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# California State Senate

COMMITTEE  
ON  
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL  
SACRAMENTO, CA 95814

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**Agenda**  
**June 2, 2008**  
**Noon - Room 4203**

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## *DOF AND LAO REVENUE OVERVIEW*

<b>Department</b>	<b><u>Page</u></b>
Department of Finance Proposals .....	1
Legislative Analyst Office – Revenue Increasing Proposals .....	5

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Program Description	Comments
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**Department of Finance Proposals**

**Proposed Revenue-Related Changes.** The administration, as part of their overall budget, does not include any significant tax changes. It does, however, contain several proposals that would have significant impacts on GF revenues. As presented in January, the administration proposed the following:

- **Economic Recovery Bonds (ERBs).** \$3.3 billion in proceeds from the sale of additional ERBs;
- **Accrual Shift.** A one-time gain by accruing \$2 billion in revenues collected in September of 2009 back to June of 2009 so that they could be counted as budget year revenues. [The May Revision lowered the total amount of the accrual proposal to \$1.85 billion and splits the change between the current year (\$175 million) and the budget year (\$1.68 billion)].
- **Increased revenues of about \$150 million in 2008-09,** and growing amounts thereafter, from augmenting Franchise Tax Board (FTB) and Board of Equalization (BOE) tax enforcement and compliance activities.
- **Reinstatement of the 12-month rule** for applying the use tax to out-of-state purchases of vessels, vehicles, and aircraft.

As part of the May Revision, the administration has proposed other measures, though not direct revenue increases, affecting the level of available resources for the 2008-09 budget. Including:

- **Lottery.** Securitization of future proceeds from the state lottery – yielding \$15 billion in proceeds available for a new proposed reserve fund. The May Revision proposes using \$5.1 billion of this amount in 2008-09.
- **Loans (\$543 million) and transfers (\$67.3 million) from various state special funds,** to be paid back in 2010-11 and later years -- see Attachment.
- **Accelerate the payment of Limited Liability Corporation (LLC) fees** to produce a General Fund revenue gain of \$360 million in 2008-09. The revenue gain would be primarily one-time.

**ERBs.** Action on the ERBs was done as part of the special session in February.

**Accrual shift.** The LAO has pointed out the risk that the amount that can be accrued back is not as great as identified by the Administration. In addition, the change does not bring in any additional revenues; it is more of a "paper shift" than an actual budget solution.

**Reinstatement of the 12-month rule.** This measure was also passed by the Senate as part of the special session; however, it failed passage in the Assembly.

**Loans** – the DOF recently updated this list since the May Revision.

**Transfers** generally do not have to be repaid and are considered fungible.

**Potential Transfers and Loans to the General Fund in 2008-09**  
(Dollars in Millions)

Sub #	Fund Title	Amount Available for Transfer	Amount Available for Loans	Repayment Year
4	California Debt and Investment Advisory Commission Fund		\$2.0	2010-11
4	California Debt Limit Allocation Committee Fund		2.0	2010-11
4	Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account		10.0	2010-11
4	Tax Credit Allocation Fee Account		10.0	2010-11
4	Financial Institutions Fund		1.5	2010-11
4	State Corporations Fund		1.5	2010-11
4	Real Estate Appraisers Regulation Fund		16.6	2010-11
4	<del>Real Estate Fund<sup>ae/</sup></del>		<del>12.2</del>	<del>2010-11</del>
4	<del>Mobilehome Park Revolving Fund</del>		<del>2.5</del>	<del>2010-11</del>
4	<del>Mobilehome Manufactured Home Revolving Fund</del>		<del>4.0</del>	<del>2010-11</del>
4	Joe Serna, Jr. Farmworker Housing Grant Fund		1.2	2010-11
4	Housing Rehabilitation Loan Fund		<del>12.9</del> 16.4	2010-11
4	State Highway Account, State Transportation Fund <sup>b/ c/</sup>		200.0	2010-11
4	Bicycle Transportation Account, State Transportation Fund <sup>d/</sup>		6.0	2010-11
4	Local Airport Loan Account		<del>14.9</del> 7.5	2010-11
4	Motor Vehicle Fuel Account, Transportation Tax Fund <sup>b/</sup>		8.0	2010-11
4	Environmental Enhancement and Mitigation Program Fund <sup>e/</sup>		4.4	2010-11
4	Historic Property Maintenance Fund <sup>f/</sup>		3.0	2010-11
4	Pedestrian Safety Account, State Transportation Fund		1.8	2010-11
4	<del>New Motor Vehicle Board Account</del>		<del>1.2</del>	<del>2010-11</del>
2	Renewable Resources Trust Fund		10.9	2010-11
2	California Waterfowl Habitat Preservation Account, Fish and Game Preservation Fund		2.5	after 2011-12
2	Oil Spill Prevention and Administration Fund		13.0	2010-11 <sup>g/</sup>
2	<del>Hatchery and Inland Fisheries Fund</del>		<del>4.0</del>	<del>after 2011-12</del>
2	Coastal Wetlands Account <sup>h/</sup>	\$4.7		N/A

**Potential Transfers and Loans to the General Fund in 2008-09**  
(Dollars in Millions)

Sub #	Fund Title	Amount Available for Transfer	Amount Available for Loans	Repayment Year
2	California Water Fund	4.4	1.1	after 2011-12
2	Environmental Water Fund	2.4	2.4	after 2011-12
3	Hospital Building Fund <sup>iv</sup>		10.0	2010-11
3	California Health Data and Planning Fund <sup>iv</sup>		12.0	2010-11
3	Registered Nurse Education Fund <sup>iv</sup>		1.0	2010-11
3	<del>Emergency Services and Supplemental Payments Fund <sup>iv</sup></del>	<del>3.0</del>		N/A
3	<del>Private Hospital Supplemental Fund <sup>iv</sup></del>	<del>4.0</del>		N/A
3	Occupational Lead Poisoning Prevention Account <sup>iv</sup>		1.1	2010-11
3	Drinking Water Operator Certification Special Account <sup>iv</sup>		1.6	2010-11
3	Cancer Research Fund <sup>iv</sup>	2.1		N/A
3	Drinking Water Treatment and Research Fund <sup>iv</sup>	8.5		N/A
4	Victim/Witness Assistance Fund	2.0		N/A
4	Antiterrorism Fund		2.0	2010-11
4	Department of Justice Sexual Habitual Offender Fund		1.0	2010-11
4	False Claims Act		6.0	2010-11
4	Gambling Control Fund		10.0	2010-11
4	State Board of Barbering and Cosmetology Fund		10.0	2011-12
4	Psychology Fund		2.5	2011-12
4	Accountancy Fund		16.0	2011-12
4	Contractors' License Fund		14.0	2011-12
4	Contingent Fund of the Medical Board of California		13.0	2011-12
4	Contingent Fund of the Medical Board of California		10.0	2010-11
4	Contingent Fund of the Medical Board of California		6.0	2011-12
4	Board of Registered Nursing Fund, Professions and Vocations Fund		2.0	2010-11
4	Board of Registered Nursing Fund, Professions and Vocations Fund		2.0	2011-12
4	Pharmacy Board Contingent Fund		1.0	2010-11
4	Pharmacy Board Contingent Fund		1.0	2011-12
4	Professional Engineers' and Land Surveyors' Fund		4.0	2011-12
4	Professional Engineers' and Land Surveyors' Fund		2.0	2011-12
4	Behavioral Science Examiners Fund		3.0	2011-12
4	Vocational Nursing & Psychiatric Technicians Fund		1.0	2010-11
4	Vocational Nursing & Psychiatric Technicians Fund		1.0	2011-12

**Potential Transfers and Loans to the General Fund in 2008-09**  
(Dollars in Millions)

Sub #	Fund Title	Amount Available for Transfer	Amount Available for Loans	Repayment Year
4	Occupational Therapy Fund		3.0	2011-12
4	Vehicle Inspection and Repair Fund		25.0	2011-12 2010-11
4	High Polluter Repair or Removal Account		40.0	2011-12
4	Public School Planning, Design, and Construction Review Revolving Fund		60.0	2011-12
4	Restitution Fund	50.0		N/A
<b>Total Available</b>		<b>\$74.8</b>	<b>\$574.2</b>	
		<b>\$67.3</b>	<b>\$543.0</b>	

<sup>a/</sup> This would require repayment in 2010-11.

<sup>b/</sup> Constitutional: Can be borrowed in a State of Emergency or when GF revenue declines year over year.

We won't know this until the May Revision has been completed and decisions have been made on closing tax loopholes.

<sup>c/</sup> A portion of this revenue (non-Article XIX-\$60M) is exempt from Constitutional restrictions.

<sup>d/</sup> Funded from SHA (0042) transfer, would require TBL.

<sup>e/</sup> Funded from SHA (0042) transfer.

<sup>f/</sup> Funds are non-Article XIX rental income from historic property.

<sup>g/</sup> Repayment of \$2 million annually beginning in 2010-11.

<sup>h/</sup> Endowment fund was created with a \$5 million transfer from the GF to support wetlands management.

Statute does not prohibit transferring the money back to the GF.

<sup>i/</sup> Statute is silent on whether transfers or loans can be made.

<sup>j/</sup> Would sweep entire fund balance; would require statutory change.

<sup>k/</sup> Would require statute change.

Program Description	Comments
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**Legislative Analyst Office – Revenue Increasing Proposals**

<p><b>Revenue Increasing Proposals.</b> The Legislative Analyst Office, as part of their overall report on the proposed budget, developed an alternative budget with various key elements. One key element was to add revenues in a reasonable manner by (1) selecting tax credits or exemptions for reduction or elimination because they are not achieving their state purposes are of lower priority; (2) makes no broad-based tax rate increases; and (3) does not include the administration’s proposed \$2 billion revenue accrual.</p> <p>In addition, the LAO focused on changes that would not involve difficult federal conformity issues, implementation problems, or significant time lags before their fiscal benefits are realized.</p> <p>The largest changes are to reduce the personal income tax dependent credit, limit the research and development credit for income taxes, and suspend (for two years) rather than limit net operating loss deductions for corporations.</p> <p>The attachment on the next page includes a brief summary of the various LAO revenue increasing proposals.</p>	
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## Summary of LAO Revenue-Increasing Proposals— As Revised in May

*(In Millions)*

	Revenue Gain	
	2008-09	2009-10
<b>Proposals Unique to Personal Income Tax</b>		
Reduce dependent credit	\$1,330	\$1,070
Eliminate senior credit	125	130
Eliminate partial exclusion of capital gains on small business stock	55	55
Subtotals	(\$1,510)	(\$1,255)
<b>Proposals Applying to Both Personal Income and Corporation Tax</b>		
Limit the research and development credit	\$335	\$290
Two-year suspension of net operating loss deduction	994	811
Phase out enterprise zone programs	100	120
Subtotals	(\$1,429)	(\$1,221)
<b>Unique Sales and Use Tax Proposals</b>		
Eliminate exemptions for industry-specific equipment	\$143	\$146
Eliminate certain diesel fuel exemptions	73	75
Eliminate exemption for leasing of films and tapes	65	70
Eliminate exemption for custom computer programs	53	48
Adopt one-year standard regarding use tax on out-of-state purchases	16	21
Subtotals	(\$350)	(\$360)
<b>Totals</b>	<b>\$3,289</b>	<b>\$2,836</b>