



A RESPONSIBLE BUDGET: THE 4-LEGGED STOOL

REAL SYSTEMIC REFORM, REAL SOLUTIONS, AND CREATING JOBS FOR CALIFORNIANS

“This four-legged approach will balance our budget, make government more efficient, and help stimulate our economy by putting people to work.” (Gov. Arnold Schwarzenegger, 1/7/09)

The budget plan to solve our state’s \$42 billion deficit was built upon the framework outlined by Governor Schwarzenegger last year – what he called the “four-legged stool.” For a budget to work in this difficult economy and state fiscal crisis, elements of all four legs are needed. This budget also includes meaningful and lasting reforms for Californians – reforms the Governor has been fighting for since before he was elected. The budget agreement includes the following necessary elements:

LEG #1: Spending Reductions

\$14.9 billion in reductions below current-year spending over this and the 2009-10 fiscal years. The major areas of reductions are to:

- **Education**. \$8.4 billion in Proposition 98-related reductions.
- **Health and Human Services**. Nearly \$1.5 billion in reductions by eliminating cost-of-living increases, cutting some payments to regional developmental services centers, and delaying projects. Reductions to health and human services could be reduced by \$500 million if funding from the federal stimulus bill is adequate.
- **State Employee Payroll**. \$1.4 billion in furloughs, reductions in overtime, and elimination of some state holidays.

The budget also requires shifting some funds to preserve services – moves that will have to go before voters. Those shifts are:

- **Proposition 63 Adjustment**. Allows a temporary, two-year amendment to Mental Health Services Act to allow the state to fully fund the Early and Periodic Screening Diagnosis Treatment programs for patients under age 21. Guarantees that more than \$225 million in mental health funding is protected.
- **Proposition 10 Adjustment**. Temporarily redirects tobacco tax money to fund services for foster children, children at risk of out-of-home placement, and services for children with developmental disabilities. For five years only, limits funding allocated to the state Children and Families Commission and to local commissions and provides greater flexibility to protect services for children under 5 years old. It would mean \$608 million in General Fund savings while protecting services.

LEG #2: Revenue Increases

\$12.5 billion in General Fund benefit over both current and 2009-10 budget years.

- All increases are temporary.

The revenues are:

- **Sales Tax**. A 1-cent increase in the state sales tax. *\$5.756 billion*.
- **Vehicle License Fee**. The fee would go from the current level of 0.65 percent to 1 percent. An additional, ongoing, 0.15 will be added on – for a total of 1.15 percent – dedicated to local law enforcement programs. *\$1.476 billion (and \$619 million for law enforcement)*.
- **Personal Income Tax**. A 0.5 percent rate increase to the personal income tax. If federal stimulus funding is adequate, this increase would be reduced by half. *\$3.658 billion*.
- **Dependent Credit**. Reducing the dependent tax credit to match the personal tax credit. *\$1.44 billion*.

- Each of these revenue adjustments are for two years only. Passage of the budget stabilization account reform would lengthen the sales tax by one year, the surtax by two years, and the VLF and by three years.

Additionally, the state will bring in revenue through:

- Modernizing the state Lottery and bringing in \$5 billion in 2009-10 that will offset the need for additional tax increases or program cuts.

LEG #3: Economic Stimulus

The Governor fought for including economic stimulus within the budget because he believes that if we ask Californians to pay more in taxes and also reduce their services, we must do everything we can as a state to help create jobs and boost our economy. To that end, the budget agreement includes:

- Incentives for California-based companies creating jobs for Californians. To give a competitive edge to companies that are creating jobs for Californians – rather than ones that simply do business here – establish a permanent elective single sales factor (allowing companies to weight sales made in a state – versus property or payroll there – to determine corporate taxes owed) to encourage companies to expand in and relocate to California. Also, a “new hire” tax incentive will target small businesses that create new California jobs in the coming two years – when we need them most.
- CEQA Exemption. For surplus state property and for \$1.4 billion in transportation projects through 2010, a CEQA exemption and permitting process streamlining to pump money into the economy faster.
- Public-Private Partnerships. For transportation projects (sunsets in 2017). This will mean more jobs created more quickly.
- Design Build Authority. For 10 state transportation projects, five local transportation projects, five offices, courts and prisons projects, and 10 local redevelopment agency projects. This means projects built faster and more cost-effectively for the taxpayer.
- Carl Moyer Program Enhancements. Making programmatic changes to provide incentives for faster equipment turnover in the agricultural industry.
- Employee Schedule Flexibility. Gives more options to employees and employers in shaping workweeks, making California’s business environment more competitive.
- Runaway Hollywood Production. Tax incentives to lure television and movie production back to California where it belongs.

LEG #4: Making Government More Efficient

With families and businesses throughout California tightening their belts, state government must do the same. The Governor pushed for government efficiencies and consolidations. This budget agreement includes:

- Categorical Education Funding. Right now, schools’ funding is tied up in restrictive, Sacramento-prescribed categories. This reform will free up that money so local schools and districts can use it as they see best fit to serve children in classroom. This is especially important in this difficult economy when schools are receiving less funds than they had anticipated.
- Reorganizing IT Functions. The Legislature and Administration will begin the process of reorganizing 130 separate IT entities under the Chief Information Officer. We can save an estimated \$1.5 billion over the first five years.
- A Department of Energy. The Legislature and Administration will begin the process of streamlining scattered energy and recycling functions under a new cabinet-level office, eliminating waste and redundancy.

Long-Lasting Reforms

The silver lining in this budget plan is the real reform it contains for California. Governor Schwarzenegger has been fighting for these kinds of systemic reforms since before he was elected. Finally, these meaningful structural changes to put California back on track will go before voters – and the Governor intends to form a partnership with the people to pass these ballot initiatives.

- **Real Rainy-Day Fund.** The budget stabilization account will be increased, and revenues available for spending in the budget will become more predictable and stable. By capturing excess revenues in good years and saving them in an air-tight fund for use only in the bad years, this budget reform will prevent future governors and legislatures from grappling with the budget crisis we saw this year.
- **Opening Up Primary Elections.** By stripping primary elections of their partisan rules, we'll encourage greater participation in the democratic process and provide an opening for more moderate candidates. Most Californians are neither far-left nor far-right, but in the middle. We will no longer punish candidates and elected officials for putting the people first, in front of partisan politics.
- **Legislators' Pay Raises.** When California is spending more money than it is taking in, no state elected officials should be receiving pay raises. This common-sense reform will prevent the Citizens' Compensation Commission from granting legislators and constitutional officers, including the governor, salary increases during years in which our state budget falls into the red (when the Special Fund for Economic Uncertainties is in the negative by an amount equal to or greater than 1 percent of the General Fund).