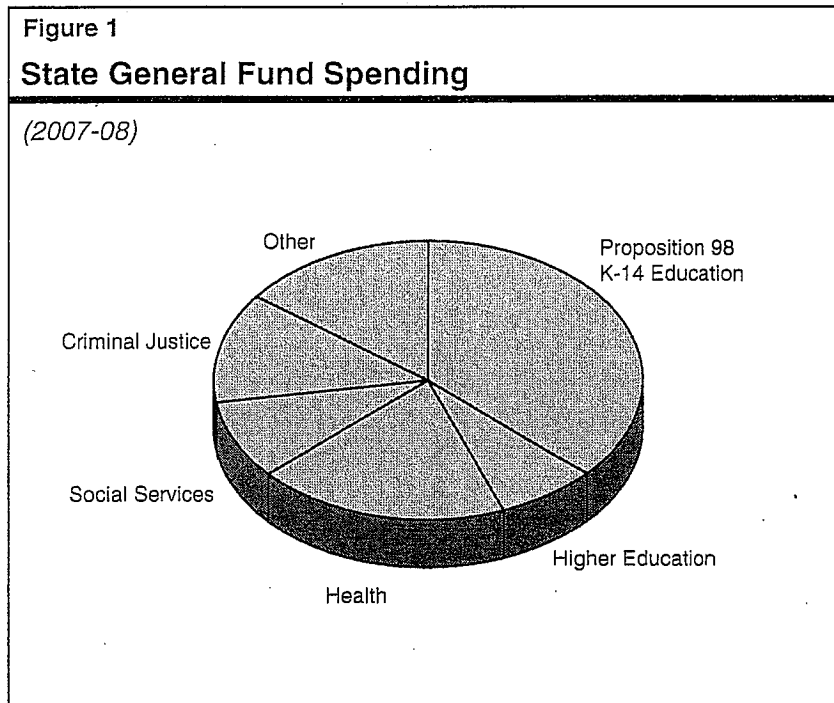


## Overview of the State Budget

The General Fund is the state's core account that pays for most services. In 2007-08, the state spent \$103 billion from the General Fund, primarily on education, health and social services, and state prisons (see Figure 1). The General Fund is supported primarily from income and sales taxes paid by individuals and businesses.



**Recent State Budget Problems.** In recent years, state government has experienced major budgetary problems with the General Fund. The state's budget problems have been due to a variety of factors—including large ups and downs in state revenues and the use of one-time solutions to support higher ongoing spending. In late 2008, the state's budget problems got even worse as a result of the financial credit market crisis and the national recession. By January 2009, it was projected that the state would face a \$40 billion shortfall over 2008-09 and 2009-10 if no corrective actions were taken.

**February 2009 Budget Solutions.** In response, in February 2009, the Legislature and the Governor agreed on a budget package to bring the 2008-09 and 2009-10 budgets back into balance. With these changes, the state expects in 2009-10 to bring in about \$98 billion in revenues and spend about \$92 billion. (The difference of about \$6 billion between revenues and spending is being used to cover a year-end deficit in 2008-09 and build up a reserve account.) This package included more than \$40 billion in solutions.

- **Spending Reductions.** The package included about \$15 billion in spending-related reductions. The largest reductions related to kindergarten through

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twelfth grade schools, which experienced both reductions to core program funding and the deferral of payments to future years. Reductions also included furloughing state workers, eliminating inflationary adjustments for many programs, and making other reductions in services.

- **Tax Increases.** The package included about \$12.5 billion in tax increases. Most of these higher taxes are the result of increased rates for the sales and use tax, vehicle license fee, and personal income tax.
- **Federal Funds.** The package also assumed receipt of more than \$8 billion in federal funds from the recent economic stimulus law to help balance the budget.
- **Borrowing.** Finally, the package counted on \$5 billion from the borrowing of future lottery profits.

**Budget-Related Propositions.** As part of the February package, six propositions were placed on this ballot related to the budget. These propositions—numbered 1A through 1F—are summarized in Figure 2 and explained in more detail in the rest of the voter information guide.

Figure 2

### Summary of Budget-Related Propositions

| Proposition | Topic                                     | Effect on State General Fund Budgets                              |  |
|-------------|---|---|--|
|             |   | 2009-10   | Next Few Years   |
| 1A          | "Rainy day" reserve fund                  | Not significant   | Higher tax revenues through 2012-13. Unknown net effect from other provisions.   |
| 1B          | Supplemental payments for education       | Potential savings in the billions of dollars                      | Potential savings in the billions of dollars in 2010-11, with potentially higher costs of billions of dollars annually thereafter. |
| 1C          | State Lottery                             | \$5 billion in benefit from borrowing from future lottery profits | Net increased costs of hundreds of millions of dollars annually.   |
| 1D          | Early childhood development program funds | Up to \$608 million in savings                                    | \$268 million annually in savings from 2010-11 through 2013-14.  |
| 1E          | Mental health program funds               | About \$230 million in savings                                    | About \$230 million in savings in 2010-11.   |
| 1F          | State elected officials' salary increases | Potential minor reduction in costs                                | Potential minor reduction in costs in some years.  |

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*What Would Happen if the Propositions Are Rejected?* As shown in Figure 2, the 2009-10 budget depends on access to about \$6 billion related to three propositions on this ballot—\$5 billion by borrowing from future lottery profits (Proposition 1C), up to \$608 million by redirecting dedicated childhood development funds to help the General Fund (Proposition 1D), and about \$230 million by redirecting dedicated mental health funds to help the General Fund (Proposition 1E). If the voters reject these three measures, the 2009-10 budget would not be in balance under current revenue forecasts. Consequently, the Legislature and the Governor probably would need to agree to billions of dollars of additional spending cuts, tax increases, and/or other budgetary solutions to bring the budget back into balance. It is unknown what these alternative actions would be, as they would be determined after this election.

*Future Budgets Will Need More Solutions.* Even with the adoption of the 2009-10 budget package and assuming that all of the propositions on this ballot pass, it is expected that the state would face multibillion-dollar budget shortfalls in the coming years. This is due to a number of reasons. The state's economic recovery from the recession is expected to be relatively slow. In addition, many of the solutions adopted as part of the 2009-10 budget are short term in nature—meaning that they will not help balance the budget in future years. Consequently, based on current projections, the state will need to adopt billions of dollars in additional spending reductions, tax increases, or other solutions in the coming years.