

Bills Passed in February Budget Package

REGULAR SESSION

SB 6..... Implementing language for a 2010 vote on open primaries

SCA 4..... Constitutional Amendment allowing open primaries*

SCA 8..... Constitutional Amendment prohibiting pay increases for legislators, governor, and other state officers in years with a budget deficit

THIRD EXTRAORDINARY SESSION

SBx3 1 2009/2010 Budget

SBx3 2 2008/2009 Budget adjustments

ABx3 3..... Tax Increases (income tax, VLF, sales tax)

SBx3 4 Education Trailer Bill

ABx3 5..... Health Trailer Bill

SBx3 6 Human Services Trailer Bill

SBx3 7 Transportation Trailer Bill

SBx3 8..... General Government Trailer Bill

SBx3 10..... Redirects Prop 63 funds, subject to voter approval

ABx3 11..... Sets a May 19 Special Election

ABx3 12..... Lottery modifications

ABx3 13 Cash Management Trailer Bill

SBx3 14 Prison construction and financing change

SBx3 15 Tax cuts (single sales factor, film production credits, and new hire credits)

ABx3 16 Federal stimulus funds trigger

ABx3 17..... Redirects Prop 10 funds, subject to voter approval

SBx3 19 Adds pay raise measure to the May 19th Special Election

ABx3 20 Removes \$1 million appropriation from the office of the State Controller

ACAx3 1..... Constitutional Amendment on a state spending cap

ACAx3 2..... Constitutional Amendment on supplemental Prop 98 payment

* Constitutional amendments in bold



Bills Passed in February Budget Package, *continued*

2ND EXTRAORDINARY SESSION

- SBx2 3..... Changes Carol Moyer Memorial Air Quality Standards Attainment Program
- SBx2 4 Public private partnerships and design-build changes
- ABx2 5 Overtime clarification of current law
- SBx2 7 Foreclosures
- ABx2 8 CEQA permitting exemptions
- SBx2 9..... Prevailing wage labor compliance programs
- SBx2 10 Vehicle license fee change regarding rental cars
- SBx2 11 Judges benefits
- SBx2 12 Courthouse construction
- SBx2 15 Tax credit for purchasers of new homes
- SBx2 16 Horse racing fairs and licensing fees

Summary of Final Budget Agreement

After a three-month impasse, both houses of the legislature passed the final components of a 16-month, \$41.5 billion package of budget solutions, as well as the 2009-10 budget. The package includes \$14.1 billion in cuts, \$11.1 in new revenues, \$11.5 billion in borrowing and revenue shifts, and \$5 billion in projected revenues from the sale of future lottery proceeds.

While vigilant and unified defense from Labor prevented egregious worker takeaways on the 8-hour day and lunch breaks, the final budget deal included devastating cuts, potentially debilitating limits on future state spending, and several non-budget issues inappropriately inserted into the budget process.

BALLOT MEASURES

The framework of the budget hinged on submitting seven ballot measures to the voters, some related to the budget, some not. Six of those measures will be considered at the Special Election called for May 19th, 2009. One, relating to primary elections, will be voted on in June 2010. The issues to be addressed in upcoming elections include: a budget spending cap, securitization of future lottery proceeds, shifting of voter-approved funding streams, education repayments, state officials' salaries, and primary elections. Please see the document, *Budget Agreement Ballot Measures*, for the details of each initiative.

The most significant of the ballot issues is the proposal for a permanent state spending cap. This measure would effectively lock in a no-growth budget formula for the state, preventing California from ever recovering from cuts made during the current economic crisis. The measure also includes increased gubernatorial authority to enact unilateral budget cuts.

CUTS

The plan involves \$14.1 billion of deep and potentially irreparable cuts to nearly every public service sustained by the General Fund. These cuts come on top of more than \$10 billion already taken in the September budget agreement. If payments from the federal stimulus package don't reach \$10 billion, an additional \$947 million in cuts would be levied. While the final determination of the federal funds level isn't due until April, the Administration has announced that, by their estimation, California will receive only \$7.8 billion in federal aid, triggering on all the additional cuts and revenues.

- **Education:** \$8.6 billion in cuts over 16 months. Includes changes to funding formulas for most education dollars, including the elimination of many forms of categorical funding. Higher education institutions face 10% cuts, plus an additional \$100 million reduction for UC and CSU if federal funds don't meet the threshold.
- **Health care and social services:** total amount of cuts depends on amount of federal stimulus funding. Definite cuts include elimination of COLAs for SSI/SSP and CalWORKS recipients. Based on federal funding, IHSS could be hit with severe cuts, including cuts to IHSS provider wages and benefits through a cap on state participation and a requirement that prospective clients pay an increased share of cost for IHSS care. If federal funds fail to hit the target, MediCal and CalWORKS recipients would face additional cuts, including a 4% reduction in grants and the elimination of several medical benefits.



Summary of Final Budget Agreement, *continued*

- **Transit and Transportation:** \$459 million in cuts to local transit, plus a shift of \$618 million from the Public Transportation Account to education to fund home-to-school transportation. \$200 million worth of tribal gaming revenues will be moved from CalTrans to the General Fund.
- **State Employees:** Changes to state employee compensation and benefits totaling \$1.3 billion over the course of the agreement.
- **Line Item Vetoes:** After passage of the budget, Governor Schwarzenegger unilaterally implemented \$1 billion in additional cuts including: 10% cuts to the offices of most statewide elected officials, a 62% cut to the office of the Lieutenant Governor, a \$400 million reduction to the Department of Corrections, and an additional \$510 million cut to UC and CSU, intended to be replaced with incoming federal stimulus funds.

REVENUES

The budget includes \$14 billion in new revenues from a variety of sources including:

- 1 cent on the dollar increase in the state sales tax: \$5.7 billion (revenue estimates include 08-09 and 09-10 fiscal years)
- Increase the Vehicle License Fee from 0.65% to 1.15% of a vehicle's value. The funds will be divided between the General Fund (1%) and local law enforcement (0.15%): \$2 billion
- 0.125% surcharge on the personal income tax: \$1.8 billion
- Reduction in the dependent tax credit: \$1.4 billion

Each of these tax increases is temporary, though their expiration date is contingent on the fate of the spending cap ballot measure. If the spending cap initiative fails, all tax increases will expire two years from their effective dates. If the spending cap passes, the sales tax would be extended by a year, and the VLF, income tax, and dependent tax credit changes would be extended by two years.

If federal revenues from the stimulus package fall short of \$10 billion, an additional 0.125% income tax surcharge would go into effect with the same time limitations as the other income tax provisions. It would generate an additional \$1.8 billion in revenues over the course of the agreement.

BORROWING AND SHIFTED REVENUE

Even with the dramatic cuts and temporary revenue increases, the budget agreement still relies on \$11.5 billion in borrowing and revenues shifts. The agreement is predicated upon voter-approval of a ballot measure authorizing the sale of future lottery proceeds worth a total of \$5 billion. The agreement does not mention if or how those lottery revenues, which otherwise would have gone to education, would be replaced in future years. The deal also includes the sale of \$5.9 billion in Revenue Anticipation Warrants and \$402 million in internal borrowing from state special funds.

Summary of Final Budget Agreement, *continued***TAX BREAKS**

To secure enough Republican votes for the budget, the legislature also included billions of dollars of tax breaks. One is permanent and uncapped, likely to cost the state more in the long term than all the temporary revenue increases and the rest are capped in either duration, expense, or both. The tax breaks include:

- Single sales factor (relating to how corporations account for their business interests in the state): permanent change beginning in 2011, costing \$650 million in its first year and eventually \$1.5 billion each year
- Film production (tax credit for film and television production activities in California): effective 2009-2014, capped at \$100 million each year
- Hiring tax credit (a \$3,000 credit for each new hire in a company with fewer than 20 employees): effective from 2009 until total credits reach \$400 million
- New home purchase credit (for the purchase of newly constructed, owner-occupied residences): effective from 2009 to 2012, capped at a total of \$100 million

ABROGATION OF COLLECTIVE BARGAINING

This deal abrogates the collective bargaining process for state workers by statutorily eliminating two state holidays and changing overtime provisions. These are issues of bargaining and should be resolved in contract negotiations, not in a budget trailer bill. The precedent set by this legislative takeaway is dangerous, unwarranted, and unacceptable. State bargaining units continue to bargain and, once an agreement is reached, the contracts will trump the trailer bill.

LABOR TAKEAWAYS

We succeeded in keeping lunch breaks entirely out of the final deal, but a bill was passed that includes three restatements of current law regarding the alternative workweek. Specifically, it clarifies that:

- A 5/8 workweek may be an option in the menu of options for an alternative workweek election;
- Workers may move from one work week schedule to another if they have elected a menu of workweeks; and
- A work unit can be just 1 employee if criteria defining a work unit are met.

While these changes are largely technical, we opposed their inclusion in the budget on principle. These core worker protections have no place in budget negotiations.

Budget Agreement Ballot Measures

As part of the September and February budget agreements, six measures will be placed on the ballot for the upcoming May 19th Special Election. A seventh measure (open primaries) has been submitted for the 2010 Primary Election.

SPECIAL ELECTION MEASURES

Spending Cap (ACAx3 1): The spending cap measure would require the state to deposit 3% of annual General Fund revenues in the Budget Stabilization Fund (BSF) until the fund reached 12.5% of General Fund revenues. Each year, half of the revenues transferred to the BSF would be used to meet the obligations of the additional Prop 98 education payment (see measure below), with any remaining portion of that amount reserved for retiring bond debt or for one-time capital outlay projects. Once the education payment is completed, or if the education measure fails altogether, the entire amount would go to those debt and outlay purposes. This transfer provision would double the length of time it would take the state to meet the 12.5% threshold.

The measure would severely limit the conditions under which any other funds could be withdrawn from the BSF. Each year, state spending would be tightly constrained, effectively resulting in a zero growth budget. In downturns, the budget could only increase over prior year spending with population and consumer price index adjustments. In economic booms, unanticipated revenues would be siphoned out of the General Fund to the BSF or to meet outstanding obligations. A recent analysis showed that if a spending cap had been in place this year, it would have required an additional \$6.8 billion in cuts beyond every cut already proposed by the governor.

Additionally, while not included in the language of the ballot measure itself, passage of the spending cap is a trigger to extend many of the increased taxes and fees in the budget deal including: sales tax (additional year), vehicle license fee (two years), income tax surcharges (two years), reduction in dependents' credit (two years), increases in alternative minimum tax (two years).

Lottery Securitization (SCA 12, 2008): As part of the September budget deal, legislative leaders placed a measure on the ballot to allow the state to securitize future lottery revenues in order to plug part of the coming year's budget gap. While the budget analysis banks \$5 billion from the sale of future lottery proceeds, the constitutional amendment itself contains no limits on the length of time or the amount of money that could be raised through this or future securitization efforts. It also does not specify how that funding stream, which currently produces in excess of \$1 billion a year for education, would be replaced in future years.

Prop 98 Payment (ACAx3 2): In lieu of payments that would normally be owed to K-14 schools for education underfunding in the 2007-08 and 2008-09 budget years, this amendment calls for education payments totaling \$9.3 billion. The payments would begin in the 2011-12 fiscal year and nearly all the funds would be allocated to school districts on a non-restricted basis, leaving districts to apportion the funds as they see fit. This payment is contingent upon passage of the spending cap measure.

Budget Agreement Ballot Measures, *continued*

Redirecting Prop 63 Funds (SBx3 10): This measure would redirect \$460.7 million of funding from Prop 63 (the Mental Health Services Act) to the Early and Periodic Screening, Diagnosis and Treatment Program, a children's health program. The redirection of funds would occur for the 2009-10 and 2010-11 budget years.

Redirecting Prop 10 Funds (SBx3 17): This measure would redirect funds from the Prop 10 (California Children and Families Act) Trust Fund to support state health and human services programs for the next five fiscal years. It would also permanently eliminate funding for mass communications regarding First 5 California programs and projects.

Legislative Pay Raises (SCA 8): This measure would prohibit the California Citizens Compensation Commission from increasing the salaries of legislators or state officers during any fiscal year in which there is an operating deficit.

2010 PRIMARY ELECTION MEASURE

Open Primaries (SCA 4): This measure would dramatically change primary and general elections in California. Rather than having partisan primaries in which the top vote-getters of each party advance to the general election, all candidates would compete in a single primary pool, with the top two vote-getters, regardless of party affiliation, moving on to the general election. Effective beginning with races in 2012, the amendment would apply to state legislative offices, Congressional seats, and all statewide elected officials with the exception of the Superintendent of Public Instruction.