



July 1, 2009

Honorable Denise Moreno Ducheny, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Noreen Evans, Chair
Assembly Budget Committee

Attention: Mr. Christian Griffith, Chief Consultant (2)

July 1 Revision

With the beginning of the new fiscal year, recognizing the failure to enact certain May Revision proposed solutions, the size of the state budget shortfall has increased from \$24.3 billion to \$26.3 billion, and \$3.3 billion of solutions included in the May Revision are now lost. New solutions in addition to those included in the May Revision are now being proposed as displayed in the table below.

Changes in Reserve Since May Revision
(Dollars in Millions)

May Revision Reserve for June 30, 2010		\$4,516
Lower Revenue		-3,000
Rejection of May Revision Solutions:		-5,313
RDA Shift (SB 80)	-350	
Prop 98 2008-09 Solutions not Adopted	-1,617	
Increase in 2009-10 Prop 98 Due to 2008-09 Solutions not Adopted	-1,622	
UC and CSU 2008-09 Solutions not Adopted	-1,435	
Erosion of Cal Grant Solutions	-289	
New Solutions:		4,882
Third day of Furloughs	425	
Prop 98 Suspension in 2009-10	3,022	
Retroactive enactment of May Revision 2008-09 UC and CSU	1,435	
July Revision Reserve		<u>\$1,085</u>

The three new solutions proposed in the July Revision to restore balance to the Budget are as follows:

- Increase \$425 million proposed in Control Section 3.90 for reductions to various items of appropriations for employee compensation to capture the additional savings that will result from a third day of furloughs pursuant to Executive Order S-13-09.
- Suspend Proposition 98 and fund at \$3.0 billion below the new minimum guarantee, for a total General Fund appropriation of \$34.6 billion, which is \$1.4 billion below the level proposed in the May Revision.
- Request that UC and CSU recognize the \$1.4 billion (\$717.5 million each) in intended reductions for the 2008-09 fiscal year. The segments will revert these 2008-09 funds to the General Fund upon passage of legislation that reduces the appropriations accordingly. Legislation must be enacted in July, well before UC and CSU are legally required to close their books.

In addition, the July Revision acknowledges a \$3 billion reduction in revenue based on cash receipts for May and June. The May Revision anticipated the possibility of this revenue reduction and accounted for it by proposing a larger reserve, \$4.5 billion. With the revenue reduction now explicitly scheduled in the July Revision, the reserve can be reduced to \$1.1 billion.

It should be noted, however, that in addition to the loss of the education-related solutions acknowledged above, many of the other solutions proposed in the May Revision need to be enacted early in July in order to prevent the erosion of their value by several hundred million dollars. Thus, further delay in enacting budget solutions will necessitate additional program reductions.

If you have any questions or need additional information regarding this matter, please contact me at (916) 445-4141.

Sincerely,

/s/ Michael C. Genest

MICHAEL C. GENEST
Director

cc: Honorable Christine Kehoe, Chair, Senate Appropriations Committee
Attention: Mr. Bob Franzoia, Staff Director
Honorable Bob Dutton, Vice Chair, Senate Budget and Fiscal Review Committee
Attention: Mr. Seren Taylor, Staff Director
Honorable Kevin de Leon, Chair, Assembly Appropriations Committee
Attention: Mr. Geoff Long, Chief Consultant
Honorable Roger Niello, Vice Chair, Assembly Budget Committee
Attention: Mr. Peter Schaafsma, Staff Director
Mr. Mac Taylor, Legislative Analyst (4)
Mr. Craig Cornett, Senate President pro Tempore's Office
Mr. Christopher W. Woods, Assembly Speaker's Office (2)
Ms. Christine Robertson, Chief of Staff, Assembly Republican Leader's Office