An Overview of the 1993-94 Governor's Budget

SUMMARY

As has been the case in each of the past four years, the 1993-94 Governor's Budget recognizes a substantial decline in the state's fiscal fortunes. The continuing state recession has once again undermined the state's current-year spending plan, and will force the Legislature and the Administration into more painful choices as they struggle to balance the budget for the 1993-94 fiscal year. Even without attempting to provide for a prudent reserve, this task will require spending cuts or revenue increases conservatively estimated at $8.6 billion over the next 18 months. Given the magnitude of actions already taken in recent years, resolving this year's fiscal crisis requires a fundamental rethinking of governmental responsibilities in California.

The budget fully recognizes the magnitude of the crisis and proposes that the state respond with major changes in state fiscal policy. However, the budget as presented does not adequately address the problem and could not be adopted as proposed. It provides little detail as to the mechanics or policies inherent in many of its proposed changes, and relies on overly optimistic assumptions about federal funding and the timing of statutory changes.

The budget essentially retains the same priorities for state spending as were followed in the adoption of the current year's budget. K-12 school funding and corrections spending receive the highest priorities, while major spending reductions are proposed in the health and welfare area. Local government would take the largest cut, by means of a $2.6 billion shift of their local property taxes to school districts. The budget also calls on the federal government to assume $1.5 billion worth of responsibility for the impact of its immigration policy on the state's Treasury. As was the case last year, the budget proposes to eliminate the renters' tax credit, but otherwise places no reliance on state-level tax increases to resolve the problem. However, tax increases at the local level are at least implicit in the budget.

This policy brief provides an assessment of the state's current fiscal outlook and evaluates the Governor's response to the situation. It also examines the implications of the 1994-95 outlook on possible budget strategies for 1993-94.

THE FISCAL SITUATION

The 1992-93 budget plan adopted in September anticipated that the state would pay off its 1991-92 carry-over deficit and end the year with a small reserve of about $31 million. This expectation was based on the Administration's May 1992 revenue estimate, which assumed that California's economy would resume moderate growth by the end of 1992. That assumption has proved overly optimistic, and the Governor's Budget now projects that the state's economy will remain mired in recession until late 1993. As a result, rather than ending 1992-93 in balance, the state now faces another multibillion dollar deficit at the end of the current year.

The Economic Outlook

The Administration's forecast for the California economy assumes that the state's current recession will also create problems for the state in the budget year. Specifically, the recession is forecast to continue through the third quarter of 1993, followed by a relatively weak recovery continuing through 1994. Personal income is forecast to increase 3.5 percent in 1993 and 5.8 percent in 1994. Employment is expected to decline by 1 percent (120,000 jobs) in 1993 and increase by just 1.2 percent in 1994. As shown in Figure 1, this forecast is very similar to the most recent estimates published by the UCLA Business Forecast Project, but it differs markedly from the consensus-based Western Blue Chip Economic Forecast.

Figure 1

Comparison of California Employment Forecasts

	1993	1994
Department of Finance	-1.0%	1.2%
UCLA Business Forecasting Project	-1.1%	1.5%
Western Blue Chip Economic Forecast	0.1%	NA

California's projected ongoing recession is the result of a projected weak national recovery and a number of other factors that will hit California especially hard, particularly the continuing declines in defense spending. California has suffered more than most states from declines in residential and nonresidential construction and increasing competition in nondefense high-tech manufacturing, such as computers and commercial aircraft.

The Administration's forecast assumes that Federal Reserve monetary policy will remain relatively tight and that the continuing escalation of the federal government deficit will constrain its ability to stimulate the national economy through actions such as tax cuts and increased outlays. For these and various other reasons, it projects that the nation's Gross Domestic Product (GDP) will increase by only 1.8 percent in 1993 and by 2.6 percent in 1994, well below the 4 to 6 percent growth rates experienced during recent periods of U. S. economic recovery.

Figure 2 shows the pattern of national and California recessions and recoveries in terms of payroll employment growth for the past 25 years, including the Administration's forecasts for calendar 1993 and 1994. As this figure demonstrates, California has generally outperformed the nation strongly during expansion periods. Even during a previous four-year period of rapid decline in defense spending (1967-71), California's employment grew by essentially the same percentage as the nation's. If the Administration's forecast for 1993 and 1994 is correct, the nation's employment will increase by 1 percent during the four years 1990-94, while California's employment declines by 5 percent.

National Forecast Appears Pessimistic.

Most other forecasts of the *national* economy for 1993 are more optimistic than that of the Department of Finance. For example, the consensus-based Blue Chip Economic Indicators Forecast of December 1992 indicated a 1993 GDP increase of 2.8 percent, compared to the Administration's estimate of 1.8 percent. The December forecasts of other major national economic forecasters range from 2.6 to 3 percent for 1993. This indicates that the national recovery could be stronger than the Department of Finance projects, based on such factors as historical experience, more expansionary monetary policy, and the possibility of additional fiscal stimulus being provided by the Clinton Administration.

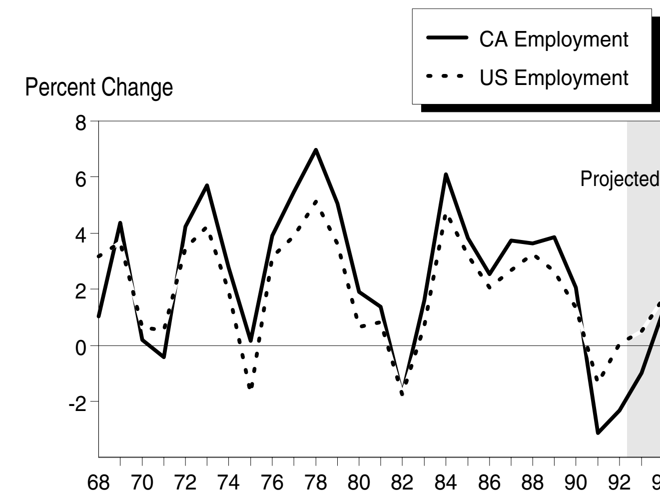
Over the past several decades, the most important factor driving California expansions has been the pace of national expansions. Thus, a more rapid national recovery than projected by the Administration would likely boost the outlook for California somewhat.

Conservative California Forecast Justified. At the same time, however, the accumulated problems of California—overlooked by most forecasters during the state's 1980s boom—are so severe that the Administration's conservative forecast for the state's economy appears justified. In part, this is because the Clinton Administration proposes to cut defense spending even further in the coming year. Since California has generally received around 20 percent of national defense spending and derives around 7 percent of its income from contracts and military bases, additional cuts would further hurt the state's economic condition.

The state is also suffering from the reaction to a speculative binge in real estate. Nonresidential structures were overbuilt in the late 1980s, and home prices jumped from around 60 percent above the national median in 1982 to 100 percent above by 1990.

Figure 2

Unprecedented Lag in California's Employment Growth Relative to the Nation's



Finally, the state's costs of living and doing business are widely perceived as placing it at a competitive disadvantage as a business location. Lack of progress on resolving the wide variety of regulatory and structural issues contributing to this problem will likely hamper the state's recovery.

In short, even if the national recovery is stronger than the Administration forecasts, we believe that the factors discussed above will restrain the state's growth potential.

The Revenue Forecast

Due to the weaker-than-anticipated performance of the California economy, the Administration forecasts that current-year General Fund revenues will be $2.5 billion below the level anticipated by the 1992 Budget Act (that is, revenues will be approximately $40.9 billion). General Fund revenues are forecast to fall again in 1993-94 by almost $1.1 billion (-2.6 percent). This 1993-94 decline is entirely attributable to two major tax changes required by existing laws:

- The decrease in the state portion of the sales and use tax from 5.5 to 5 percent, effective July 1, 1993.

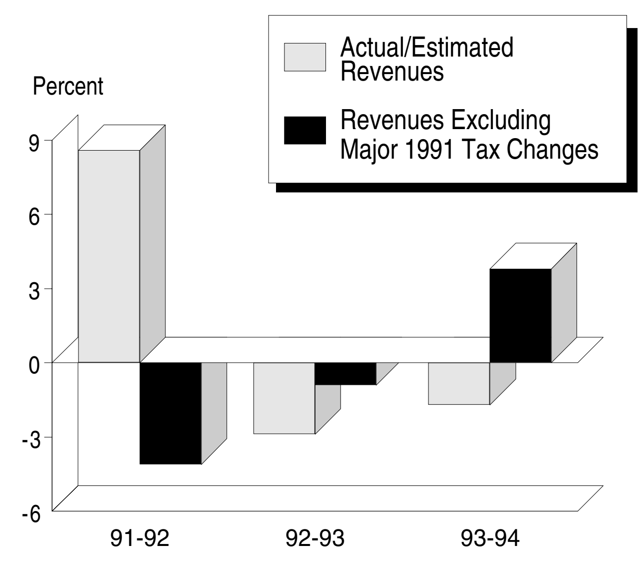
- Reintroduction of the net loss carry forward for businesses.

In the absence of these scheduled tax changes, General Fund revenues for 1993-94 would actually show a small increase of approximately $800 million (2 percent).

Figure 3, which focuses on the four largest sources of General Fund revenue, demonstrates the influence of the 1991 tax actions on estimated revenue collections. This figure shows the percentage change in state revenue collections under existing law and the percentage change in underlying revenue collections, which excludes the revenue attributable to major features of the 1991 tax package. As this chart shows, the underlying revenue growth for 1993-94 of almost 4 percent reverses the general trend of declining baseline revenues prevalent since the onset of the national and state recessions in mid-1990. Actual revenues increased in 1991-92 only because of major tax increases that year. In 1992-93 and 1993-94, however, the one-time and temporary provisions of the 1991 tax and other revenue changes cause actual revenue growth to be lower than the underlying growth trend.

Figure 3

Impact of Recent Tax Changes Distorts Underlying Trend of Growth in Major General Fund Taxes



The Current-Year Deficit

Figure 4 compares the September 1992 budget estimates for 1992-93 with those just released in the *1993-94 Governor's Budget*, adjusted to exclude the spending and revenue changes proposed by the budget to mitigate the projected current-year deficit. As the figure shows, the budget anticipates that, absent any corrective action, the state will end 1992-93 with a *deficit* of about $3.4 billion instead of the $31 million reserve originally planned. The $2.5 billion drop in estimated revenues discussed above accounts for most of this deterioration in the state's fiscal condition.

Although weak revenues are the main problem, unbudgeted spending also contributes to the current-year deficit. General Fund expenditures in 1992-93 will exceed the previous estimate by $873 million (absent proposed spending reductions), according to the new budget estimates. There are three major reasons for the increased spending. First, the federal government failed to provide all of the State Legalization Impact Assistance Grant (SLIAG) funds that were anticipated in the budget. Second, caseloads and costs increased over the amounts budgeted for Medi-Cal and prisons. Third, some of the savings that had been budgeted will not occur because of implementation delays or the need to enact enabling legislation.

1993-94 Budget Gap: $8.6 Billion

As shown in Figure 5, we estimate that the 1993-94 budget gap totals $8.6 billion. This amount consists of the carry-over deficit from 1992-93 ($3.4 billion) and the $5.2 billion operating shortfall between baseline

Figure 4

1992-93 General Fund Condition Deteriorates Rapidly Since Budget Enactment[a]

(In Millions)

	Estimate Date Sept 1992	Jan 1993	Change
Prior-year balance	-$2,191	-$2,220	
Revenues and transfers	43,421	40,939[b]	
Total resources available	$41,230	$38,719	-$2,511
Expenditures	$40,792	$41,665[c]	873
Fund balance	$438	-$2,946	
Reserve	**$31**	**-$3,357**	**-$3,388**
Other obligations	$407	$410	$3

[a] Detail may not add to totals due to rounding.
[b] Excludes $3 million of new transfers proposed in the budget.
[c] Governor's Budget estimate adjusted to restore $843 million of proposed savings.

spending and estimated revenue in 1993-94. For this calculation, we have used the Governor's Budget estimates of revenue (excluding proposed changes) as our base. On the expenditure side, our estimates recognize both increasing caseloads and the increasing costs of providing state services. Funding increases to offset one-time savings in 1992-93 are also included. This results in a baseline expenditure estimate of $44.7 billion for 1993-94, which is $3.0 billion or 7.2 percent more than current-year spending (excluding proposed changes). Our estimated budget gap does not include any funds to establish a prudent reserve. Including the creation of a prudent reserve would increase the size of the gap to almost $10 billion.

Figure 5

1993-94 Budget Gap[a]

(In Billions)

Pay off deficit from 1992-93		$3.4
1993-94 baseline spending	$44.7	
1993-94 estimated revenue[b]	-39.4	
Operating shortfall		5.2
Budget Gap		**$8.6**

[a] Excludes Governor's Budget proposals. Details do not add to total due to rounding.
[b] Based on Administration's revenue forecast.

THE GOVERNOR'S BUDGET PROPOSAL

Figure 6 (next page) shows the Governor's proposed amounts of spending and revenue for 1992-93 and 1993-94 and the resulting General Fund condition. Estimated General Fund revenues decline by 2.6 percent from the current year, while spending falls to $37.3 billion. This represents a reduction of $3.5 billion relative to estimated current-year spending (after taking into account the savings proposed in the budget). Although the budget asserts that it is balanced, we have identified technical errors which belie this claim. Regardless of this problem, the proposed $31 million reserve does not cover the risk inherent in the budget plan.

How the Budget Addresses The Spending Gap

Figure 7 shows how the budget proposes

Figure 6

Governor's Budget General Fund Condition[a]

(Dollars In Millions)

	1992-93	1993-94	Percent Change
Prior-year balance	-$2,220	-$2,100	—
Revenues and transfers	40,942	39,875	-2.6%
Total resources available	$38,722	$37,774	-2.4%
Expenditures	$40,822	$37,333	-8.5%
Fund balance	-$2,100	$441	—
Reserve	**-2,511**	**31**	**—**
Other obligations	410	410	—

[a] Detail may not add to totals due to rounding.

to address the $8.6 billion funding gap that we identified above. Half of the gap is addressed by shifting $4.3 billion of costs to other levels of government. Local governments would bear $2.7 billion of this burden, primarily through a shift of property tax revenue to schools and community colleges, where those revenues would replace state support. The budget also assumes that the federal government will provide $1.6 billion of additional federal funds, primarily to offset state costs of providing services to immigrants and their children.

Program funding reductions account for $2.4 billion of savings. The largest savings come from the proposed AFDC grant reductions and related welfare reform proposals. Cost deferrals, including a loan to schools against their future Proposition 98 guarantees, provide about $900 million of savings. Other than the elimination of the renters' credit, the only tax-related proposal actually reflected in the budget is the repeal of the small business health care credit (which has never been implemented), for a savings of $110 million.

Major Budget Proposals

Property Tax Shift. The largest single feature in the budget proposal is the shift of $2.6 billion of property taxes and redevelopment funds from local governments to schools. This shift would reduce required state funding under Proposition 98 by a like amount, and would be in addition to the $1.1 billion permanently shifted to schools from cities, counties, and special districts in the current year.

The largest portion of the additional shift in 1993-94 consists of $2.1 billion that would be allocated among cities, counties, and special districts by an unspecified methodology that the budget proposes be developed jointly by the state and local governments. The budget proposes to continue this year's one-time $200 million shift of redevelopment funds to schools, and to permanently restrict the allocation of property taxes to redevelopment agencies to generate another $100 million. In addition to the redevelopment funds, the shift also includes $150 million from enterprise special districts (other than hospital and transit districts) and a one-time diversion of $70 million to recapture savings from anticipated federal allocations to Los Angeles and certain other counties.

Figure 7

Budget's Proposed Resolution Of the 1993-94 Spending Gap[a]

(In Billions)

Cost shifts to other levels of government	
Reduced local government resources:	
Property tax shift to education	$2.6
Trial Court Funding and other	0.1
Increased federal funding:	
Reimbursements for health, welfare, and prison cost of immigrants	1.1
Additional SLIAG legalization aid	0.3
IHSS: shift to federal personal care program	0.2
Subtotal	**$4.3**
Funding reductions	
Welfare proposals:	
Welfare reform/AFDC reductions	$0.5
No pass-through of federal SSI COLA	0.1
Shift special fund monies to General Fund programs	0.4
Unallocated cuts and other shortfalls at UC/CSU	0.4
Proposition 98:	
Reversion of K-12 funds in 1992-93	0.3
Unallocated CCC cut/fee increase	0.3
Eliminate Medi-Cal optional benefits	0.2
Downsizing state agencies, the Legislature and courts	0.2
Subtotal	**$2.4**
Cost deferrals and revenue accelerations	
Proposition 98:	
New K-12 loan for 1993-94	$0.5
Defer scheduled CCC loan repayment	0.1
Cash accounting for debt service	0.2
Defer repayment of 1992-93 loans from special funds	0.1
Subtotal	**$0.9**
Increased resources	
Tax expenditures:	
Repeal renters' credit	$0.8
Repeal small business health care tax credit	0.1
Subtotal	**$0.9**
Total	**$8.6**

[a] Figures reflect both 1992-93 and 1993-94 effects. Detail does not add to total due to rounding.

Increased Federal Funds. California has seen a massive influx of foreign immigrants over the last decade. The Administration indicates that it will seek $1.1 billion of increased federal funding for 1993-94 to reimburse the state for its ongoing costs of health and welfare benefits and services provided to refugees, immigrants, and their citizen children ($878 million), and for the costs of prison inmates who are illegal immigrants ($250 million). The budget assumes that the federal government will provide these funds in 1993-94, and the Administration has requested that federal statutes and appropriations be enacted by May 15, 1993. The budget also includes savings of $314 million by assuming that the federal government will provide California with the full amount of remaining SLIAG funding owed for services already provided to newly legalized immigrants.

If this $1.4 billion of additional federal funds is not forthcoming, the budget presents a list of additional program reductions that the Administration would consider, including $809 million of additional Medi-Cal cuts. The Medi-Cal reductions would include eliminating additional optional benefits for adults (such as drugs and optometry) and optional eligibility categories for the medically needy and indigent. The list also includes $243 million from reducing the state's SSI/SSP benefits for elderly and disabled persons to the federal minimum amount.

Proposition 98. The budget reflects a downward revision in the level of K-12 enrollment for 1992-93. Combined with the reduction in estimated state revenues for the current year, this enrollment decline has lowered the Proposition 98 funding guarantee by $525 million. On this basis, the budget proposes to lower the amount appropriated for the 1992-93 guarantee by $437 million. More specifically, the budget proposes to lower K-12 school funding in the current year by $315 million, and to use $122 million of the $525 million "overappropriation" to pay for outstanding Proposition 98 obligations from prior years. On a cash basis—what schools actually receive—total K-12 funding per pupil in the current year (from state and local sources) remains at essentially the same level contemplated in the 1992 budget agreement.

For 1993-94, the K-12 per-pupil budget proposes to maintain this same funding policy, while at the same time achieving a savings of $3.6 billion. As discussed above, the property tax shift provides $2.6 billion of this savings. The remaining savings are achieved primarily in two ways. First, the Administration proposes to designate $540 million of 1993-94 K-12 funding as a loan against future state Proposition 98 requirements. (The Administration has revised the original loan figure of $375 million that appears in the budget document.) None of these "loaned" funds are counted as state expenditures in 1993-94. Second, the budget proposes an unallocated reduction to the community colleges of $266 million. The Administration supports legislation allowing the Board of Governors to make up for this reduction with increased fees.

Higher Education. The budget proposes unallocated General Fund reductions totalling $430 million for the University of California and the California State University. This represents a change of 7.2 percent and 4.5 percent, respectively. The budget document does not contain proposed 1993-94 student enrollment or student fee levels for UC and CSU.

Welfare Proposals. The budget proposes immediate enactment of many of the AFDC grant reductions and welfare reform proposals that the Governor put forward last year in his 1992-93 budget and in Proposition 165, with certain modifications. These proposals account for a net savings of $526 million, including $32 million in the current year.

Medi-Cal Optional Benefits. The budget again proposes, with some modifications, to eliminate certain optional benefits that California provides under the Medi-Cal program. The benefits that would be eliminated include adult dental care, psychology, and podiatry. The proposal assumes enactment of legislation to eliminate these benefits in the current year. Net savings would total $202 million, including $43 million in 1992-93.

Renters' Credit. The budget proposes the immediate enactment of legislation to eliminate the renters' credit, effective with the 1992 tax year. Although taxpayers may already be filing returns to claim the credit, the state could legally act to eliminate it at any time before April 15, 1993. The total savings from this action would be about $840 million for both the current and budget years.

State Operations Reductions. The budget includes savings of $197 million in 1993-94 from a proposed downsizing of state operations. Of this total, $150 million would be allocated among state agencies and programs by the Director of Finance. The budget documents contain a list of departments and programs that the Administration intends to review to identify opportunities to consolidate functions, reduce costs, and improve accountability. The budget also includes savings of $47 million from "voluntary" 15 percent reductions that the Administration is requesting from the Legislature and the judiciary.

New and Expanded Programs. Given the magnitude of the state's fiscal problems, the budget contains very few new spending proposals. A $26 million expansion in state funding is proposed for the GAIN program (which provides education and training to welfare recipients). The budget also requests $8.2 million for a new Strategic Technologies program in the Trade and Commerce Agency and $5 million to implement a volunteer mentor program for school children. Within spending required to meet the Proposition 98 guarantee, the budget proposes to allocate $58 million to expand preschool services, the Healthy Start program, and the Early Mental Health program. These programs reflect the Governor's emphasis on prevention programs and children.

AVOIDING ANOTHER FISCAL CRISIS IN 1994-95

The current year will be the third consecutive year in which the state budget has had an ending deficit of more than a billion dollars, despite the fact that each of these budgets appeared to be balanced when they were adopted. In each of these years, the Legislature struggled to reconcile large operating shortfalls between spending requirements and ongoing revenues, as well as to find ways to pay off large carry-over deficits. Thus, the outlook for 1993-94 is essentially no different than in recent years, except that prior state actions have shortened the list of available options. In this context, it is useful to examine whether the projected change in the state's economic fortunes next year could help to reverse this trend.

In order to examine the 1994-95 outlook, we have extended our baseline spending projection to that year. We also have projected ongoing revenues in 1994-95 based on the Department of Finance's economic forecast. Under these conditions, the fiscal picture does improve, in that revenues grow faster than spending (6.5 percent versus 5 percent). However, unless the existing 1993-94 operating shortfall of $5.2 billion is eliminated, this growth differential is not sufficient, by itself, to bring revenues and expenditures back into balance for 1994-95. In fact, it only reduces the operating shortfall to roughly $5 billion in 1994-95.

Our 1994-95 baseline projections have two implications for 1993-94 budget actions:

- At least $5 billion of the budget solutions adopted in 1993-94 must be ongoing in order to avoid another operating shortfall in 1994-95.

- No cushion is available in 1994-95 to absorb a carry-over deficit or cost deferrals from 1993-94. Risky 1993-94 solutions, especially in the absence of a reserve, are almost certain to require more cuts in 1994-95.

There is another consideration for 1994-95 and beyond that our baseline projections do not address. This concerns the commitments that are being made against future-year resources, but which are not accounted for in the state's financial reports. The largest of these is the off-budget loan of $973 million that the state provided to schools and community colleges in the current year against future Proposition 98 requirements. The budget proposes a second off-budget loan of $540 million in 1993-94, which would bring the total amount of these loans to $1.5 billion. In effect, the state has borrowed money from the future to maintain its current level of spending for schools and community colleges. This spending will have to be reflected in future budgets when the loans are "repaid" to the state, either by offsetting the repayments against the Proposition 98 guarantee at that time (a reduction in actual funding to education) or by forgiving the loans and reflecting the amounts as spending in the budget. The state's $600 million liability for sales tax refunds under the *Aerospace* court decision is another example of these commitments. The expanded use of these practices will lead to further fiscal problems in the years ahead.

DOES THE BUDGET WORK?

While the Governor's January budget proposal does propose major policy changes and, in some cases, specific legislative proposals to accomplish them, taken as a whole it fails to provide a workable plan to resolve the state's current and ongoing fiscal problems. There are two reasons why the budget falls short. First, some major portions of the budget are presented only in outline form, with the substance to be filled in later. The most significant example of this is the proposed $2.1 billion property tax shift from local governments, where a methodology for allocating this massive shift is left to future negotiations, and the impacts on local governments have not been addressed. The budget's second shortfall is that it entails large risks. It assumes a large influx of federal funds outside of any existing federal program, and it assumes that legislation to enact several of its major savings proposals will be enacted and implemented immediately. In addition, there is no reserve.

Nevertheless, this budget does serve useful purposes. It does not attempt to hide the seriousness of the state's fiscal crisis. The magnitudes of the proposed local funding shifts and the amount of federal funds sought clearly point out the size of the state's fiscal problem and the difficulty of solving it. The inclusion of local governments and the federal government in the budget solutions also highlights the state's interdependence with them. They will have to play major roles in any realistic budget solution.

THE LEGISLATURE'S DILEMMA

The state's fiscal problems present the Legislature with a threefold budget dilemma.

How Much Can Spending Be Cut? After several consecutive years of budget cuts, achieving significant additional savings will require deep and painful reductions in major programs. How deeply can *state and local* spending be cut without fundamentally damaging the state's social fabric, its ability to guarantee public safety, or its ability to retain and attract businesses and jobs?

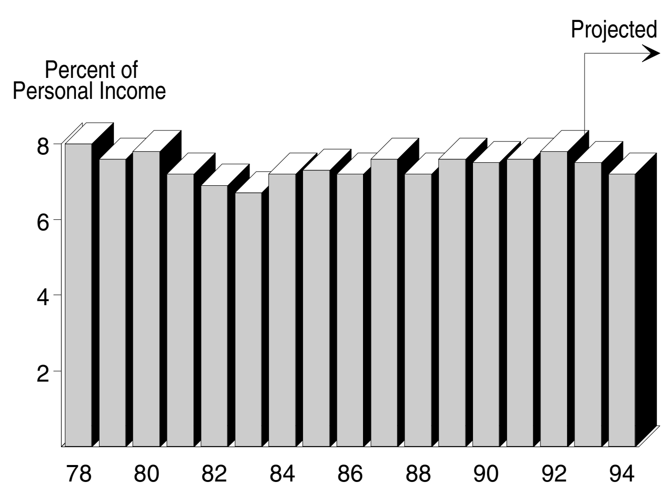
Can the State Afford to Raise Taxes? The magnitude of the budget crisis and the pain of large spending cuts require consideration of tax increases and the modification of tax expenditures as part of a solution. One straightforward option is to extend the half-cent temporary sales tax rate that expires this year. As illustrated in Figure 8, the burden of state taxes (as a share of personal income) appears to be on the decline. However, the primary reason for the 1992-93 decline is the recession. As incomes fall, the state's progressive tax structure takes a smaller share of income in taxes. When economic recovery occurs and raises incomes, on the other hand, the tax burden will tend to rebound to former levels because of this progressive tax structure. The 1993-94 decline, however, is primarily attributable to the expiration of the one-half cent temporary sales tax rate and return of net operating loss deductions. This does represent an ongoing reduction in the state's existing tax burden.

Should state taxes be reduced in the face of the ongoing fiscal crisis? How much can state or local revenues be raised without overburdening taxpayers and discouraging economic growth and job creation? Can tax increases be structured to minimize the impact on those already hurt by the recession and to avoid negative economic consequences?

Can the State Afford to Roll the Deficit Over? The state will have what amounts to a rollover of more than $4 billion in the current year. This includes an ending deficit of at least $2.5 billion (assuming all of the budget's savings proposals are adopted), the off-budget Proposition 98 loan of $973 million provided to schools and community colleges in 1992-93, and the unpaid *Aerospace* refunds of $600 million. This rollover (most of which was not planned) has exacerbated the 1993-94 fiscal problem. Moreover, as we discuss above, 1994-95 promises to be another difficult year, even if economic recovery does begin in 1993-94 as projected by the budget. Is it reasonable for the budget to borrow any more from the future to finance current spending?

Figure 8

Forecast for California's State-Level Tax Burden Is Declining Due to Recession, Tax Changes[a]



[a] Data are for fiscal years ending in year shown, includes both General Fund and special fund taxes.

CONCLUSION

The Legislature has an extremely complex task before it in developing a budget plan for next year. Difficult choices and legal constraints will make the task appear impossible, but a way out of the dilemma must be found. Rethinking the appropriate roles of government is critical to the ultimate resolution of this fiscal crisis. More fundamentally, all available options must be considered if a workable solution is to be put in place.