

# The State's Budget Situation



**Legislative Analyst's Office**

Joint Convention of the California Legislature  
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# The 2008-09 Budget Package (September)

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- **Flat General Fund spending from 2007-08 to 2008-09 (\$103 billion)**
- **Reliance on one-time solutions**
- **Assumed 2009-10 operating shortfall of \$6 billion**

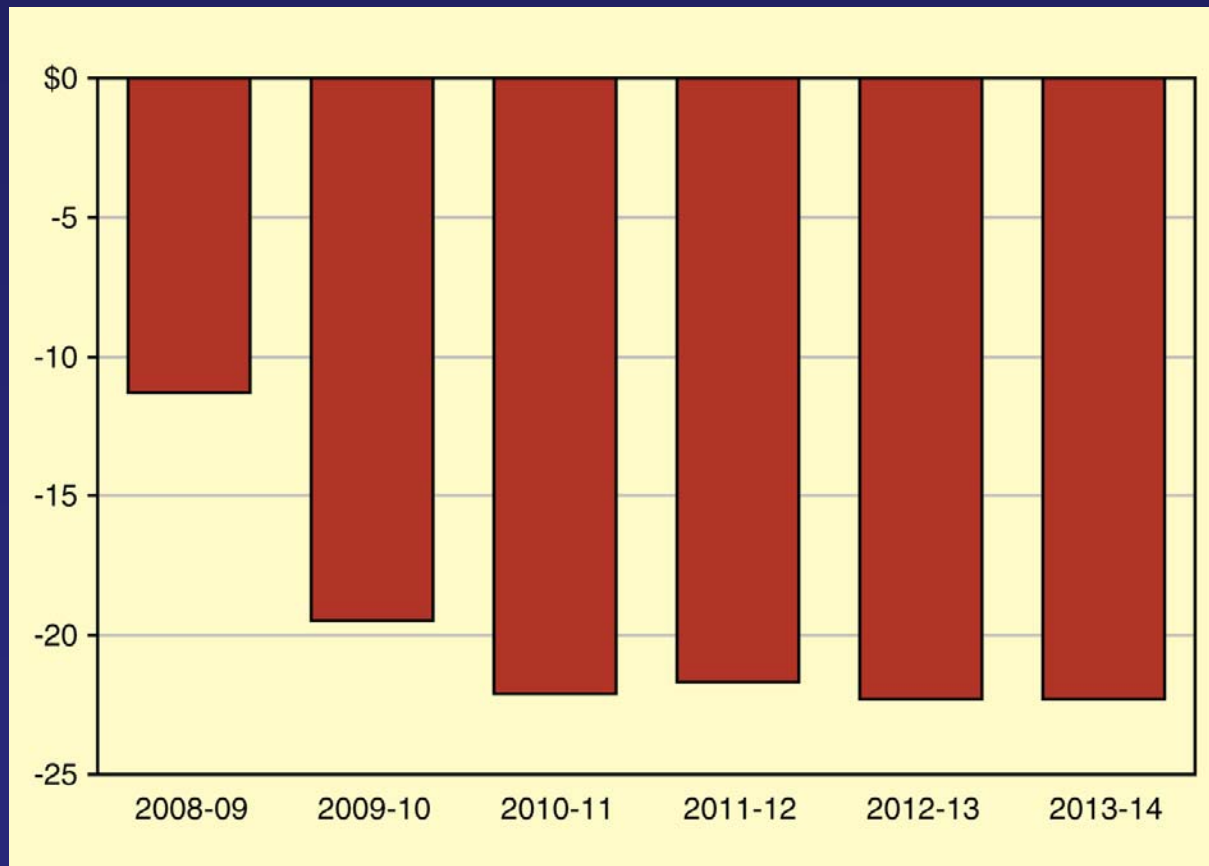
# LAO's Updated November Projections

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- **\$28 billion problem**
  - \$9 billion current-year problem
  - \$19 billion operating deficit in 2009-10

# Huge Operating Shortfalls Projected Throughout Forecast Period

General Fund (In Billions)



# Why Are Prospects So Grim?

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- **Coming off a tough year**
- **Huge, ongoing operating deficits**
- **Slow recovery**
- **Many solutions used or off the table**

# If Gap Was Solved Through Tax Increases Alone

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- **2 cent sales tax increase**
- **15 percent personal income tax surcharge**
- **2 percentage point corporate tax rate increase**

# If Gap Was Solved Through Spending Reductions Alone

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- **Eliminate funding for UC and CSU**
- **Eliminate funding for welfare payments**
- **Eliminate funding for developmental services, mental health, and In-Home Supportive Services**

# Governor's Special Session Proposals

(In Millions)

	2008-09	2009-10
<b>Revenue Increases</b>		
1.5 cent sales tax (three years)	\$3,540	\$6,643
Other (ongoing)	1,180	2,943
<b>Totals</b>	<b>\$4,720</b>	<b>\$9,586</b>
<b>Expenditure Savings</b>		
Proposition 98	\$2,500	\$729
All other	2,004	5,391
<b>Totals</b>	<b>\$4,504</b>	<b>\$6,120</b>



# Impact of the Governor's Proposals

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- Comes close to addressing shortfalls through 2010-11
- Operating shortfalls in out-years in excess of \$10 billion

# Governor's Special Session Framework

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- **Realistic numbers**
- **No budgetary borrowing**
- **Multiyear solutions**
- **Balanced approach**

# LAO Budget Options

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- **Proposition 98 alternatives**
- **Other spending and revenue options**

# Importance of Acting Now

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- **Makes your task of balancing the 2009-10 budget much more manageable**
- **Addresses near-term cash problems**
- **Signals other parties (such as school districts) of cuts to come**
- **Allows you to issue bonds for infrastructure projects**