

1993-94 Budget Enacted

On June 30, Governor Wilson signed the 1993 Budget Act and various companion measures, so that the state began the new fiscal year with an enacted budget for the first time since 1986. The budget package authorizes total state spending of \$52.1 billion, including \$38.5 billion from the General Fund. Compared with 1992-93, total state spending will decrease by \$5.5 billion, or 9.6 percent. Spending from the General Fund and bond funds declines by \$2.6 billion and \$3.2 billion, respectively, while special fund spending increases slightly by \$220 million.

The budget package includes the Governor's proposal to shift \$2.6 billion of property tax revenues from local governments to schools. This shift reduces the state's education funding requirement under Proposition 98 by an equal amount. The budget package partially offsets this loss to local governments by \$744 million by extending for six months the temporary half-cent state sales tax that was scheduled to expire on June 30, and allocating the revenue to local governments. The sales tax extension will become permanent if the voters approve a statewide ballot measure at the November 1993 special election. Local governments would receive about \$1.5 billion annually from the tax.

Figure 1

1993-94 Budget Package Estimated General Fund Condition

(In Millions)

	1992-93	1993-94	Percent Change
Prior-year balance	-\$2,166	-\$2,233	
Revenues and transfers	41,041	40,623	-1.0%
Total resources available	\$38,874	\$38,390	
Expenditures	\$41,107	\$38,520	-6.3%
Fund Balance	-\$2,233	-\$130	
Reserve	-\$2,753	-\$540	
Other obligations	\$520	\$410	

Details do not add to totals due to rounding.

Figure 1 shows the General Fund condition for 1992-93 and 1993-94, based on the enacted budget and presented according to the

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LOOK INSIDE!

- Real Personal Income Up... 2
- Sales Tax Revenue Down... 3

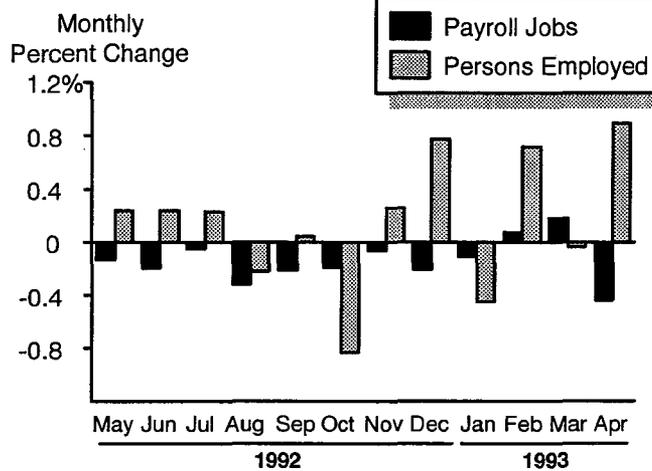


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ECONOMIC UPDATE

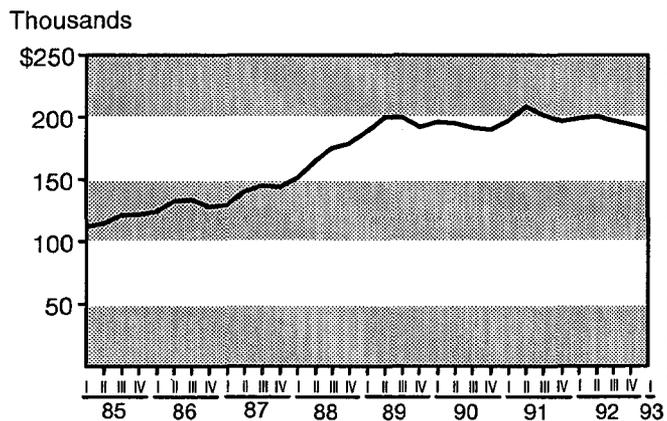
California Business and Household Surveys Give Mixed Signals

- The two major employment surveys, which query businesses about payroll jobs and households about total number of persons employed, normally rise or fall in sync at the national level.
- The two series have been moving in opposite directions in California for much of the last two years. More people may now be self-employed after being laid off.



California Home Prices Decline Since Mid-1991 Peak

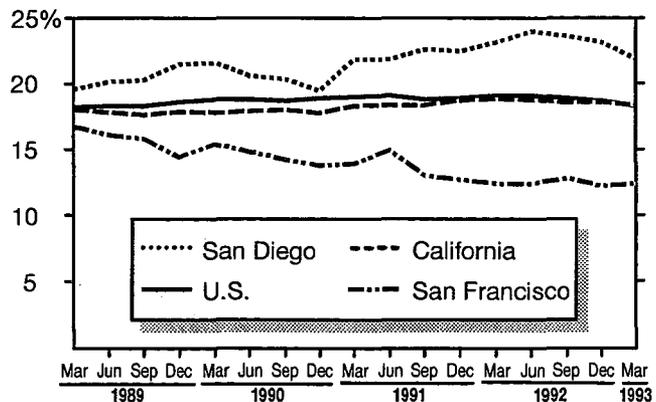
- California's median home price doubled during the 1980s.
- Since mid-1991, the state's median home price has been declining, while the national median continues to rise. California's median is now approximately 80 percent above the national median after reaching 110 percent above the U.S. in 1989.



Source: California Association of Realtors.

U.S. and California Office Vacancy Rates Are Close

- Despite recent assertions by many observers, California's overall office vacancy rate is not higher than the national average.
- Office vacancy rates vary from 13 percent in San Francisco and San Jose to 23 percent in San Diego and average 18 percent statewide.



Source: CB Commercial.

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Revised Forecast Slightly Higher

In May, the Department of Finance increased its January forecast for General Fund revenues for 1992-93 and 1993-94. In this section, we discuss May's actual performance relative to the revised forecast and review the changes made in the revenue forecasts for the current and budget years.

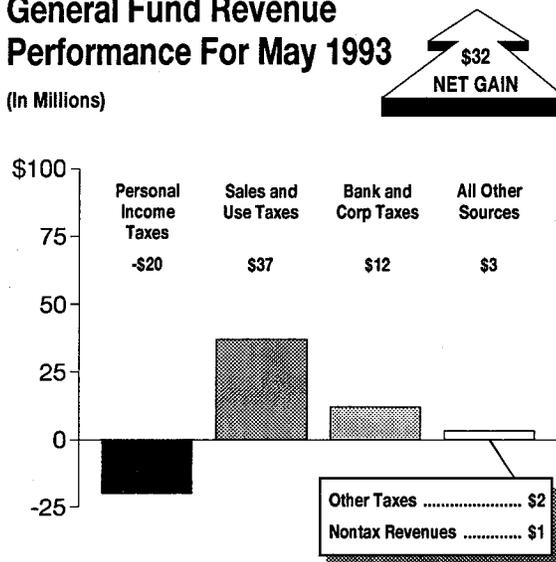
General Fund Revenues Tracking in May. General Fund collections were \$32 million, or 1.3 percent, above the Department of Finance's revised revenue estimate of \$2.55 billion. This gain is the result of small, permanent gains in sales and use (\$37 million), bank and corporation (\$12 million), and estate (\$5 million) taxes. Offsetting these gains were shortfalls in withholding and final payments on personal income taxes (\$28 million).

Current-Year Revenue Forecast Increased. In its May Revision, the department increased its revenue forecast for the current year by \$82 million. This overall gain reflects better-than-expected performance in personal income tax receipts from this spring. Specifically, personal income tax receipts are expected to be \$450 million above the January forecast. Offsetting this gain are downward revisions to bank and corporation taxes, sales

taxes, and nontax revenues. The downward revision to bank and corporation tax revenues (\$170 million) primarily reflects less-than-expected final payments on profits earned in 1992.

General Fund Revenue Performance For May 1993

(In Millions)



^a Detail may not add to totals due to rounding.

Budget-Year Revenue Forecast Higher.

The department increased its 1993-94 estimate by approximately \$310 million, or 1 percent. As in the current year, the budget-year increase is attributable to an increase in the forecast for revenue from the personal income tax (up \$710 million, or 4 percent). The department's increase is based on two factors.

First, department staff estimate that taxable income will be slightly higher in 1993 than earlier anticipated, resulting in more tax revenues. Second, data from the Franchise Tax Board show that a higher proportion of existing income is earned by higher income taxpayers, which means more income earned in California will be subject to the highest income tax rates.

Offsetting this gain are downward revisions to all other major sources of General Fund revenue. The most important reduction is for bank and corporation taxes. The department estimates that business profits will not recover as quickly as was forecast in January.

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BUDGET UPDATE

Budget Enacted CONTINUED FROM FRONT PAGE

state's traditional budgetary accounting practice. The budget pays off the \$2.8 billion carryover deficit from 1992-93 over a two-year period. Most of the carryover deficit is paid off in 1993-94, but \$540 million of the deficit will be rolled over into 1994-95. The Administration projects that, after paying off this remaining deficit, the General Fund would end 1994-95 with a small reserve. The spending amounts shown in Figure 1 do not include a total of \$1.8 billion in off-budget loans to schools and community colleges against their future state funding entitlements.

Actions to Close the \$8 Billion Budget Gap

In May, we estimated that the state faced a 1993-94 General Fund budget gap of \$8.0 billion, consisting of the 1992-93 carryover deficit and the operating shortfall in 1993-94 between baseline spending and projected revenues. The actions taken to address that gap fall into the following categories:

- **Cost Shifts to Other Levels of Government—\$3.7 Billion.** Most of the savings results from the property tax shift from local governments to schools (\$2.6 billion). The sales tax extension and increased Vehicle License Fee allocations will help

mitigate the impact on local governments. Increased federal funding—primarily for health and welfare services to immigrants—provides an additional \$867 million.

- **Cost Deferrals and Revenue Accelerations—\$2.3 Billion.** A new off-budget loan of \$786 million for K-14 education and the \$540 million carryover deficit are the largest components. Deferring the state's employee retirement contributions (\$195 million) and accounting changes also provide savings (\$252 million).
- **Program Reductions—\$1.2 Billion.** Special fund reductions and transfers provide \$545 million to close the General Fund gap. Significant savings also resulted from reductions to SSI/SSP grants to the disabled and elderly (\$151 million) and from higher education reductions (\$237 million).
- **Increased Resources—\$825 Million.** Suspending the renters' credit provides \$390 million. Improved tax collection and increased higher education fees account for an additional \$365 million.

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