

# Fiscal Overview



Legislative Analyst's Office

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[www.lao.ca.gov](http://www.lao.ca.gov)



# Developments Since the 2003-04 Budget's Enactment

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## *Underlying Revenue Outlook Improving . . .*

- Economy and stock market up.
- Recent tax collections higher-than-expected.

## *. . . But New Tax Revenues Consumed by Other Budget Related-Factors*

- One-half of added revenues goes to Proposition 98.
- Pension obligation bonds invalidated by Superior Court.
- Tribal gaming revenues overestimated.
- Major deficiencies in Department of Corrections and Medi-Cal.
- Costs for Southern California fires.
- Shortfall in other budget savings.

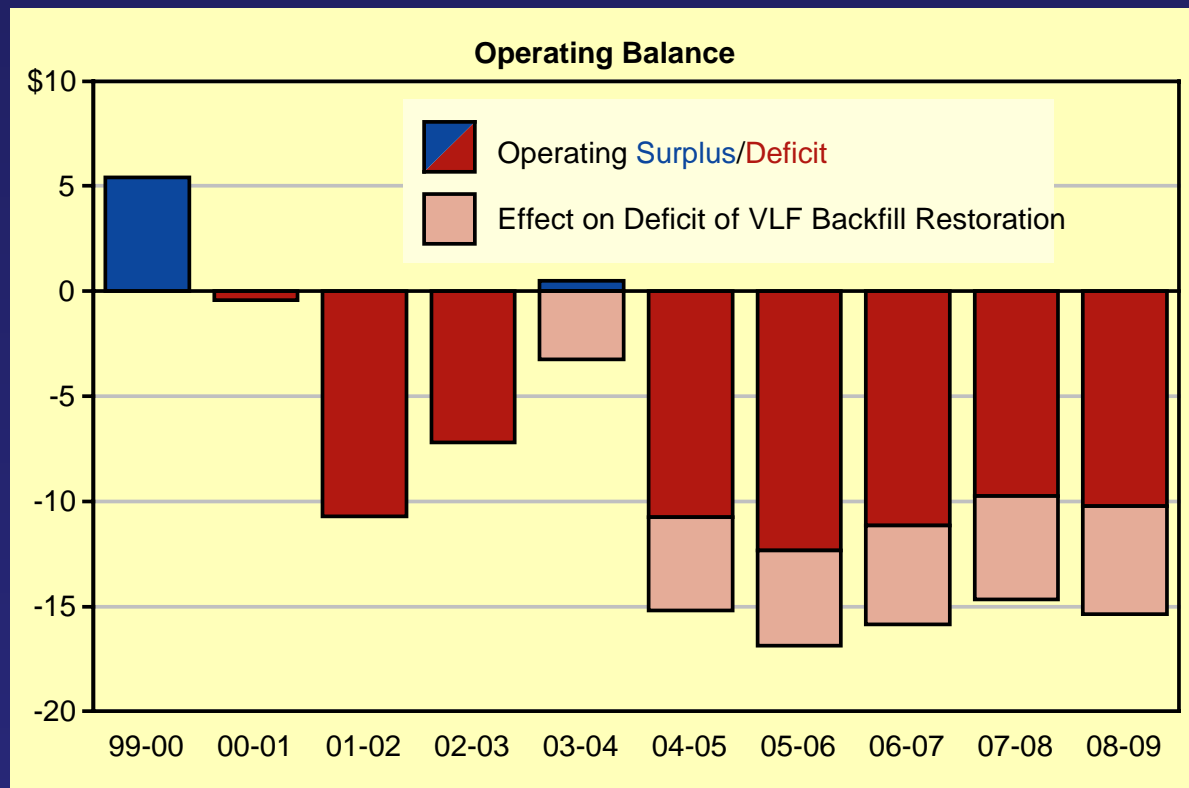
# LAO Projections of General Fund Condition

2002-03 Through 2004-05  
(In Millions)

	2002-03	Forecast	
		2003-04	2004-05
Prior-year fund balance	-\$1,983	\$1,513	\$2,003
Revenues and transfers	70,852	74,165	74,968
Deficit financing bond	10,675	—	—
Total resources available	\$79,544	\$75,678	\$76,971
Expenditures	\$78,031	\$73,675	\$85,727
Ending fund balance	\$1,513	\$2,003	-\$8,756
Encumbrances	\$1,402	\$1,402	\$1,402
<b>Reserve</b>	<b>\$111</b>	<b>\$601</b>	<b>-\$10,158</b>

# Current-Law Operating Deficits To Persist

General Fund (In Billions)



# Potential Impacts of VLF Rate Rollback in 2003-04<sup>a,b</sup>

In Billions

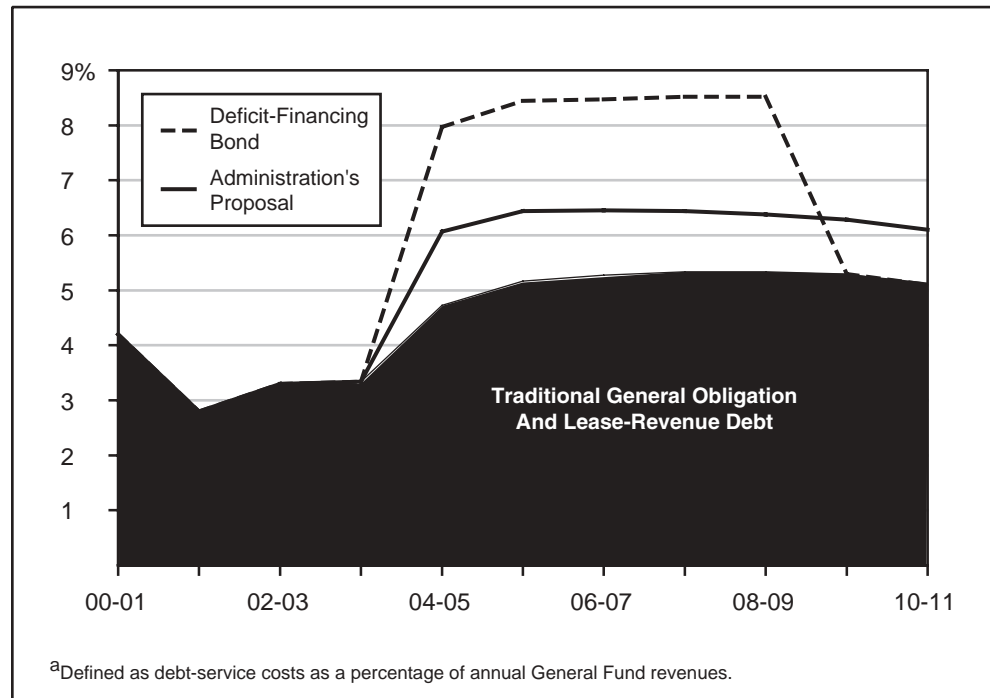
	Vehicle Owner Savings	Governmental Cost	
		State General Fund	Local <sup>b</sup>
Scenario A—Rate reduction effective February 1, 2004 but no backfill in 2003-04.	\$1.8	—	\$1.8
Scenario B—Rate reduction effective February 1, 2004 and backfill restored through legislation.	1.8	\$1.8	—
Scenario C—Rate reduction made retroactive to October 1, 2003 and backfill restored through legislation.	3.2	3.2	—

<sup>a</sup> Fiscal effects in subsequent years are identical for all scenarios at \$4.2 billion in 2004-05, \$4.4 billion in 2005-06, \$4.6 billion in 2006-07, \$4.8 billion in 2007-08, and \$5 billion in 2008-09.

<sup>b</sup> General Fund CalWORKs interactions: None in 2003-04, \$223 million in 2004-05, \$127 million in 2005-06, \$129 million in 2006-07, \$130 million in 2007-08, \$133 million in 2008-09.



## Debt-Service Ratio Levels<sup>a</sup>: Alternative Scenarios



- California's debt-service ratio for general obligation and lease-revenue bonds used for capital outlay will increase to about 5.3 percent in 2006-07. This assumes:
  - Total sales through 2010-11 of the entire \$21 billion in previously authorized bonds, as well as most of the \$22 billion of bonds proposed for the March and November 2004 ballots.
  - Annual sales of these bonds averaging about \$6 billion.
- The ratio jumps to about 8.5 percent for the next five years if the currently authorized \$10.7 billion deficit-financing bond is included. It then falls back once the bond is paid off.
- If the deficit-financing bond is replaced with a long-term \$15 billion general obligation bond, the ratio would increase to about 6.5 percent by 2006-07 and remain roughly 1 percent higher for the next 30 years.