shifted to support transportation programs for school children and consumers with developmental disabilities served by Regional Centers that would otherwise require General Fund monies.

Employee Compensation. The \$1.167 billion reduction reflects: (a) savings from one-day-per-month furlough tentatively agreed to with Bargaining Units 1, 3, 4, 11, 14, 15, 17, 20, and 21 and two-day-per-month furlough for other employees which started pursuant to Executive Order S-16-08 (\$1.035 billion), (b) the elimination of two state holidays (\$74.5 million) and (c) savings due to statutory changes that only actual time worked counts toward the full work week for purposes of receiving overtime pay (\$58 million).

Law Enforcement Grants. The \$86.4 million reduction in 2008-09 and the \$3.3 million reduction in 2009-10 reflect the net decrease in spending for various law enforcement grants including COPS/Juvenile Justice Crime Prevention, Booking Fees, Juvenile Probation, and California Multijurisdictional Methamphetamine Enforcement Teams. Beginning in May of 2009, these programs will be funded with Vehicle License Fee (VLF) revenues (see discussion below). Funding in 2008-09 is \$86.4 million lower than the original 2008 Budget Act amount due to timing of the fund shift from the General Fund to VLF revenues. In total, the Budget provides \$416.5 million for these programs in 2008-09 and \$499.6 million in 2009-10.

REVENUE INCREASES

Figure INT-03 displays the revenue increases included in the budget.

In addition to the actions shown in the table that affect the 2008-09 and 2009-10 revenues, important tax relief measures were enacted that will help stimulate business investment in the state in future years. These are discussed in the Economic Stimulus section.

Figure INT-03
Revenue And Borrowing Solutions
 (Benefit to General Fund - Dollars in Millions)

	2008-09	2009-10	Total
Revenue Solutions			
Temporary one-cent increase in the state sales tax, in effect from April 1, 2009 through June 30, 2012 ¹ . This will raise the state tax rate from 5.00 percent to 6.00 percent and the total tax rates, including various local and special purpose rates from an average of 7.95 to 8.95 percent.	\$1,202.7	\$4,553.1	\$5,755.8
Temporary increase in Vehicle License Fees effective May 19, 2009 through June 30, 2013 ¹ . This will raise the total rate from 0.65 percent to 1.15 percent with 0.35 going to the General Fund and 0.15 percent going to local law enforcement.	345.9	1,692.4	2,038.3
A triggered ² temporary increase of 0.125 percent in each personal income tax rate 2009 through 2012 ³ .		1,829.0	1,829.0
A temporary increase of 0.125 percent in each personal income tax rate 2009 through 2012 ³ .		1,829.0	1,829.0
Temporary reduction in the Personal Income Tax exemption credit for dependents to the amount provided for the personal credit for tax years 2009-2012 ³ . This will reduce the credit from \$309 to \$99.		1,440.0	1,440.0
Temporary \$3,000 job creation credit for small businesses under both the personal income and corporate tax laws. At total of \$400 million is provided for these credits.	-15.0	-330.0	-345.0
Temporary house purchase credit of 5.0 percent of cost up to \$10,000 available for never-occupied houses purchased between March 1, 2009 and March 1, 2010 or until \$100 million in credits is reserved.		-33.3	-33.3
Subtotals, Revenue Solutions	\$ 1,533.6	\$ 10,980.2	\$ 12,513.8
Borrowing Solutions			
One-time loans and transfers of surplus funds from special funds	\$ 268.2	\$ 134.4	\$ 402.6
Proceeds of the securitization of lottery revenues will be used to offset General Fund expenditures in 2009-10.		5,001.0	5,001.0
Subtotals, Borrowing Solutions	\$268.2	\$5,135.4	\$5,403.6
Totals, Revenues and Borrowing	\$1,801.8	\$16,115.6	\$17,917.4

Notes:

¹ If budget reform is not approved, these revenues will sunset on June 30, 2011.

² If at least \$10.0 billion of additional federal stimulus funds that offset General Fund costs are received, this tax increase will not become effective.

³ If budget reform is not approved, these revenues will sunset after the 2010 tax year.

FEDERAL STIMULUS AND THE TRIGGER LEGISLATION

The Budget requires the Director of Finance and the Treasurer to conduct a public meeting and to determine by April 1, 2009 how much General Fund benefit the state will receive in 2008-09 and 2009-10 from the receipt of the recently enacted American Recovery and Reinvestment Act of 2009. If the determination at that time is \$10 billion or greater, the expenditure solutions labeled as “trigger reductions” on INT-02 will not go into effect, nor will the additional 0.125 percent surcharge on the income tax rate.

While the determination of the General Fund benefit from the federal stimulus legislation will not be official until April 1, the current estimate is \$8 billion, which would not be enough to trigger off the cuts and tax increase. However, this amount will increase the General Fund reserve and thereby eliminate the need for the state to sell Revenue Anticipation Warrants (RAWs) for budgetary purposes in July. It should be noted, however, that the state may still need to sell RAWs this spring for cash management purposes.

BUDGET REFORM AND GOVERNMENT REFORM

BUDGET REFORM

California’s chronic and cyclic budget crises are largely attributable to the use of higher-than-normal revenues to create permanent, ongoing spending commitments and tax cuts. Once revenue returns to more normal levels—or even drops during recessionary times—the resulting higher spending base is unsustainable and drastic cuts and tax increases are required. Budget reform is designed to end this cycle of binge and purge by preventing government from spending revenue above the long-term trend line and by creating a substantial Rainy Day fund of up to 12.5 percent of General Fund revenue for use only during times when revenue is insufficient to fund a moderate, population-and-inflation-based growth in spending.

To give budget reform the teeth it needs to be effective, it must be approved as a constitutional amendment by the people at an election scheduled for May 19, 2009.

If this budget reform had been in effect since 1998-99, the State Budget would have been much more stable over the last decade. Spending would have grown much less, so the reductions in 2008-09 would not have been as dramatic. And, the state would have had \$9 billion to use from the Rainy Day fund, thus reducing or eliminating the need to raise taxes.

The text box on the facing page outlines the major features of this historic constitutional amendment.

LONG-TERM FUNDING FOR EDUCATION

The drastic decline in state General Fund revenues that has resulted from the current recession had an immediate impact on K-14 funding by dramatically reducing the Proposition 98 guarantee. In the long term, given the way that Proposition 98 is tied to General Fund revenues, the guarantee would return to historical levels. The Budget recognizes this and the need to plan for a smooth and affordable transition over many years by scheduling increases in K-14 funding as part of the Budget Reform package. This mechanism uses one-half of the annual 3-percent General Fund transfer into the Rainy Day fund to provide education over a period of several years the \$9.3 billion that was reduced in 2008-09 from the Proposition 98 guarantee due to the current recession and that was created as maintenance factor in 2007-08.

GOVERNMENT REFORM

The legislation accompanying the Budget includes two major reforms designed to make government more efficient and flexible.

- Educational Categorical Flexibility. In an effort to help school districts better manage their budgets during these tough economic times, the budget package provides relief from a variety of strings attached to 42 categorical programs. This flexibility will be provided through fiscal year 2012-13, allowing school districts to shift funds to meet their highest priority needs. In addition, the package proposes to significantly reduce the penalties associated with K-3 Class Size Reduction through 2011-12, allowing districts to retain up to 70 percent of funding if pupil-to-teacher ratios increase more than 25 to 1, which will provide greater local flexibility.

The flexibility proposal will not include programs that are protected under federal law or that were approved through a voter initiative. The most notable programs in this category are: Special Education, Child Nutrition, Child Care and the After School Education and Safety Program (ASES). In addition, there are 11 other programs that will not be included in the flexibility proposal but will be subject to an across-the-board reduction.

- Construction Efficiencies for State Facilities – This provides expanded authority for the state to complete five additional projects utilizing the design-build procurement method.

RAINY DAY FUND *DEPOSITS*

- **3-percent** of current-year revenue deposited every September
 - Can still be waived by Governor until 2011-12
 - Cannot be waived after 2011-12, unless
 - A withdrawal would be allowed
 - Or the deposit would raise the balance to over 12.5 percent of General Fund in the year of the transfer
 - Beginning in 2011-12
 - Half goes to Rainy Day fund, half of that portion to Economic Recovery Bond (ERB) debt service until ERBs are repaid.
 - The other half goes to Prop 98 until \$9.3 billion is added to the guarantee level (see below). After all of Prop98 payments are made, this half is dedicated to debt retirement and infrastructure. (The portion of the transfer for payments to education cannot be waived.)
- Excess revenue deposited every May
 - Excess over 10-year trend (regression), after accounting for Proposition 98 growth
 - Can never be waived if there is an excess
 - However, it can be reduced to prevent the remaining General Fund from being too little to fund "current service level"

RAINY DAY FUND *WITHDRAWALS*

- Take Out permitted when needed to fund "current service level" next year or when there is an emergency.
 - Next year's services level equals this year's spending increased by population and CPI
 - If available General Fund is not enough to cover that next year, an amount sufficient to supplement the General Fund up to the necessary amount can be taken out, but no more
 - In the case of an emergency, funds necessary to respond to the emergency.
- Overflow happens whenever the Rainy Day Fund has a balance greater than 12.5 percent of the General Fund revenue in a given year
 - Overflow can be used for budgetary debt (Economic Recovery Bonds, Proposition 42 loans, etc.)
 - If there is no budgetary debt, overflow be used for one-time infrastructure, bond defeasance, or retained.
- Proposition 98 gets one half of the 3-percent deposit beginning in 2011-12
 - These withdrawals continue until they total \$9.3 billion
 - This is the amount of Maintenance Factor created in 2007-08 (\$1.4 billion) plus an amount that is in-lieu of any maintenance factor that may or may not be created in 2008-09.

In addition, the Legislature has committed to give serious consideration during budget deliberations this spring to several reforms proposed in the Governor's Budget, including the consolidation of energy policy responsibility which currently exists in seven different state departments into one cabinet-level Department of Energy, the consolidation of various information technology functions under the state's new Chief Information Officer, and the elimination or consolidation of numerous boards, departments and commissions.

ECONOMIC STIMULUS

Legislation accompanying the Budget Act includes the following measures designed to help stimulate California's economy:

- Single Sales Factor. This change in how corporate taxes are calculated is designed to reward companies that employ Californians. Currently, most businesses with revenue in multiple states attribute their taxable profits to California using a formula that weights their capital and employment in California equally and double weights their sales in the state. By changing to a formula that attributes profits to this state based entirely on sales in the state, companies that have large capital investments and/or large numbers of employees in California, but whose sales are mostly in other states, will receive a tax cut. This option will become available to corporations for the 2011 tax year. It is estimated to result in tax cuts annually totaling \$700 million. Corporations that would benefit from retaining the current double-weighted sales factor apportionment formula would be allowed to do so.
- Film Credit. The revenue legislation includes \$100 million annually for tax credits for portions of wages and other specified expenses incurred in producing feature films, television series and movies of the week in California. These credits will first be taken in 2011-12 but can be applied for and earned beginning as soon as program regulations are completed in 2009-10. This is intended to compete with other states and countries that offer subsidies to lure productions away from California.
- Job Credit. A temporary \$3,000 new job creation credit is provided for small businesses under both the personal income and corporate tax laws. These credits will be allocated upon filing a final return for 2009 and subsequent tax years on a first come-first served basis for employers with 20 or fewer employees in the previous tax year. Credits will not be provided after the quarter in which the total amount of credits awarded reaches \$400 million. Thus, something more than \$400 million will be awarded.

- Housing Credit. A budget trailer bill creates a home buyers' credit against personal income tax liability for 5 percent of the purchase cost, not to exceed \$10,000. Credits could only be obtained for purchasing, between March 1, 2009 and March 1, 2010, a principal residence that has never been occupied. The bill limits the credits to \$100 million, with credits reserved based on purchase date. Buyers can receive a credit allocation by assuring that the Franchise Tax Board (FTB) receives a certificate from the seller stating that the home had never been occupied. The credits must be claimed in equal amounts on tax returns over three years beginning in the tax year of the purchase.
- California Environmental Quality Act (CEQA) Exemptions. The administration remains committed to environmental protection. However, there are opportunities to accelerate some projects to stimulate the economy by authorizing limited and targeted exemptions to the CEQA review process. Specifically, the measures accompanying the Budget Act authorize CEQA exemptions for the sale of surplus state property and for \$1.4 billion in transportation projects through 2010.
- Off-Road Diesel Air Quality Regulations. In order to ensure that sufficient off-road equipment is available to enable the construction of economic stimulus projects, and to spread out the cost of compliance for fleet owners, the budget provides a modest delay in the compliance deadline for new regulations. Specifically, fleet turnover and retrofit requirements for the years 2011-2013 have been modified so that fleets may meet 20 percent of the requirements by 2011, 40 percent by 2012, and 100 percent by 2013. Fleets will also receive credits towards the 2010 and 2011 requirements to reflect emissions reductions that result from the retirement or reduced operation of fleet equipment during specified time periods.
- Public-Private Partnerships. The measures accompanying the Budget authorize state and local transportation agencies to seek private sector financing to build transportation projects in addition to those financed with public funds. This authorization will sunset in 2017. This authorization can help create more jobs, more quickly than if the state relied exclusively on public financing.
- Design-Build Authority. The measures accompanying the Budget authorize the use of design-build contracting for 10 state transportation projects, five local transportation projects, five offices, courts or prisons projects, and 10 local redevelopment agency projects. This could result in more projects being built faster and more cost-effectively for the taxpayer.

- Carl Moyer Program Enhancements. Off-road diesel farm equipment will have improved eligibility for funding under the Carl Moyer Program. As a result, investment in emissions-reducing capital improvements in California's agricultural sector will increase, energy use will likely decline, and air quality in the San Joaquin Valley will improve.
- Employee Schedule Flexibility. The measures accompanying the Budget give more options to employees and employers in shaping workweeks, making California's business environment more competitive.
- The initiation of critical courthouses will be accelerated. The measures accompanying the budget authorize the acceleration of land acquisition and planning for critical local courthouse needs throughout the state. This will ensure that these projects can begin promptly and could result in cost savings.

CASH MANAGEMENT – PAYMENT DELAYS WILL HAVE TO CONTINUE

One major problem that has arisen from the state's budget crisis is that the state has had insufficient cash reserves to pay all of its bills in the month of February. In the absence of a budget agreement, this cash shortfall would have continued through the remainder of 2008-09. Worse yet, in the absence of a budget solution, the Governor's Budget projected that by the end of the month of July:

- The General Fund would have owed \$15.9 billion to other state funds;
- The state would have had unpaid bills totaling \$3.7 billion at the beginning of the month;
- New revenues received that month would have totaled only \$5.8 billion;
- New obligations in that month would have totaled \$12.5 billion; and,
- As a result, the state would have had \$10.4 billion in unpaid bills by the end of July.

As this cash crisis has developed, the Department of Finance, the Treasurer, and the Controller have worked diligently to manage cash. Beginning January of 2008, \$8.7 billion in cash solutions were identified. In last year's May Revision, an additional \$3.6 billion in deferrals to further postpone the cash crisis were included. Last summer, an additional \$4 billion in internal borrowable resources were identified. The Treasurer sold \$5 billion

in Revenue Anticipation Notes in the fall. And, in this budget, another \$2 billion in internal borrowables have been made available. Cash management, however, is never more than a stopgap measure. Ultimately, unbalanced budgets will overcome any efforts to manage cash, no matter how Herculean.

The Budget Act and its accompanying measures bring the budget back into balance in 2008-09 and 2009-10. Eventually, this will result in giving the state enough working cash to resume making all payments in a timely manner. However, it is important to acknowledge that this return to normalcy will not happen immediately. The Department of Finance, the Treasurer, and the Controller will continue to work diligently to develop a cash management plan that will facilitate a return to normal payments, but it may be several weeks before such a plan can be finalized. Even then, it may be necessary to continue delaying some payments this year and early into the next fiscal year. The three offices are committed, however, to do everything possible to minimize any payment delays and the disruption that they bring.

BUDGET CHALLENGES REMAIN

The Governor's Budget projected operating deficits of \$11.7 billion, \$9.9 billion and \$13.4 billion in 2010-11, 2011-12 and 2012-13, respectively. The Department of Finance will update its multi-year forecast in the May Revision. It is clear that the Budget Act and accompanying measures will reduce the out-year deficit forecasts, at least in some years. Nevertheless, it is also clear that there is more work to do to keep the budget in balance into the future. In the long run, the Budget Reform included in this solution will go a very long way toward keeping the state's budget in balance.

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SUMMARY CHARTS

Figure SUM-01
2009 Budget Act
General Fund Budget Summary
Workload Budget
(Dollars in Millions)

	<u>2008-09</u>	<u>2009-10</u>
Prior Year Balance	\$3,326	-\$13,692
Revenues and Transfers	<u>\$87,471</u>	<u>\$86,300</u>
Total Resources Available	\$90,797	\$72,608
Non-Proposition 98 Expenditures	\$62,109	\$68,708
Proposition 98 Expenditures	<u>\$42,380</u>	<u>\$42,381</u>
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 Budget Act
General Fund Budget Summary
With All Budget Solutions
(Dollars in Millions)

	<u>2008-09</u>	<u>2009-10</u>
Prior Year Balance	\$2,376	-\$2,341
Revenues and Transfers	<u>\$89,372</u>	<u>\$97,729</u>
Total Resources Available	\$91,748	\$95,388
Non-Proposition 98 Expenditures	\$59,054	\$51,682
Proposition 98 Expenditures	<u>\$35,035</u>	<u>\$40,524</u>
Total Expenditures	\$94,089	\$92,206
Fund Balance	-2,341	3,182
Reserve for Liquidation of Encumbrances	\$1,079	\$1,079
Special Fund for Economic Uncertainties	-\$3,420	\$2,103
Budget Stabilization Account	-	-
Total Available Reserve	-\$3,420	\$2,103

Figure SUM-03
General Fund Revenue Sources
(Dollars in Millions)

	Change from 2008-09			
	2008-09	2009-10	Dollar Change	Percent Change
Personal Income Tax	\$46,792	\$51,237	\$4,445	9.5%
Sales Tax	26,332	30,221	3,889	14.8%
Corporation Tax	10,197	10,445	248	2.4%
Motor Vehicle Fees	372	1,719	1,347	362.1%
Insurance Tax	1,831	1,798	-33	-1.8%
Liquor Tax	355	370	15	4.2%
Tobacco Taxes	113	111	-2	-1.8%
Other	3,381	1,827	-1,554	-46.0%
Total	\$89,373	\$97,728	\$8,355	9.3%

Note: Numbers may not add due to rounding.

Figure SUM-04
General Fund Expenditures by Agency
(Dollars in Millions)

	Change from 2008-09			
	2008-09	2009-10	Dollar Change	Percent Change
Legislative, Judicial, Executive	\$3,807	\$3,566	-\$241	-6.3%
State and Consumer Services	567	575	8	1.4%
Business, Transportation & Housing Resources	1,569	2,625	1,056	67.3%
Environmental Protection	83	79	-4	-4.8%
Health and Human Services	31,260	31,555	295	0.9%
Corrections and Rehabilitation	10,319	9,989	-330	-3.2%
K-12 Education	34,865	39,657	4,792	13.7%
Higher Education	11,631	12,013	382	3.3%
Labor and Workforce Development	102	104	2	2.0%
General Government:				
Non-Agency Departments	411	623	212	51.6%
Tax Relief/Local Government	682	498	-184	-27.0%
Statewide Expenditures	-3,231	-10,941 ^{1/}	-7,710	238.6%
Total	\$94,089	\$92,206	-\$1,883	-2.0%

^{1/} Includes \$6.1 billion of reimbursements from proceeds of lottery securitization and lottery revenues.

Note: Numbers may not add due to rounding.

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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 K. Rockwell
Chief Counsel
(916) 324-4856

Miriam B. Ingenito
Deputy Director, Legislation
(916) 445-8610

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

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State of California
Governor's Office

Item 0110-001-0001—For support of Senate

I am not reducing the Legislature's budget to reflect the \$24.9 million in cuts included in my proposed budget. While I am not reducing the Legislature's budget, I expect the Legislature to achieve savings that equal 10 percent of their budget, by taking action to offset General Fund expenditures in state programs and other areas of the budget.

Item 0120-011-0001—For support of Assembly

I am not reducing the Legislature's budget to reflect the \$24.9 million in cuts included in my proposed budget. While I am not reducing the Legislature's budget, I expect the Legislature to achieve savings that equal 10 percent of their budget, by taking action to offset General Fund expenditures in state programs and other areas of the budget.

I object to the following appropriations contained in Senate Bill 1 Third Extraordinary Session.

Item 0750-001-0001—For support of Office of the Lieutenant Governor. I reduce this item from \$2,778,000 to \$1,044,000.

I am reducing the Lieutenant Governor's budget by \$1,734,000 to ensure that sufficient resources are reserved for key programs within state government. In these tough times, we cannot continue to fund the Office of the Lieutenant Governor at the level provided in recent years.

Item 0820-001-0001—For support of Department of Justice. I reduce this item from \$369,594,000 to \$345,933,000 by reducing:

- (8) Amount payable from the Fingerprint Fees Account (Item 0820-001-0017) from -\$70,079,000 to -\$66,615,000;
- (10) Amount payable from the Motor Vehicle Account, State Transportation Fund (Item 0820-001-0044) from -\$25,109,000 to -\$23,834,000;
- (11) Amount payable from the Department of Justice Sexual Habitual Offender Fund (Item 0820-001-0142) from -\$2,321,000 to -\$2,218,000;
- (15) Amount payable from the Indian Gaming Special Distribution Fund (Item 0820-001-0367) from -\$15,636,000 to -\$14,080,000;
- (16) Amount payable from the False Claims Act Fund (Item 0820-001-0378) from -\$10,657,000 to -\$10,090,000;
- (17) Amount payable from the Dealers' Record of Sale Special Account (Item 0820-001-0460) -\$10,787,000 to -\$9,907,000;
- (19) Amount payable from the Gambling Control Fund (Item 0820-001-0567) from -\$8,050,000 to -\$7,271,000;

- (21) Amount payable from the Federal Trust Fund (Item 0820-001-0890) from -\$41,174,000 to -\$37,914,000;
- (25) Amount payable from the Missing Persons DNA Data Base Fund (Item 0820-001-3016) from -\$3,765,000 to -\$3,376,000;
- (26) Amount payable from the Public Rights Law Enforcement Special Fund (Item 0820-001-3053) from -\$5,957,000 to -\$5,615,000;
- (27) Amount payable from the Ratepayer Relief Fund (Item 0820-001-3061) from -\$5,463,000 to -\$4,896,000;
- (28) Amount payable from the DNA Identification Fund (Item 0820-001- 3086) from -\$32,144,000 to -\$29,267,000;
- (29) Amount payable from the Unfair Competition Law Fund (Item 0820-001-3087) from -\$3,475,000 to -\$3,247,000;
- (31) Amount payable from the Legal Services Revolving Fund (Item 0820-001-9731) from -\$122,601,000 to -\$114,653,000;

and by adding:

97.20.001-Unallocated Reduction -\$47,896,000.

I am reducing this appropriation by 10 percent of the Attorney General's personal services budget which reflects the state employee compensation reductions for furloughs, overtime reform, and elimination of two state holidays. I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0820-001-0017—For support of Department of Justice. I reduce this item from \$70,079,000 to \$66,615,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0044—For support of Department of Justice. I reduce this item from \$25,109,000 to \$23,834,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0142—For support of Department of Justice. I reduce this item from \$2,321,000 to \$2,218,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0367—For support of Department of Justice. I reduce this item from \$15,636,000 to \$14,080,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0378—For support of Department of Justice. I reduce this item from \$10,657,000 to \$10,090,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0460—For support of Department of Justice. I reduce this item from \$10,787,000 to \$9,907,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0567—For support of Department of Justice. I reduce this item from \$8,050,000 to \$7,271,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0890—For support of Department of Justice. I reduce this item from \$41,174,000 to \$37,914,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3016—For support of Department of Justice. I reduce this item from \$3,765,000 to \$3,376,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3053—For support of Department of Justice. I reduce this item from \$5,957,000 to \$5,615,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3061—For support of Department of Justice. I reduce this item from \$5,463,000 to \$4,896,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3086—For support of Department of Justice. I reduce this item from \$32,144,000 to \$29,267,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3087—For support of Department of Justice. I reduce this item from \$3,475,000 to \$3,247,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-9731—For support of Department of Justice. I reduce this item from \$122,601,000 to \$114,653,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0840-001-0001—For support of the Controller. I reduce this item from \$56,976,000 to \$52,264,000 by reducing:

- (1) 100000-Personal Services from \$111,076,000 to \$99,968,000;
- (3) Reimbursements from -\$51,348,000 to -\$48,353,000;
- (4) Amount payable from the Motor Vehicle Fuel Account, Transportation Tax Fund (Item 0840-001-0061) from -\$4,149,000 to -\$3,907,000;
- (5) Amount payable from the Highway Users Tax Account, Transportation Tax Fund (Item 0840-001-0062) from -\$1,184,000 to -\$1,115,000;
- (6) Amount payable from the Local Revenue Fund (Item 0840-001-0330) from -\$600,000 to -\$565,000;
- (7) Amount payable from the Federal Trust Fund (Item 0840-001-0890) from -\$813,000 to -\$766,000;
- (8) Amount payable from the State Penalty Fund (Item 0840-001-0903) from -\$1,332,000 to -\$1,254,000;
- (9) Amount payable from the Unclaimed Property Fund (Item 0840-001-0970) from -\$28,250,000 to -\$26,602,000;
- (10) Amount payable from various other unallocated nongovernmental cost funds (Retail Sales Tax Fund) (Item 0840-001-0988) from -\$242,000 to -\$228,000;
- (11) Amount payable from the 2006 State School Facilities Fund (Item 0840-001-6057) from -\$978,000 to -\$921,000;
- (12) Amount payable from the Central Service Cost Recovery Fund (Item 0840-001-9740) from -\$19,098,000 to -\$17,984,000;
- (13) Amount payable from other unallocated special funds (Item 0840-011-0494) from -\$96,000 to -\$90,000;
- (14) Amount payable from unallocated bond funds (Item 0840-011-0797) from -\$631,000 to -\$594,000;
- (15) Amount payable from various other unallocated nongovernmental cost funds (Item 0840-011-0988) from -\$90,000 to -\$85,000;
- (16) Amount payable from the Public Transportation Account, State Transportation Fund (Section 25.50) from -\$18,000 to -\$17,000;
- (17) Amount payable from the Highway Users Tax Account, Transportation Tax Fund (Section 25.50) from -\$289,000 to -\$272,000;

- (18) Amount payable from the Motor Vehicle License Fee Account, Transportation Tax Fund (Section 25.50) from -\$16,000 to -\$15,000;
- (20) Amount payable from the Trial Court Trust Fund (Section 25.50) from -\$165,000 to -\$155,000;
- (22) Amount payable from the Public Safety Account, Local Public Safety Fund (Section 25.50) from -\$255,000 to -\$240,000; and
- (23) Amount payable from the Local Revenue Fund (Section 25.50) from -\$95,000 to -\$90,000.

I am reducing this appropriation by 10 percent of the State Controller's personal services budget which reflects the state employee compensation reductions for furloughs, overtime reform, and elimination of two state holidays. I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0840-001-0061—For support of the Controller. I reduce this item from \$4,149,000 to \$3,907,000.

I am reducing this item by \$242,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0062—For support of the Controller. I reduce this item from \$1,184,000 to \$1,115,000.

I am reducing this item by \$69,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0330—For support of the Controller. I reduce this item from \$600,000 to \$565,000.

I am reducing this item by \$35,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0890—For support of the Controller. I reduce this item from \$813,000 to \$766,000.

I am reducing this item by \$47,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0903—For support of the Controller. I reduce this item from \$1,332,000 to \$1,254,000.

I am reducing this item by \$78,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0970—For support of the Controller. I reduce this item from \$28,250,000 to \$26,602,000.

I am reducing this item by \$1,648,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0988—For support of the Controller. I reduce this item from \$242,000 to \$228,000.

I am reducing this item by \$14,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-6057—For support of the Controller. I reduce this item from \$978,000 to \$921,000.

I am reducing this item by \$57,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-9740—For support of the Controller. I reduce this item from \$19,098,000 to \$17,984,000.

I am reducing this item by \$1,114,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-011-0494—For support of the Controller. I reduce this item from \$96,000 to \$90,000.

I am reducing this item by \$6,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-011-0797—For support of the Controller. I reduce this item from \$631,000 to \$594,000.

I am reducing this item by \$37,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-011-0988—For support of the Controller. I reduce this item from \$90,000 to \$85,000.

I am reducing this item by \$5,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0845-001-0217—For support of Department of Insurance. I reduce this item from \$174,200,000 to \$156,780,000 by adding:

97.20.001-Unallocated Reduction -\$17,420,000.

While the budget bill provides for a modest reserve, constitutional requirements, federal law and court required payments drive the majority of spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently, I am taking the action reflected in this veto to further control state spending.

Item 0845-101-0217 – For local assistance, Department of Insurance. I reduce this item from \$65,601,000 to \$59,041,000 by adding:

97.20.001-Unallocated Reduction -6,560,000.

While the budget bill provides for a modest reserve, constitutional requirements, federal law and court required payments drive the majority of spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently, I am taking the action reflected in this veto to further control state spending.

Item 0860-001-0001—For support of State Board of Equalization. I reduce this item from \$255,493,000 to \$245,549,000 by reducing:

- (1) 100000-Personal Services from \$340,997,000 to \$327,541,000;
- (4) Amount payable from the Breast Cancer Fund (Item 0860-001-0004) from -\$696,000 to -\$662,000;
- (5) Amount payable from the State Emergency Telephone Number Account (Item 0860-001-0022) from -\$1,527,000 to -\$1,459,000;
- (6) Amount payable from the Motor Vehicle Fuel Account, Transportation Tax Fund (Item 0860-001-0061) from -\$22,636,000 to -\$21,068,000;
- (7) Amount payable from the Occupational Lead Poisoning Prevention Account (Item 0860 001-0070) from -\$736,000 to -\$668,000;
- (8) Amount payable from the Childhood Lead Poisoning Prevention Fund (Item 0860-001-0080) from -\$513,000 to -\$479,000;
- (9) Amount payable from the Cigarette and Tobacco Products Surtax Fund (Item 0860-001-0230) from -\$8,727,000 to -\$8,385,000;
- (10) Amount payable from the Oil Spill Prevention and Administration Fund (Item 0860-001-0320) from -\$264,000 to -\$230,000;
- (11) Amount payable from the Integrated Waste Management Account, Integrated Waste Management Fund (Item 0860-001-0387) from -\$477,000 to -\$409,000;
- (12) Amount payable from the Underground Storage Tank Cleanup Fund (Item 0860-001-0439) from -\$3,338,000 to -\$3,133,000;
- (14) Amount payable from the California Children and Families First Trust Fund (Item 0860-001-0623) from -\$15,171,000 to -\$14,523,000;
- (17) Amount payable from the Gas Consumption Surcharge Fund (Item 0860-001-3015) from -\$670,000 to -\$636,000;
- (18) Amount payable from the Water Rights Fund (Item 0860-001-3058) from -\$431,000 to -\$397,000;
- (19) Amount payable from the Electronic Waste Recovery and Recycling Account (Item 0860-001-3065) from -\$4,742,000 to -\$4,401,000; and
- (20) Amount payable from the Cigarette and Tobacco Products Compliance Fund (Item 0860-001-3067) from -\$682,000 to -\$648,000.

I am reducing this appropriation to reflect savings in the Board of Equalization's budget which would normally be expected to occur as a result of the state employee furloughs I ordered, net of the tentative bargaining agreements reached with Units 1, 3, 4, 11, 14, 15, 17, 20 and 21. Because the Board of Equalization has declined to participate in the furloughs, I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0860-001-0004—For support of State Board of Equalization. I reduce this item from \$696,000 to \$662,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0022—For support of State Board of Equalization. I reduce this item from \$1,527,000 to \$1,459,000.

I am reducing this item by \$68,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0061—For support of State Board of Equalization. I reduce this item from \$22,636,000 to \$21,068,000.

I am reducing this item by \$1,568,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0070—For support of State Board of Equalization. I reduce this item from \$736,000 to \$668,000.

I am reducing this item by \$68,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0080—For support of State Board of Equalization. I reduce this item from \$513,000 to \$479,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0230—For support of State Board of Equalization. I reduce this item from \$8,727,000 to \$8,385,000.

I am reducing this item by \$342,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0320—For support of State Board of Equalization. I reduce this item from \$264,000 to \$230,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0387—For support of State Board of Equalization. I reduce this item from \$477,000 to \$409,000.

I am reducing this item by \$68,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0439—For support of State Board of Equalization. I reduce this item from \$3,338,000 to \$3,133,000.

I am reducing this item by \$205,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0623—For support of State Board of Equalization. I reduce this item from \$15,171,000 to \$14,523,000.

I am reducing this item by \$648,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-3015—For support of State Board of Equalization. I reduce this item from \$670,000 to \$636,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-3058—For support of State Board of Equalization. I reduce this item from \$431,000 to \$397,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-3065—For support of State Board of Equalization. I reduce this item from \$4,742,000 to \$4,401,000.

I am reducing this item by \$341,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-3067—For support of State Board of Equalization. I reduce this item from \$682,000 to \$648,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0890-001-0001—For support of Secretary of State. I reduce this item from \$31,970,000 to \$30,699,000 by reducing:

- (6) Reimbursements from -\$7,339,000 to -\$7,030,000;
- (7) Amount payable from the Secretary of State's Business Fees Fund (Item 0890-001-0228) from -\$38,672,000 to -\$37,126,000;
- (8) Amount payable from the Federal Trust Fund (Item 0890-001-0890) from -\$5,629,000 to -\$5,388,000;
- (9) Amount payable from the Victims of Corporate Fraud Compensation Fund (Item 0890-001-3042) from -\$1,626,000 to -\$ 1,557,000;

and by adding:

97.20.001 – Unallocated Reduction -\$3,436,000.

I am reducing this appropriation by 10 percent of the Secretary of State's personal services budget which reflects the state employee compensation reductions for furloughs, overtime reform, and elimination of two state holidays. I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0890-001-0228—For support of Secretary of State. I reduce this item from \$38,672,000 to \$37,126,000.

I am reducing this item to conform to the action I have taken in Item 0890-001-0001.

Item 0890-001-0890 – For support of Secretary of State. I reduce this item from \$5,629,000 to \$5,388,000.

I am reducing this item to conform to the action I have taken in Item 0890-001-0001.

Item 0890-001-3042 – For support of Secretary of State, I reduce this item from \$1,626,000 to \$1,557,000.

I am reducing this item to conform to the action I have taken in Item 0890-001-0001.

Item 0950-001-0001—For support of the Treasurer. I reduce this item from \$5,116,000 to \$4,538,000 by reducing:

- (1) 100000-Personal Services from \$21,207,000 to \$20,382,000; and
- (5) Amount payable from the Central Service Cost Recovery Fund (Item 0950-001-9740) from -\$1,795,000 to -\$1,548,000.

I am reducing this appropriation to reflect savings in the Treasurer's budget which would normally be expected to occur as a result of the state employee furloughs I ordered, net of the

tentative bargaining agreements reached with Units 1, 3, 4, 11, 14, 15, 17, 20 and 21. Because the Treasurer has declined to participate in the furloughs, I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0950-001-9740—For support of the Treasurer. I reduce this item from \$1,795,000 to \$1,548,000.

I am reducing this item by \$247,000 to conform to the action I have taken in Item 0950-001-0001.

Item 2660-013-0042—For transfer by the Controller from the State Highway Account, State Transportation Fund, to the Transportation Debt Service Fund to be used as specified in Section 16965 of the Government Code.

I am eliminating this item consistent with the Budget agreement to eliminate the proposed \$0.12 excise tax increase on gasoline and diesel fuel.

Item 2660-302-0042—For capital outlay, Department of Transportation. I reduce this item from \$570,000,000 to \$295,000,000 by reducing:

- (1) 20-Highway Transportation from \$1,795,000,000 to \$1,520,000,000, and
- (a) State Highway Operation and Protection Program (\$1,795,000,000) to (\$1,520,000,000).

I am reducing this item by \$275,000,000 to be consistent with the Budget agreement to eliminate the proposed \$0.12 excise tax increase on gasoline and diesel fuel.

Item 5225-001-0001—For support of Department of Corrections and Rehabilitation. I reduce this Item from \$7,287,426,000 to \$6,887,426,000 by adding:

97.20.001-Unallocated Reduction -\$400,000,000

I am reducing this appropriation by \$400,000,000 to reflect savings I expect to be achieved as a result of various reforms and actions implemented by the Secretary of the California Department of Corrections and Rehabilitation. Federal court mandates, employee compensation, rehabilitation programming, and population related costs have contributed to making the Corrections budget one of the fastest growing in state government in recent years. Between 2005-06 and 2007-08, the Corrections budget grew by nearly 30 percent. Savings in this area are necessary to address the fiscal crisis and I will be working with the Legislature to achieve these reductions. These savings will be achieved in a manner that promotes rehabilitation and preserves public safety.

Item 6110-001-0001—For support of Department of Education. I reduce this item from \$43,139,000 to \$40,401,000 by reducing:

- (8) Reimbursements from -\$17,258,000 to -\$16,163,000;
 - (9) Amount payable from the Federal Trust Fund (Item 6110-001-0890) from -\$155,590,000 to -\$145,715,000;
 - (10) Amount payable from the Mental Health Services Fund (Item 6110-001-3085) from -\$709,000 to -\$664,000;
- and by adding:

97.20.001-Unallocated Reduction -\$13,753,000

I am reducing this appropriation by 10 percent of the Department of Education's personal services budget which reflects the state employee compensation reductions for furloughs, overtime reform, and elimination of two state holidays. I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 6110-001-0140—For support of Department of Education, Program 20.10.055-Instructional Support, Environmental Education. I reduce this item from \$48,000 to \$45,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-0178—For support of Department of Education, Program 20.30.003-Instructional Support, Schoolbus Driver Instructor Training. I reduce this item from \$1,624,000 to \$1,521,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-0231—For support of Department of Education, Program 20.10.045-Instructional Support, Curriculum Services-Health and Physical Education-Drug Free Schools. I reduce this item from \$990,000 to \$927,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-0687—For support of Department of Education, Program 30.50-Donated Food Distribution. I reduce this item from \$7,483,000 to \$7,008,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-0890—For support of Department of Education. I reduce this item from \$155,590,000 to \$145,715,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-3085—For support of Department of Education. I reduce this item from \$709,000 to \$664,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-6057—For support of Department of Education, Program 20.30-Administrative Services. I reduce this item from \$2,778,000 to \$2,602,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-003-0001—For support of Department of Education, Program 20.30.020-Instructional Support, Standardized Account Code Structure. I reduce this item from \$1,178,000 to \$1,103,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-005-0001—For support of Department of Education. I reduce this item from \$38,736,000 to \$36,279,000 by reducing:

- (1) 10.60.040-Instruction from 39,135,000 to 36,678,000;
- (a) 10.60.040.001-School for the Blind, Fremont from 5,644,000 to 5,289,655;
- (b) 10.60.040.002-School for the Deaf, Fremont from 17,979,000 to 16,850,230;
- (c) 10.60.040.003-School for the Deaf, Riverside from 15,512,000 to 14,538,115; and

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-008-0046—For support of Department of Education. I reduce this item from \$4,158,000 to \$3,894,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6440-001-0001—For support of University of California. I am reducing this item from \$2,896,355,000 to \$2,641,355,000 by reducing:

- (1) Support from \$2,812,859,000 to \$2,557,859,000.

I am reducing this item by an additional \$255,000,000 on a one-time basis to achieve General Fund savings. This unallocated reduction will be offset by federal funds the state will receive as part of the Federal American Recovery and Reinvestment Act. Consequently, this veto will not impact the University's core instructional functions. In addition, the increase in funding for federal Pell Grants contained in the Act will provide further relief to the University.

Item 6610-001-0001—For support of California State University. I am reducing this item from \$2,793,502,000 to \$2,538,502,000 by reducing:

- (1) Support from \$2,793,502,000 to \$2,538,502,000.

I am reducing this item by an additional \$255,000,000 on a one-time basis to achieve General Fund savings. This unallocated reduction will be offset by federal funds the state will receive as part of the Federal American Recovery and Reinvestment Act. Consequently, this veto will not impact the University's core instructional functions. In addition, the increase in funding for federal Pell Grants contained in the Act will provide further relief to the University.

Item SEC. 25.50—State Controller's Office Apportionments Payment System Assessments.

I am revising Control Section 25.50 to conform to the action I have taken in Item 0840-001-0001, as follows:

"SEC. 25.50. Notwithstanding any other provision of law, an amount not to exceed ~~\$841,000~~ \$822,000 is hereby appropriated from various funds to the Controller, as specified below, for reimbursement of costs for the ongoing maintenance and support of the Apportionment Payment System:

0046 Public Transportation Account	\$ 18,000	
0062 Highway Users Tax Account	289,000	282,000
0064 Motor Vehicle License Fee Account	16,000	

0330 Local Revenue Fund	95,000	93,000
0877 DMV Local Agency Collection Fund	2,000	
0932 Trial Court Trust Fund	165,000	161,000
0965 Timber Tax Fund	1,000	
0969 Public Safety Account	-255,000	249,000
Total, All Funds	\$841,000	\$822,000

The Controller shall assess these funds for the costs of the Apportionment Payment System because apportionment payments in excess of \$10,000,000 are made annually from these funds. Assessments in support of the expenditures for the Apportionment Payment System shall be made monthly, and the total amount assessed from these funds may not exceed the total expenditures incurred by the Controller for the Apportionment Payment System for the 2009-10 fiscal year.”

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 1 Third Extraordinary Session.

/s/ Arnold Schwarzenegger

ARNOLD SCHWARZENEGGER

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Arnold Schwarzenegger
Governor

February 20, 2009

State of California
Governor's Office

I object to the following appropriations contained in Senate Bill 2 Third Extraordinary Session.

Item 2660-013-0042—For transfer by the Controller from the State Highway Account, State Transportation Fund, to the Transportation Debt Service Fund to be used as specified in Section 16965 of the Government Code.

I am eliminating this item consistent with the Budget agreement to eliminate the proposed \$0.12 excise tax increase on gasoline and diesel fuel.

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 2 Third Extraordinary Session.

/s/ Arnold Schwarzenegger

ARNOLD SCHWARZENEGGER