

Analysis of the 2008-09 Budget Bill



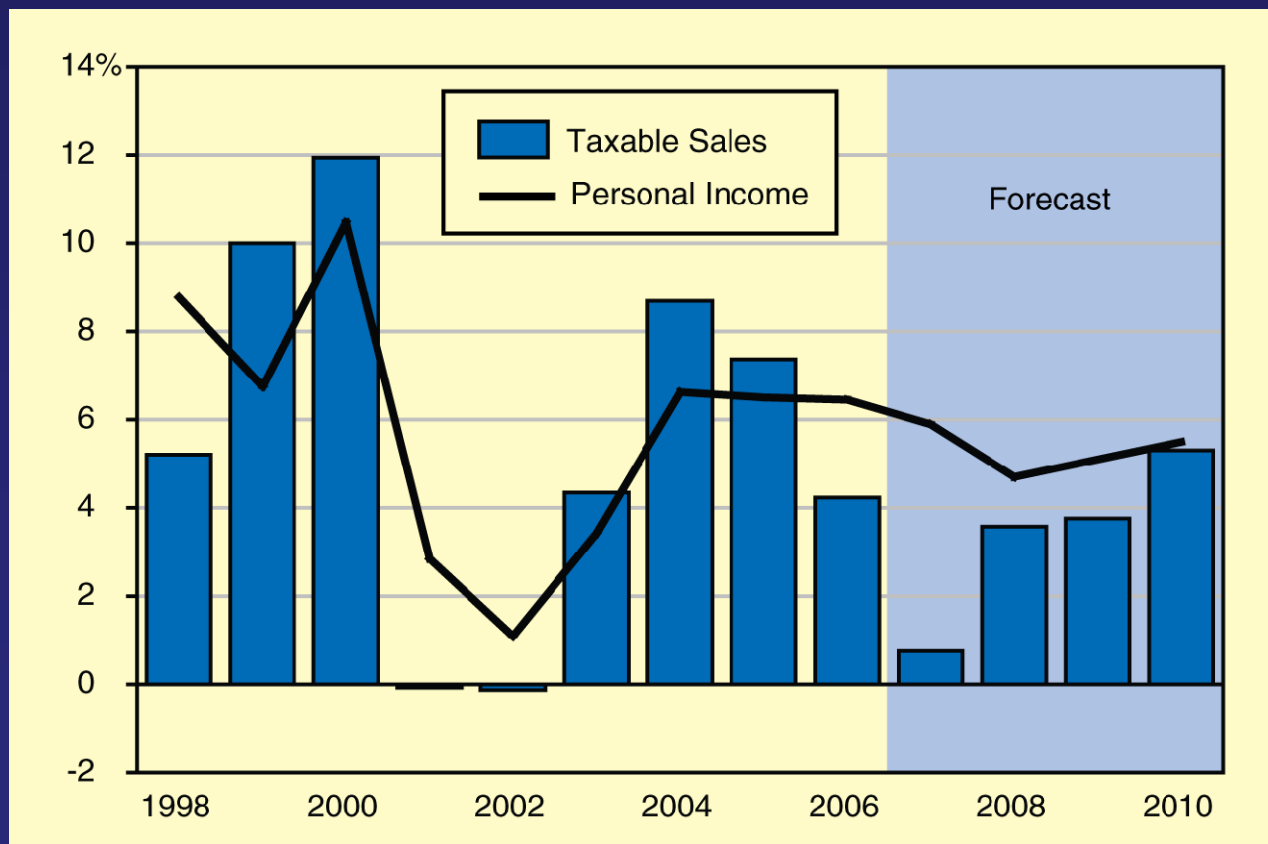
Legislative Analyst's Office
February 2008

Key LAO Findings

- ▶ **Lower Revenues**
- ▶ **Larger Budget Problem**
- ▶ **Structural Shortfall After 2008-09**
- ▶ **Failure to Set Priorities**

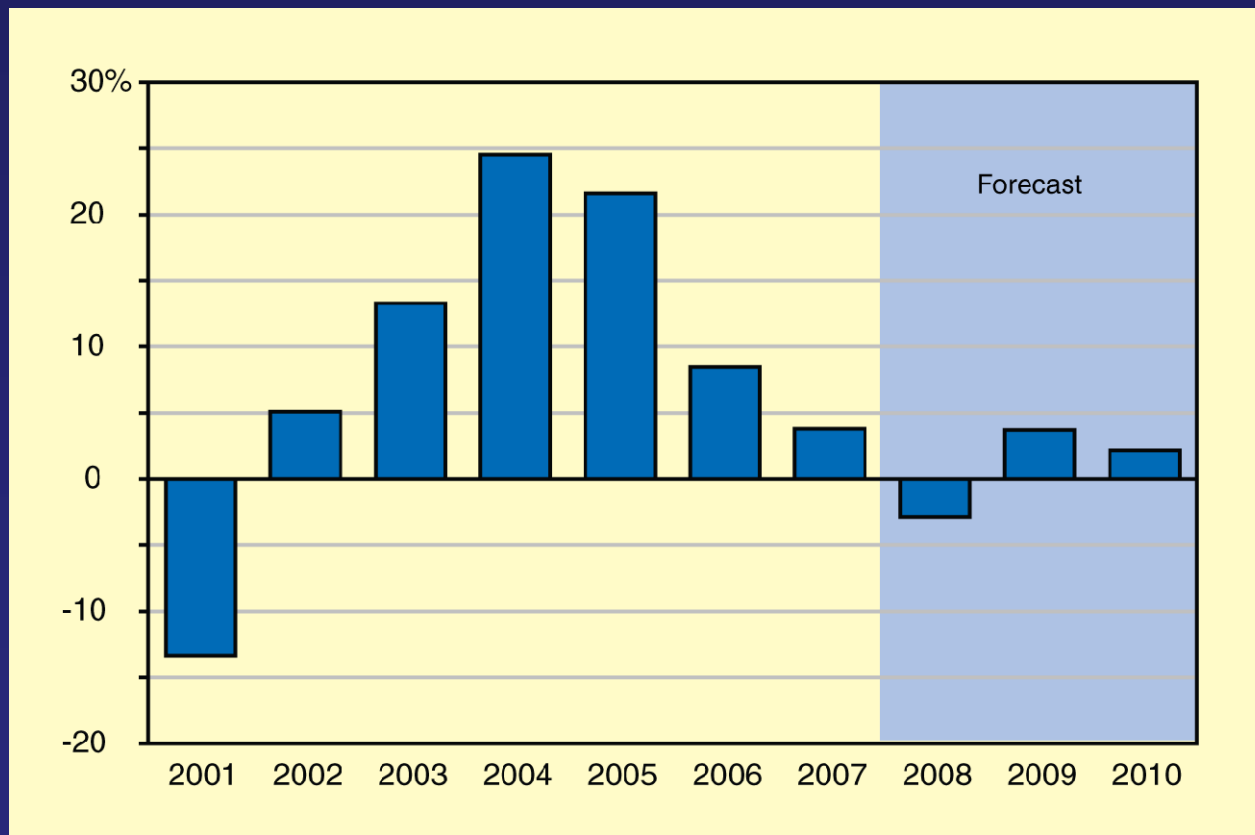
Taxable Sales Growth to Trail Personal Income

Annual Percentage Change



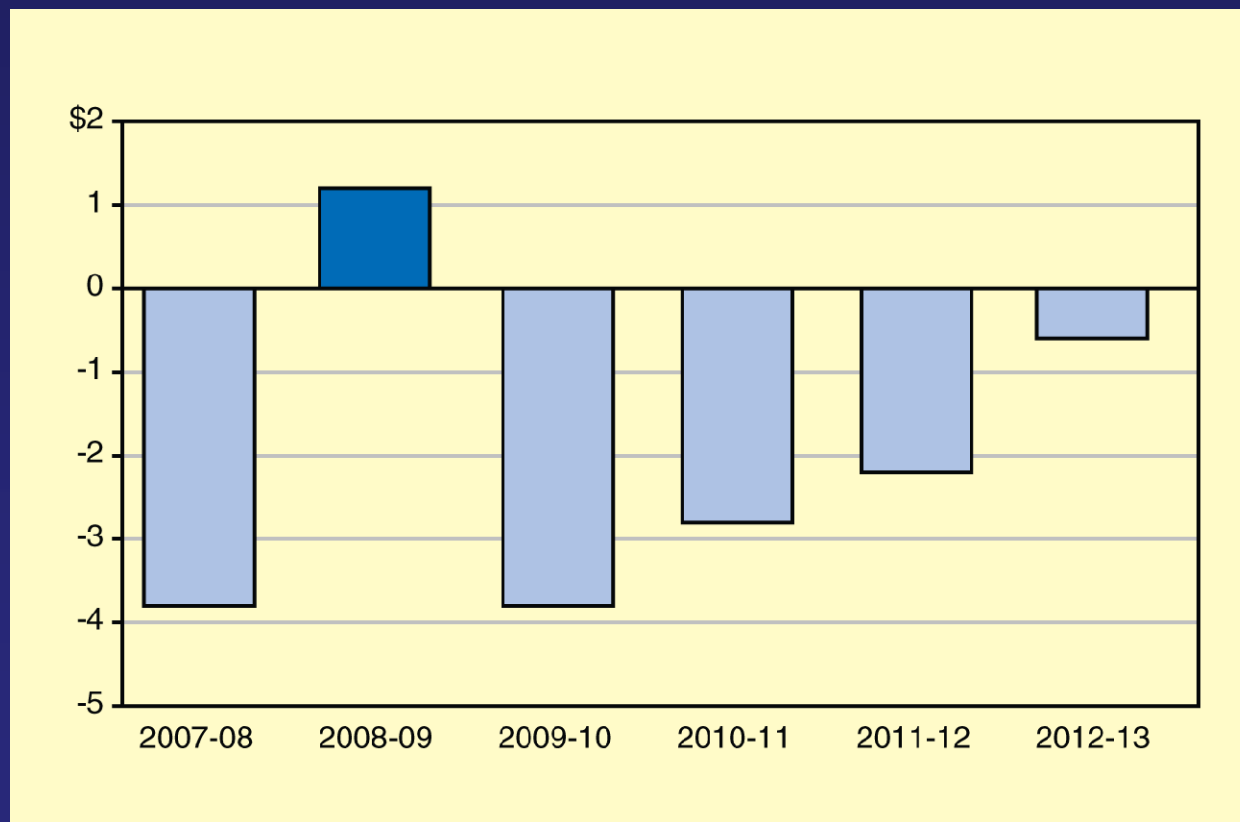
Weakness in California Corporate Profits Expected

Annual Percentage Change



Operating Shortfalls Return After 2008-09 Under Governor's Budget

General Fund (In Billions)



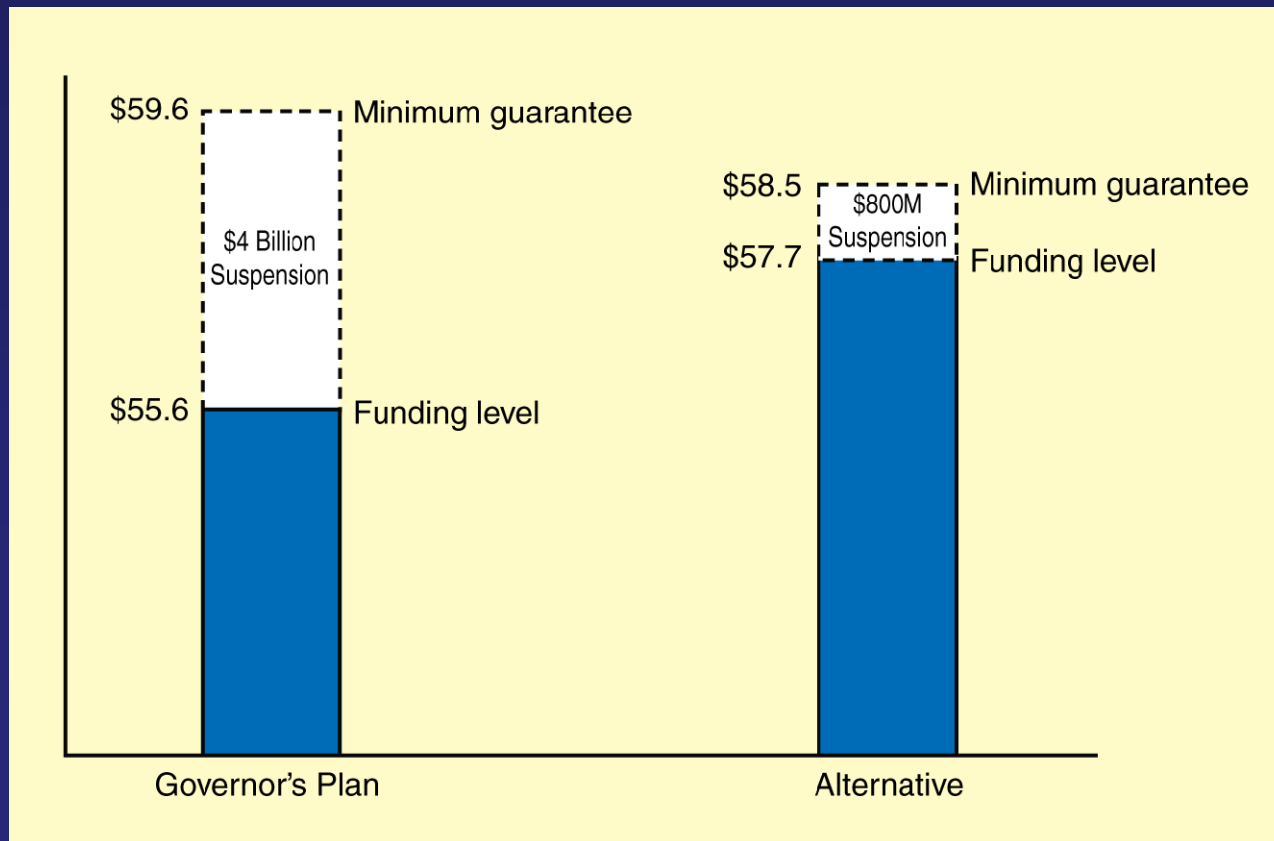
LAO Alternative

- ▶ Targeted Approach to Spending
- ▶ Balanced Approach Includes Revenues
- ▶ Balanced Budget Through 2012-13

Targeted Program Reductions

- ▶ **Core Services at Current Levels**
- ▶ **Eliminate/Modify Ineffective Programs**
- ▶ **Use Other Funding Sources for Services**
- ▶ **Local Administrative Flexibility**

Better Proposition 98 Approach



Add Revenues in a Reasonable Manner

- ▶ Reduce Dependent Credit
- ▶ Limit R&D Credit
- ▶ Limit NOL Carryforwards
- ▶ No Broad-Based Tax Rate Increases

LAO Alternative: Other Key Elements

- ▶ **Rethink State Responsibilities**
- ▶ **No Additional Borrowing or Debt**

Budgetary Reform Alternative

- ▶ **Build Upon Proposition 58 Reserve Framework**
- ▶ **Rethink State's Budgetary Formulas**

LAO Alternative: A Starting Point

- ▶ **Tough Decisions Ahead**
- ▶ **Legislative Priorities Will Set Framework**