

The State Budget Situation



Presented To:
California State Association of Counties
May 27, 2009

The February State Budget Package

Magnitude of the Problem

- **\$40 billion is over 40 percent of the General Fund Budget.**
- **Coming on the heels of an exceptionally difficult year.**
- **2009-10 budget passed in February of this year—the earliest ever.**

The Budget Solution

(In Billions)

	2008-09	2009-10	Two-Year Totals
Expenditure Reductions	\$6.7	\$8.6	\$15.4
Revenue Increases	1.5	11.0	12.5
Federal Fund Offset	2.8	5.7	8.5
Borrowing	0.3	5.1	5.4
Totals	\$11.3	\$30.3	\$41.7

Impact on Counties

- Fairly minor.
- Criminal justice local assistance programs maintained through VLF rate increase.
- Some “trigger”-related impacts.
- Some cash pressures.

LAO March Update

Updated Economic, Revenue, and Spending Forecast

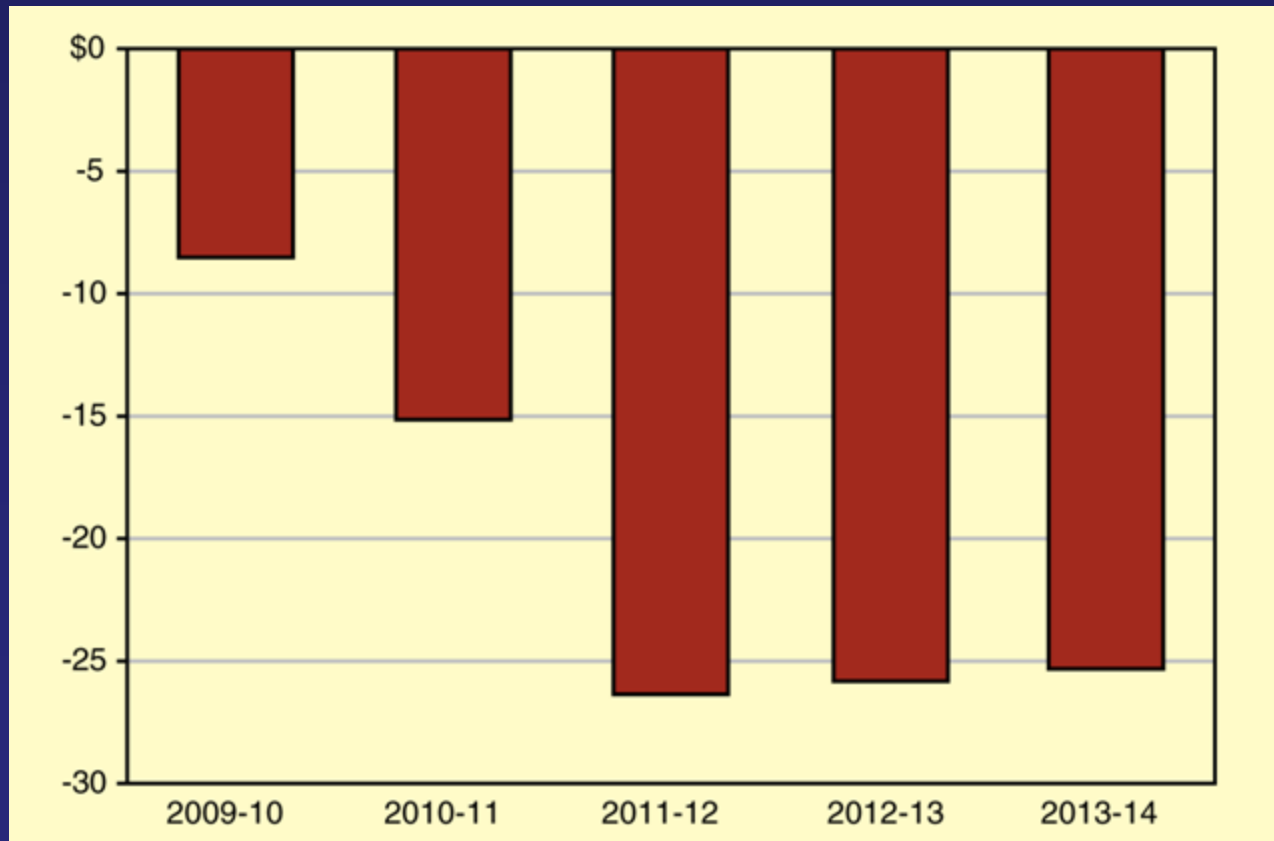
- February budget package based on economic assumptions from December.
- Economic picture continued to worsen.

LAO Revenues

- **We forecast a 2009-10 revenue decline of roughly \$8 billion.**
- **The defeat of Propositions added another \$6 billion to problem.**
- **Total budget problem of \$14 billion.**

Out-Year Situation Even Worse

General Fund (In Billions)



May Revision—Part I

New “Problem”

(In Billions)

Revenue decreases	\$12.4
Defeat of propositions	5.8
Expenditure increases	<u>3.1</u>
Total	\$21.3

New Solutions

(In Billions)

Program savings	\$10.3
Borrowing	7.5
• Local government (Proposition 1A)	(2.0)
• RAW	(5.5)
Revenue-related	<u>3.5</u>
Total	\$21.3

Solutions Heavily One-Time

(In Billions)

RAW	\$5.5
Revenue accelerations	2.3
Local government loan	2.0
Backfill UC/CSU cuts	1.1
Sale of part of SCIF	<u>1.0</u>
Total	\$11.9

May Revision—Part II

Additional “Problem”

- **Governor grew problem by \$3 billion.**
 - Now a total of \$24 billion.
- **Also dropped RAW proposal (\$5.5 billion).**
- **Combined, administration needs almost \$9 billion in new solutions.**

New Solutions— RAW Replacements

- **Eliminate CalWORKs.**
- **Eliminate Healthy Families.**
- **Reduce Mental Health Managed Care.**
- **Variety of other Health and Human Services proposals.**

New Solutions—Revenue Risk

- Coming soon...

Potential Impacts on Counties

- **Major increase in general assistance.**
- **Major impacts on health safety net.**
- **Significant impacts on sheriffs/probation departments.**

LAO Assessment

Our Problem Definition Similar to the Administration's

- **\$3 billion in lower revenues.**
- **Serious concerns about the RAW.**
- **Major out-year problems.**

LAO Options Affecting Counties

- **Loan of gas tax subvention (\$500 million).**
- **Proposition 42 suspension.**
- **VLF local assistance funding (\$250 million).**
- **Various other health and human services options.**

Softening the Blow— Mitigation and Flexibility

- **Prop 1A Suspension.**
 - Different allocation, hardship provision.
- **Loan of gas tax monies.**
 - Use Proposition 1B monies (\$700 million).
- **Eliminate mandates.**
- **Other?**

Needed Action

- **Act quickly to bring budget back into balance.**
 - Cash concerns remain pressing.
- **Spend the rest of session preparing for 2010-11 and future years.**
 - Turn to longer-run reform efforts.