Reaching a Balanced Budget for California

Senator Denise Moreno Ducheny
40th District
Chair, Senate Budget & Fiscal Review Committee
Budget Process

- Fiscal Year: July 1-June 30
- January: Governor Proposes Budget
- May: Governor Proposes Revised Budget
- January-June: Legislature holds public hearings to review Governor’s proposal
- June 15: Deadline for Legislature to pass a balanced budget
- Sometimes, the BIG 5 meet and compromise to get the 2/3 vote required in each house
- Governor has line-item veto authority
What does the State’s General Fund pay for?

2007-2008 GF Budget

- K-12 Education: 37%
- Higher Ed: 10%
- Health: 14%
- Social Services: 9%
- Prisons: 10%
- Judicial System: 2.5%
- Business, Transportation & Housing: 1.5%
- Constitutional Requirements: 6%
How do we finance our needs?

- **Sales Tax**
  - $29 billion in 08-09

- **Corporation Taxes**
  - $12 billion in 08-09

- **Personal Income Tax**
  - $56 billion in 08-09
  - Who pays income taxes?

- **Special Funds and Fees**
  - Vehicle registration, recycling, gasoline, etc.
Share of PIT Paid By Top 1% of Taxpayers

Remember, PIT Totals $56 Billion

Yearly Share:
- 1995: 36%
- 1996: 36%
- 1997: 38%
- 1998: 41%
- 1999: 45%
- 2000: 49%
- 2001: 39%
- 2002: 37%
- 2003: 39%
- 2004: 43%
- 2005: 48%
Where do Property Taxes Go?

ALL STAYS LOCAL

Statewide Collection

$47 Billion

Distribution of Revenues To Local Governments

Property Owners → County Tax Collectors

Schools, Counties, Cities, Other Local Entities
## Major K-12 Education Programs Funded by Proposition 98

*(Dollars in Millions)*

<table>
<thead>
<tr>
<th></th>
<th>Revised 2007-08</th>
<th>Proposed 2008-09</th>
<th>Change Amount</th>
<th>Change Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Fund</strong></td>
<td>$22,847.4</td>
<td>$21,328.5</td>
<td>-$1,518.9</td>
<td>-6.6%</td>
</tr>
<tr>
<td><strong>Local property tax revenue</strong></td>
<td>12,549.9</td>
<td>13,413.2</td>
<td>863.3</td>
<td>6.9</td>
</tr>
<tr>
<td><strong>Subtotals</strong></td>
<td>($35,397.3)</td>
<td>($34,741.7)</td>
<td>(-$655.6)</td>
<td>(-1.9%)</td>
</tr>
<tr>
<td><strong>Categorical Programs</strong></td>
<td>($15,591.9)</td>
<td>($14,568.7)</td>
<td>(-$1,023.2)</td>
<td>(-6.6%)</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$50,989.2</td>
<td>$49,310.4</td>
<td>-$1,678.9</td>
<td>-3.3%</td>
</tr>
<tr>
<td><strong>Ongoing Proposition 98</strong></td>
<td>$50,422.6</td>
<td>$49,310.4</td>
<td>-$1,112.3</td>
<td>-2.2%</td>
</tr>
</tbody>
</table>
Current Crisis

- How did we get here?
  - Voter Mandates (Initiatives)
  - Federal Cuts to programs (examples)
  - Tax Credits (treated as permanent)
  - COLAs
  - Vehicle License Fee reduction
  - New Expenditures
  - California’s Economy
## Major Propositions Affecting the State General Fund

**Dedicated Tax Revenues**

<table>
<thead>
<tr>
<th>Date</th>
<th>Proposition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 1988</td>
<td>Proposition 99</td>
<td>Provides a 25 cent per pack tax on cigarettes and dedicates the more than $300 million annually to tobacco education and health care services for low-income persons.</td>
</tr>
<tr>
<td>November 1993</td>
<td>Proposition 172</td>
<td>Raises the statewide sales tax rate by one-half cent and dedicates the $3 billion in annual funds to local public safety purposes.</td>
</tr>
<tr>
<td>November 1998</td>
<td>Proposition 10</td>
<td>Provides a 50 cent per pack tax on cigarettes and dedicates the roughly $600 million annually to early childhood development programs.</td>
</tr>
<tr>
<td>November 2004</td>
<td>Proposition 63</td>
<td>Enacts a state personal income tax surcharge of 1 percent that applies to taxpayers with annual taxable incomes of more than $1 million. The proceeds of the tax surcharge (about $1.6 billion annually) are earmarked to finance an expansion of community mental health programs.</td>
</tr>
</tbody>
</table>

**Locked in State Spending**

<table>
<thead>
<tr>
<th>Date</th>
<th>Proposition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 1988</td>
<td>Proposition 98</td>
<td>Provides for a minimum level of total spending (General Fund and local property taxes combined) on K-14 education in any given year. The required General Fund contribution is roughly 40 percent of the state's budget.</td>
</tr>
<tr>
<td>March 2002</td>
<td>Proposition 42</td>
<td>Directs $1.5 billion in sales taxes on gasoline to transportation purposes. (Reflected as General Fund spending.)</td>
</tr>
<tr>
<td>November 2002</td>
<td>Proposition 49</td>
<td>Requires that the state spend a certain amount (currently $550 million) on afterschool programs.</td>
</tr>
<tr>
<td>November 2004</td>
<td>Proposition 1A</td>
<td>Restricts the Legislature from altering local government revenues in many cases. In prior years, the state took such actions which helped the state's General Fund.</td>
</tr>
<tr>
<td>November 2006</td>
<td>Proposition 1A</td>
<td>Restricts the circumstances in which the Legislature could suspend the Proposition 42 transfer for transportation.</td>
</tr>
</tbody>
</table>
Spending by Category
As a % of the Total State GF (2003-04 to 2008-09 Gov. Proposal)

- **EDUCATION**
  - 2003-04: 30.00%
  - 2004-05: 32.00%
  - 2005-06: 34.00%
  - 2006-07: 36.00%
  - 2007-08: 38.00%
  - 2008-09: 40.00%

- **HEALTH (red) & SOCIAL SERVICES (yellow)**
  - 2003-04: 8.00%
  - 2004-05: 10.00%
  - 2005-06: 12.00%
  - 2006-07: 14.00%
  - 2007-08: 16.00%
  - 2008-09: 18.00%

- **CORRECTIONS**
  - 2003-04: 5.00%
  - 2004-05: 7.00%
  - 2005-06: 9.00%
  - 2006-07: 11.00%
  - 2007-08: 13.00%
  - 2008-09: 15.00%

- **UC (blue) & CSU (pink)**
  - 2003-04: 0.00%
  - 2004-05: 2.00%
  - 2005-06: 4.00%
  - 2006-07: 6.00%
  - 2007-08: 8.00%
  - 2008-09: 10.00%
Current Year Action

- Current Year=Fiscal Year 2007-2008
- $3.3 billion shortfall
  - Lower than expected revenue
- Special Session called by Governor
- Legislature approved $1 billion in cuts
  - $500 million in Education
  - COLA delays
  - Judgeships delayed
- $3.3 billion Economic Recovery Bonds
Governor proposes 10% cuts
- Everyone on the table
- Lacks foresight/No priorities

Governor proposes fee increases to:
- UC/CSU students
- Homeowners insurance
- Vehicle Registration
Budget Perspectives:

Pay NOW

- Education
- Higher Education
- Foster Children
- Parolees
- Seniors, disabled
- Freeways

Pay LATER

- No prepared workforce
- Decrease job creation
- Future Prisoners/Homeless
- Recidivism
- Costly services
- Traffic
2008-09 UC Tuition Costs:
Students paying more, State paying less

<table>
<thead>
<tr>
<th>Year</th>
<th>State General Fund</th>
<th>UC General Funds</th>
<th>Student Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>$15,830.00</td>
<td>$12,170.00</td>
<td>$2,540.00</td>
</tr>
<tr>
<td>1995-96</td>
<td>$14,210.00</td>
<td>$4,590.00</td>
<td>$4,590.00</td>
</tr>
<tr>
<td>2000-01</td>
<td>$14,210.00</td>
<td>$1,820.00</td>
<td>$3,710.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>$10,370.00</td>
<td>$2,000.00</td>
<td>$5,080.00</td>
</tr>
<tr>
<td>2007-08</td>
<td>$10,370.00</td>
<td>$1,950.00</td>
<td>$5,070.00</td>
</tr>
</tbody>
</table>
2008-09 CSU Tuition Costs:
Students paying more, State paying less

<table>
<thead>
<tr>
<th>Year</th>
<th>State Support/FTE</th>
<th>Fee Revenues/FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>$10,295.00</td>
<td>$2,816.00</td>
</tr>
<tr>
<td>2003-04</td>
<td>$9,061.00</td>
<td>$3,493.00</td>
</tr>
<tr>
<td>2007-08</td>
<td>$8,356.00</td>
<td>$3,864.00</td>
</tr>
</tbody>
</table>

- State Support/FTE: $2,000.00, $4,000.00, $6,000.00, $8,000.00, $10,000.00
- Fee Revenues/FTE: $14,000.00
Governor’s Budget: Fair for everyone?

**KinGAP Family** – former foster child that has behavioral/medical needs being cared for by grandparent

- **Foster care rate** – cut $77 overall from monthly subsistence
- **SSI freeze** – $18 of grandparent’s already limited income
- **Medi-Cal Provider Rates** – access to doctors for *both* former foster child and elder caregiver will be impaired
- **Kinship Support Services Program** – child tutoring/ academic support, transportation training, and group counseling preventing delinquency
- **Transition Services** – youth services through the local Independent Living Program to help them transition into adulthood successfully
- **Education** – cuts to child’s education
More Budget Perspectives

- Balance of cuts AND Revenue sources
  - Cuts will have to be made

- Governor’s Constitutional Amendment
  - Keeping spending in line with revenues. *(Charts)*
  - Legislature should maintain appropriation control.
  - We already have a reserve account.
## Summary of LAO Revenue-Increasing Proposals (In Millions)

<table>
<thead>
<tr>
<th>Proposals</th>
<th>Revenue Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008-09</td>
</tr>
<tr>
<td><strong>Proposals Unique to Personal Income Tax</strong></td>
<td></td>
</tr>
<tr>
<td>Reduce dependent credit</td>
<td>$1,330</td>
</tr>
<tr>
<td>Eliminate senior credit</td>
<td>125</td>
</tr>
<tr>
<td>Eliminate partial exclusion of capital gains on small business stock</td>
<td>55</td>
</tr>
<tr>
<td>Subtotals</td>
<td>($1,510)</td>
</tr>
<tr>
<td><strong>Proposals Applying to Both Personal Income and Corporation Tax</strong></td>
<td></td>
</tr>
<tr>
<td>Limit the research and development credit</td>
<td>$335</td>
</tr>
<tr>
<td>Limit net operating loss deductions</td>
<td>330</td>
</tr>
<tr>
<td>Phase out enterprise zone programs</td>
<td>100</td>
</tr>
<tr>
<td>Eliminate exclusion for &quot;like-kind&quot; out-of-state property exchanges</td>
<td>25</td>
</tr>
<tr>
<td>Subtotals</td>
<td>($790)</td>
</tr>
<tr>
<td><strong>Unique Sales and Use Tax Proposals</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminate exemptions for industry-specific equipment</td>
<td>$143</td>
</tr>
<tr>
<td>Eliminate certain diesel fuel exemptions</td>
<td>73</td>
</tr>
<tr>
<td>Eliminate exemption for leasing of films and tapes</td>
<td>65</td>
</tr>
<tr>
<td>Eliminate exemption for custom computer programs</td>
<td>53</td>
</tr>
<tr>
<td>Adopt one-year standard regarding use tax on out-of-state purchases</td>
<td>21</td>
</tr>
<tr>
<td>Subtotals</td>
<td>($355)</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$2,655</td>
</tr>
</tbody>
</table>
Restructuring Our Tax System

- Is our tax system out of date?
- Maximizing our Federal Tax Deductions.
Questions/Comments

For a copy of this presentation or for more information contact:

Senator Denise Moreno Ducheny
637 3rd Avenue, Suite A-1
Chula Vista, CA 91910
619-409-7690