



Office of the Governor

ARNOLD SCHWARZENEGGER
THE PEOPLE'S GOVERNOR

PRESS RELEASE

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Governor Schwarzenegger Announces Plan to Address Budget Emergency, Stimulate California's Economy

To remedy California's urgent budget situation due to economic conditions radically deteriorating since the 2008 Budget Act was signed, Governor Arnold Schwarzenegger today called a special session of the legislature and announced an action plan to get our budget back on track, invigorate our economy and generate jobs for the state's unemployed. The Governor called for a combination of cuts and revenue increases to solve California's budget shortfall which has now reached \$11.2 billion. The actions prescribed by the Governor must be taken up as quickly as possible in order to prevent a cash crisis that will jeopardize vital state services.

"In the six weeks since I signed our last budget the mortgage crisis has deepened, unemployment has increased and the stock market has lost almost 20 percent of its value," Governor Schwarzenegger said. "We have drastic problems that require drastic and immediate action—we must stop the bleeding right now. We must first close a projected current year shortfall of \$11.2 billion, and then we must address the mortgage crisis to keep people in their homes, implement an economic stimulus package to help retain existing jobs and create as many new ones as possible, and fix the state's Unemployment Insurance Fund. I look forward to working with all the legislators, hearing their ideas and doing what is best for the people of California."

While Governor Schwarzenegger has worked to fix the state's spending problem, and has kept state spending relatively flat for the past three budget cycles, the dramatic drop in our revenue projections over the past six weeks presents an extraordinary situation which, combined with the volatility of our tax system, creates a revenue problem. To address this extraordinary situation, the Governor is proposing \$4.5 billion in difficult cuts and \$4.4 billion in new revenues for the current-year budget which will ensure the state can protect vital services.

Governor Schwarzenegger's proposal calls for a temporary increase in the state sales tax, from 5 percent to 6.5 percent, which will generate additional sales tax revenues of \$3.219 billion in 2008-09 and \$6.606 billion in 2009-10 for the General Fund. It will also effectively protect significant education funding. At the end of three years, the state sales tax would revert back to 5 percent. Additionally, the Governor called for additional revenue increases including broadening the sales and use tax to include certain services, imposing an oil severance tax upon any oil producer that extracts oil from the earth or water in this state and increasing the alcohol excise tax by five cents a drink.

Yesterday, the Governor announced an aggressive plan to help shore up our state's economy by helping Californians stay in their homes. His proposal would bring down foreclosure rates by helping both borrowers and lenders modify existing home loans in ways that benefit both parties. Also, to prevent another mortgage crisis in the future, the Governor is prescribing changes to the way mortgages are brokered and originated to make lenders more accountable, guard against risky mortgages and prevent unsustainable bubbles from ever arising again.

Governor Schwarzenegger has also unveiled a plan of targeted actions that will stop our economy's downward spiral now. His prescription is full of specific actions to generate jobs, keep jobs and businesses that are tempted to leave in California and lure those that have left back to the Golden State. The major elements of the Governor's plan are workplace reforms to assist California businesses and put an end to costly lawsuits and clearing regulations in order to push specific funding that is already "in the pipeline" out into the economy sooner.

The Governor's plan to stimulate employment in our state includes:

- Accelerating hospital construction to inject approximately \$160 million into California's economy.

- Pushing out and expediting infrastructure bond monies to create jobs and help unemployed residential construction workers in the hardest hit areas of the state get trained in a new type of construction.
- Keeping high paying jobs in California by providing overtime exemptions and allowing more flexible work schedules to increase productivity.
- Clarifying meal and rest periods to save businesses hundreds of millions of dollars in litigation costs and create less confusion from meal break violations which will mean fewer terminations.
- Reducing barriers to public-private partnerships and "design-build" agreements to enable more infrastructure to be built better, faster and cheaper and generate more jobs during the housing downturn.
- Keeping television and film production in California by providing targeted tax credits and keep thousands of jobs in the state and economic output in our state.

Governor Schwarzenegger also unveiled a plan to continue to help those Californians most in need by ensuring benefits for the state's unemployed through restoring solvency to the unemployment insurance fund. The financing system for the trust fund is over 20 years old - and while benefits have increased, contributions have remained the same. The fund is projected to be \$2.4 billion in the red for the coming calendar year and \$4.9 billion in the red in 2010. If no changes are made, federal taxes for California employers will increase in 2012.

To shore-up the fund and protect benefits to unemployed Californians, the Governor has called for a gradual increase in contributions into the fund, combined with a small reduction in benefits in order to maintain the fund's solvency.

In an effort to avoid the extreme revenue swings that have caused crippling deficits in our state, the Governor and legislative leaders last week announced the long-term action of creating the bipartisan Commission on the 21st Century Economy to re-examine and modernize California's out-of-date revenue laws that contribute to our feast-or-famine state budget cycles. The commission will suggest changes that will result in a revenue stream that is more stable and reflective of our economy while maintaining a fair and equitable revenue structure that will ensure our continued competitiveness and attraction to employers and workers.



STATE BUDGET 2008-09: SPECIAL SESSION

UNPRECEDENTED DECISIONS IN AN EXTRAORDINARY SITUATION

SUDDEN CHANGES IN OUR ECONOMY DEMAND A COMBINATION OF DIFFICULT CUTS AND NEW REVENUES

Economic conditions have deteriorated radically since the Governor signed the 2008 Budget Act on September 23. The volatility in our nation's financial markets has affected our budget – which is too reliant on Wall Street gains – to a point where the state faces the very real possibility of running out of the necessary cash to meet all its obligations. Critical state services could be jeopardized. California is facing a hole of \$11.2 billion in lower revenues than when the state budget was signed just six weeks ago. To remedy the urgent situation, the Governor is prescribing a combination of cuts and revenue increases – all of which must be taken as quickly as possible to prevent a cash crisis and an even larger budget problem next year.

BUDGET SOLUTIONS

Necessary Budget Adjustments: With \$11.2 billion less revenue that we anticipated just six weeks ago, it is necessary to immediately make cuts to our budget. **The Governor is proposing \$4.5 billion in cuts to the current-year budget.** All of the cuts are painful, but essential to ensure the state can protect vital services. The major budget adjustments are:

- **Proposition 98 Education Funding.** Because education funding is based on revenues, and revenues have fallen, funding to the Proposition 98 guarantee also drops. The Administration proposes total Proposition 98 expenditure reductions of \$2.5 billion, which keeps education funding at approximately \$122 million higher than the minimum guarantee.
- **Higher Education.** \$132 million in reductions are proposed for higher education segments, including \$65.5 million to the University of California system and \$66.3 million to the California State University System.
- **Supplemental Security Income/State Supplementary Payment.** Reduce SSI/SSP grants to the federal minimum effective March 1, 2009, which would result in General Fund savings of \$348.9 million in 2008-09
- **CalWORKs.** Modifying the Safety Net program, making certain benefits consistent with other CalWORKs benefits, instituting a face-to-face self-sufficiency review every six months for some CalWORKs families, and reducing CalWORKs grants by 10 percent effective March 1, 2009, would result in General Fund savings of \$273.9 million for the current fiscal year.
- **Employee Compensation Changes.** Requiring state employees take a one day furlough each month, eliminating two state holidays (combining Lincoln and Washington days into Presidents Day, and Columbus Day) and premium pay for hours worked on all remaining holidays, as well as eliminating the ability to count leave time as hours worked when computing overtime will result in General Fund savings of \$320 million in the current fiscal year. Additionally, the Governor proposes changes that would give state agencies the ability to establish a ten-hours-per-day, four-day workweek.
- **Department of Corrections and Rehabilitation (CDCR):** To realize saving in corrections, the administration proposes implementing parole reforms that protects public safety while cutting costs. This will be done mostly through parole reforms where high risk offenders who have committed serious, violent, or sexual crimes receive full supervision on parole while low-risk non-serious offenders receive no parole supervision after their release from prison. These reforms will save \$78.1 million in 2008-09 and \$677.6 million in 2009-10.
- **Public Safety Grants:** By proposing a funding realignment for public safety grants we are protecting funding for core public safety activities while realizing General Fund savings of \$250 million in 2008-09. Booking fees, the COPS and Juvenile Justice programs, and juvenile probation would receive stable, non-General Fund support going forward.
- **Medi-Cal.** Reducing California benefits to the level provided in most states, and ceasing to provide some optional benefits for adults will keep California providing more optional benefits than most states and will save the General Fund savings \$41 million in 2008-09 and \$129.9 million in 2009-10.

A Revenue Problem: While Governor Schwarzenegger has worked to fix the state's spending problem, and has kept state spending relatively flat for the past three budget cycles, the dramatic drop in our revenue projections over the past six weeks presents an extraordinary situation which, combined with the volatility of our tax system, creates a revenue problem. Raising taxes is never a good idea, but in this extraordinary situation, there is no question that new revenues must be brought into the state to protect education and vital services. **The Governor is proposing \$ 4.7billion in new revenues for the current budget year** in the form of:

- **A Temporary Sales Tax Increase:** A temporary increase in the state sales tax (from 5 percent to 6.5 percent) will generate additional sales tax revenues of \$ 3.5 billion in 2008-09 for the General Fund. It will also effectively protect significant education funding. At the end of three years, the state sales tax would revert to 5 percent.
- **Broadening the Sales and Use Tax to Include Certain Services:** Effective February 1, 2009, the sales and use tax rate will be applied to appliance and furniture repair, vehicle repair, golf, and veterinarian services. Effective March 1, 2009, the sales and use tax rate will be applied to amusement parks and sporting events. This is expected to generate additional General Fund sales tax revenue of \$357 million in 2008-09.
- **Oil Severance Tax:** Effective January 1, 2009, impose an oil severance tax upon any oil producer for the right to extract oil from the earth or water in this state. This brings California in line with other states. The tax shall be applied to the gross value of each barrel of oil at a rate of 9.9 percent and will generate additional tax revenues of \$528 million in 2008-09.
- **Increase Alcohol and Excise Taxes:** Alcohol excise taxes are proposed to be raised by five cents a drink beginning on January 1, 2009. This increase is estimated to raise \$293 million in 2008-09. Revenues from this tax will be used to fund critical drug and alcohol treatment and prevention services. Alcohol taxes were last raised in 1991.



STATE BUDGET 2008-09: SPECIAL SESSION

KEEPING CALIFORNIANS IN THEIR HOMES

IMMEDIATE FORECLOSURE RELIEF AND LONG-TERM MORTGAGE REFORM TO HELP STABILIZE CALIFORNIA'S ECONOMY

California was hit hard when the national housing bubble popped, and the foreclosure crisis that ensued continues to negatively affect California's economy, its communities, and our budget. The single most powerful action the state can take to shore up its economy is to help Californians stay in their homes - and Governor Schwarzenegger is presenting a plan to do just that. Stemming the increase in foreclosures will help save jobs, businesses, and revenue for both the state and local governments. The Governor's plan is an aggressive effort to bring down foreclosure rates by helping borrowers and lenders modify existing home loans in ways that benefit both parties. Also, to prevent another mortgage crisis in the future, the Governor is prescribing changes to the way mortgages are brokered and originated to make lenders more accountable, guard against risky mortgages, and prevent unsustainable bubbles from ever arising again.

Keeping Californians In Their Homes Today:

Keeping families in their homes is the single most powerful action we can take for our ailing economy – and our economy demands we take that action now. Working to help California families to stay in their homes will curtail an excessive downward spiral of home prices, free up cash for other expenditures, improve the fortunes of lenders and make an immediate positive impact on our economy.

- **California's housing prices rose too high during the bubble and now they threaten to fall too far, putting families, communities, businesses and governments in jeopardy.**
- Stemming the foreclosure rate will curb job losses and help maintain vital property tax revenues for local governments.
- Reducing foreclosures will stabilize neighborhoods and curtail negative effects on nearby homes. Because when your neighbor is foreclosed, your home's value plummets too.
- Successfully modifying loans allows homeowners to ride out today's depressed prices and lenders to reap a better return.

The Governor's plan improves upon other foreclosure-relief programs by incentivizing loan modifications. To reduce foreclosures and encourage loan modifications, the Governor proposes:

- A 90-day stay of the foreclosure process for each owner-occupied home subject to a first mortgage on which a Notice of Default has been filed.
- A "Safe Harbor" under which lenders will be able to exempt themselves from the 90-day stay procedure if they provide evidence to the state that the lenders have an aggressive modification program in place. An "aggressive modification program" is one designed to keep borrowers in their homes where doing so will ultimately bring investors a better return than simply foreclosing and selling at a loss.
 - **Loan modification Model:** modifications will be based on a 38% housing debt-to-income ratio so that the modified loan is sustainable for the homeowner. The lenders can achieve that 38% level by invoking some or all of the following modification plans:
 - (1) reducing the interest rate to a lower rate for five years or more; e.g., to a rate as low as 3%;
 - (2) increasing the amortization of the loan to 40 years from the start of the amortization period; and
 - (3) deferring some amount of the unpaid principal balance to the end of the loan term, so that the borrower will repay that amount upon refinancing or sale of the property.
 - **These actions will reduce monthly payments by 25-30%**

Fighting for emergency economic relief dollars to help keep Californians in their homes. Additionally, the Governor will continue to advocate that the federal government use a portion of the \$700 billion Troubled Assets Relief Program to buy up and modify troubled home loans or to guarantee modified home loans.

A Summit on Housing:

- The Governor will also convene a housing summit to further craft modification and foreclosure abatement solutions.

Preventing Another Mortgage Crisis:

The Governor's plan ensures more responsible lending to help prevent Californians from ever again being victimized by unsustainable loans. In order to prevent a future mortgage crisis, the Governor prescribes a set of proposals, including:

- The state (Department of Real Estate and Department of Corporations) will now be able to enforce federal laws and regulations such as the Truth in Lending Act and others, and to discipline real estate licensees who violate those laws and regulations.
- Lending practices will be reformed to protect borrowers by 1) expanding fiduciary duties for mortgage brokers so that borrowers can be assured they are getting a loan that suits their circumstances, and 2) penalizing lenders who make false or misleading statements.
- Licensing requirements for loan originators will be increased and standardized.
- California will contribute to a national database for the public to access license status and disciplinary records of all loan originators to prevent dishonest originators from victimizing consumers.
- Pre-counseling interviews will be required for borrowers entering into risky "non-traditional" mortgages, as defined by the federal government, to ensure they understand and accept the terms to which they are agreeing.

The Governor's mortgage plan also includes:

- Urging the federal government to require loan originators to retain a portion of the loan risk to encourage sound underwriting of loans.
- Encouraging the federal government to promote the use of "covered bonds" which allow lenders to securitize loans but require them to retain those assets on their balance sheets.

This Prescription Builds On The Governor's Previous Actions To Help Stabilize California's Housing Market

- Signed legislation to help protect homeowners by requiring a mortgage holder to provide a 30-day notice to a borrower prior to filing any default notice leading to the foreclosure. The new law also provides tenants of foreclosed properties a minimum of 60 days notice to move and requires holders of foreclosed properties to maintain the property.
- Announced an agreement with major loan servicers to streamline the loan modification process for subprime borrowers living in their homes.
- Launched a \$1.2 million public awareness campaign to help educate homeowners about options that can help them avoid losing their homes to foreclosures.
- Established the Interdepartmental Task Force on Non-traditional Mortgages to ensure a comprehensive and coordinated approach to the issues raised by subprime loans.
- Announced \$5.6 million to help mortgage and banking industry workers laid off as a result of the subprime crisis make career transitions to high-demand jobs in other industries.
- Joined the OneCalifornia Foundation to announce a bridge loan fund for homeowners facing foreclosure in Oakland.
- Awarded \$8 million to community based mortgage counseling providers around the state to help avoid foreclosures.



2008 SPECIAL SESSION

BRINGING CALIFORNIA'S REVENUE SYSTEM INTO THE 21ST CENTURY

BI-PARTISAN COMMISSION WILL ADDRESS OUR CHRONIC BUDGET PROBLEMS BY MODERNIZING OUR STATE'S REVENUE LAWS

Today Governor Schwarzenegger signed Executive Order S-12-08 to create the bipartisan Commission on the 21st Century Economy to re-examine and modernize California's out-of-date revenue-gathering laws that contribute to our feast-or-famine state budget cycles. This 12-member commission to be made up of legislative and gubernatorial appointees will suggest changes that will result in a revenue stream that is more stable and reflective of our economy. This is long-term action that will help avoid the extreme revenue swings that cause crippling deficits while maintaining a tax structure that will ensure our continued competitiveness and attraction to employers and workers.

California's antiquated revenue system is a major contributor to our feast-or-famine budget cycles. Our tax system has not been restructured in over 80 years even though our economy has changed dramatically.

- **50 percent of California's personal income tax revenues come from just 1 percent of residents.** That's fewer than 150,000 taxpayers, and much of their income is based on volatile investment income – so when their income dips the state's tax revenues fall too.
- **When Wall Street sneezes, California catches a cold.** Nearly 15 percent of our revenue comes from capital gains – meaning the turmoil on Wall Street brings pain straight to Main Street, California.
In contrast, the state of Washington is projecting a revenue shortfall of less than 1%, while our state may face a shortfall of nearly 10%. The difference is that our state's tax revenues reflect Wall Street's economy more than California's economy.

This annual uncertainty makes it difficult to fund government operations year-to-year. Boom years produce more spending than can be sustained in bust years, putting state services in constant annual jeopardy.

- Such a volatile revenue stream is unacceptable for California's 38 million residents who rely on a stable funding for a host of state-funded programs.

We need a revenue system as diverse as our economy. Unlike our budget system, California has one of the most diverse economies in the world. A tax system as diverse as our economy would produce stable revenue.

- An improved revenue-gathering system would decrease the pressure for future tax increases to address revenue shortfalls, which will continue to occur if the volatility of our tax system is not reduced.
- A tax structure that better reflects California's economic strengths could actually grow the economy. For example, reducing the corporate income tax would boost hiring, creating jobs.

Executive Order S-12-08 immediately establishes this bipartisan Commission on the 21st Century Economy to modernize and decrease the volatility in the state's tax system. The Commission will make recommendations to bring our tax system into better alignment with our modern economy and to improve the state's economic competitiveness.

- The commission will have 12 members, six appointed by the Governor, three appointed by the Assembly Speaker and three appointed by the Senate Pro Tempore.
- The commission members will receive no compensation.
- They will create a road map toward a more reliable revenue stream that is more reflective of today's economy – to be unveiled on or before April 15, 2009.



STATE BUDGET 2008-09: SPECIAL SESSION

EMPLOYMENT STIMULUS FOR CALIFORNIA

A SPECIFIC ACTION PLAN TO GENERATE JOBS AND BOOST CALIFORNIA’S ECONOMY NOW

The crisis in our nation’s financial markets has compounded the difficulties California’s economy is experiencing. The steep decline on Wall Street has caused our revenues to nose-dive and the budget we signed just six weeks ago to fall out of balance. In addition to advocating for a second federal economic stimulus package and taking action to keep California families in their homes, the Governor knows California needs immediate relief. He has called a special session of the Legislature to pass a plan to invigorate our economy, and has prescribed an action plan of targeted proposals that will immediately generate jobs for California’s unemployed and put real dollars into our economy now.

California is suffering the serious effects of Wall-Street induced economic malaise and joblessness – generating jobs is the key to recovery. A housing market wrought with foreclosures, a slowing economy and a volatile Wall Street have created an unprecedented financial crisis that is taking a toll on hardworking Californians.

- Our unemployment rate stands at 7.7%.
- Our state accounts for nearly one-third of the nation’s foreclosure activity each month.
- Our outdated tax structure has created a feast-or-famine revenue stream that is currently starving our budget.

Governor Schwarzenegger has a plan of targeted actions that will stop our economy’s downward spiral now.

Like his plan to stem the foreclosure rate and reform mortgage practices to keep California families in their homes now and in the future, the Governor’s prescription for employment stimulus contains specific actions to generate new jobs, as well as keep existing jobs and businesses in California and lure others back to the Golden State. The major elements of his plan are:

- **Workplace reforms to assist California businesses and put an end to costly lawsuits.**
- **Clearing regulations in order to push specific funding that is already “in the pipeline” out into the economy sooner.**

| <i>Proposal</i> | <i>Stimulus</i> |
|--|--|
| <p><u>Accelerate Hospital Construction:</u> Streamline the permitting and review process for non-structural hospital construction projects under \$2 million. This will reduce the review and construction permit time for already-planned projects from 10 months to as little as 2 weeks.</p> | <ul style="list-style-type: none"> • Immediately accelerate the injection of approximately \$160 million of “in the pipeline” hospital construction projects into California’s economy. • Provide a boost to employment in the California construction sectors. |
| <p><u>Accelerate Bond Spending:</u> Push out the remaining \$700 million in Proposition 1B local streets and roads funds and \$800 million for public transit. Pair it with \$3 million in Workforce Investment Act funds to local job training providers to help out-of-work housing construction employees transition into new streets and roads construction jobs. Also expedite nearly \$1 billion in transportation and water infrastructure funds for specific projects that will get shovels in the ground and Californians into jobs this fiscal year.</p> | <ul style="list-style-type: none"> • Create jobs; a conservative estimate shows that every \$1 billion in infrastructure spending leads to 18,000 jobs. • Will help unemployed residential construction workers in the hardest hit areas of the state get trained in a new type of construction. |
| <p><u>Provide Overtime Exemptions:</u> Exempt employees in executive, sales, administrative,</p> | <ul style="list-style-type: none"> • Keep high-paying jobs from leaving the state. (For every 10,000 jobs paying more than \$100,000 |

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| <p>and professional jobs who earn more than \$100,000 annually from overtime pay.</p> | <p>placed out of state, California’s economy misses out on \$1 billion in employee spending.)</p> <ul style="list-style-type: none"> • Save approximately \$90 million per year in employee classification costs. |
| <p><u>Allow More Flexible Work Schedules:</u> Allow employees to work more flexible hours upon request, such as 10 hour work days for a 40 hour work without being paid overtime.</p> | <ul style="list-style-type: none"> • Reduce absenteeism and boost productivity, which save employers real dollars. • Raise employee retention rates, which will reduce claims on the Unemployment Insurance trust fund. |
| <p><u>Clarify Meal And Rest Period Laws:</u> Clarify existing law regarding meal and rest periods to provide employers and employees with a clear understanding of meal breaks and offering flexibility to both businesses and workers.</p> | <ul style="list-style-type: none"> • Will save businesses hundreds of millions of dollars in litigation costs. • Less confusion means fewer terminations over meal break violations and a more welcoming work environment. |
| <p><u>Reduce Barriers To Public-Private Partnerships And “Design-Build” Agreements:</u> Take down barriers to public-private partnerships and “design-build” agreements to enable more infrastructure to be built better, faster and cheaper.</p> | <ul style="list-style-type: none"> • Will generate tens of thousands of construction jobs, and will particularly benefit those workers disproportionately affected by the housing downturn. |
| <p><u>Keep Television And Film Production In California:</u> Provide targeted tax credits from 20-25% to the film and television industry to help keep production in California – focusing on new production and production returning to the state.</p> | <ul style="list-style-type: none"> • Keep thousands of jobs in the state. • California’s share of TV and film production activity has slipped from 66 percent to 31 percent in the past five years; this proposal would seek to bring back some of that share. • Every \$100 that is spent on production in California generates \$285 in economic output. |



STATE BUDGET 2008-09: SPECIAL SESSION

ENSURING BENEFITS FOR CALIFORNIA'S UNEMPLOYED

RESTORING SOLVENCY TO THE UNEMPLOYMENT INSURANCE FUND WHEN WE NEED IT MOST

Over the years California's Unemployment Trust Fund has helped millions of struggling Californians get through tough employment downturns and difficult transition periods, while also pumping billions of dollars into our economy. But now, when California needs both of those things most, the Fund is on the brink of bankruptcy. That's because while the state has increased the benefits provided to unemployed Californians, it has done almost nothing to increase the money going into the fund. This imbalance has caused the fund to atrophy in our current employment climate, as the unemployment rate has risen higher and faster than anyone predicted. Governor Schwarzenegger has a plan to rescue this fund and ensure it continues to help those Californians most in need.

California's rising unemployment has placed unexpected additional strain on our already-strained Unemployment Insurance Fund – and without action the fund is projected to be insolvent beginning in 2009. Our unemployment rate has risen higher and faster than anyone predicted – and California's unemployment trust fund is quickly running out of money.

- California's unemployment rate stands at 7.7 percent – much higher than projections made by both the state's Department of Finance and UCLA's economic forecasts.
- The financing system for the trust fund is over 20 years old – and while benefits have increased, contributions have remained the same – and rising unemployment is placing unexpected demands on the fund.
Maximum weekly payments have nearly doubled since 2001, from \$230 to \$450, and the percentage of a person's weekly wage they can receive in benefits has increased from 39% to 50%.
- The Fund is projected to be \$2.4 billion in the red for the coming calendar year and \$4.9 billion in the red in 2010. If no changes are made, federal taxes for California employers will increase in 2012.

Governor Schwarzenegger has a solution to shore-up the fund and save it from bankruptcy – protecting benefits to unemployed Californians. The Governor is calling for a gradual increase in contributions into the Fund, combined with a small reduction in benefits in order to maintain the fund's solvency. The components of his plan are as follows:

- Maintain payments to the unemployed in the short-term by taking out a federal loan.
- Increase the amount in contributions employers make to the Fund by increasing the taxable wage ceiling from \$7,000 to \$10,500 and the maximum tax rate from 6.2 percent to 8.1 percent. The increased contributions will range from a minimum of \$56 to a maximum of \$427 per employee.
- Slightly reducing benefit levels including lowering the replacement rate from 50 percent to 45 percent and increasing the minimum earnings requirement to file a claim from 3.5 weeks to 7.5 weeks in a year.