

The State Budget



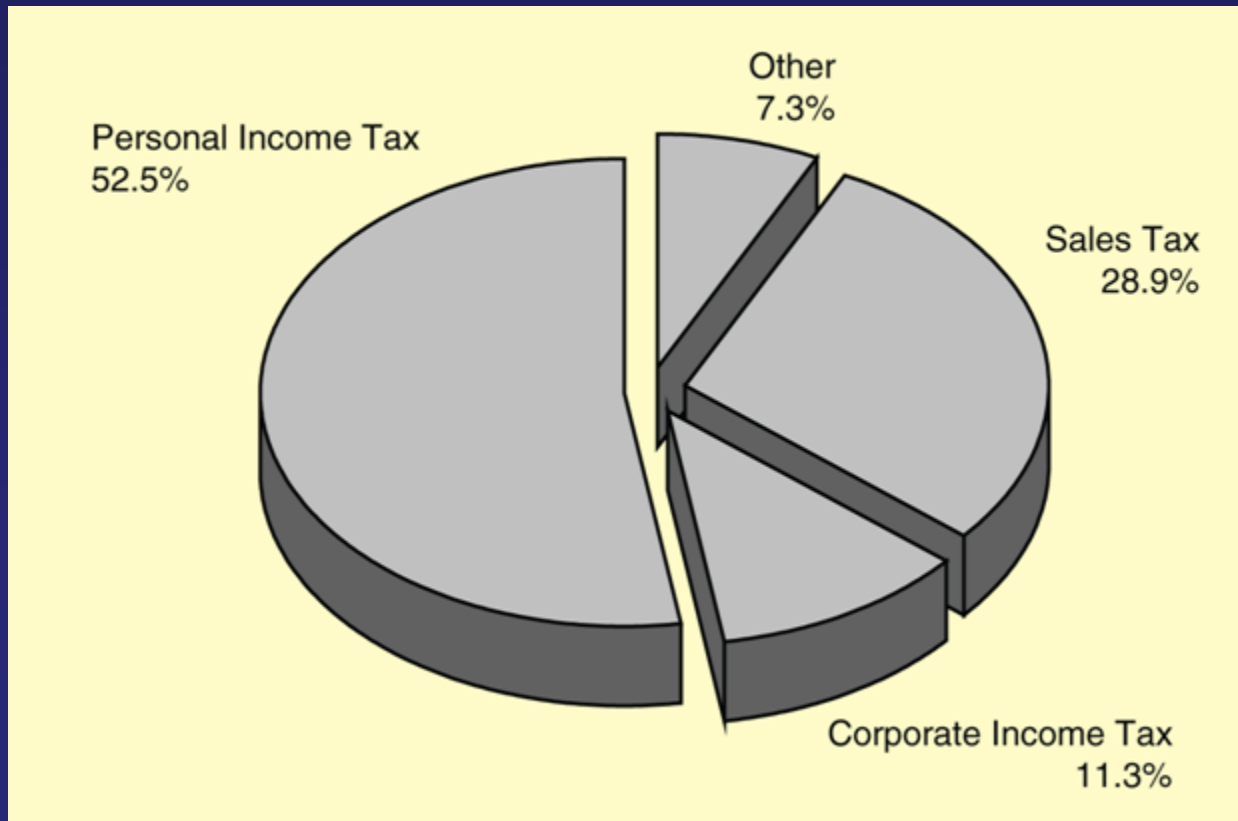
Legislative Analyst's Office

Presented to:
Latina Action Day
April 21, 2010

Background

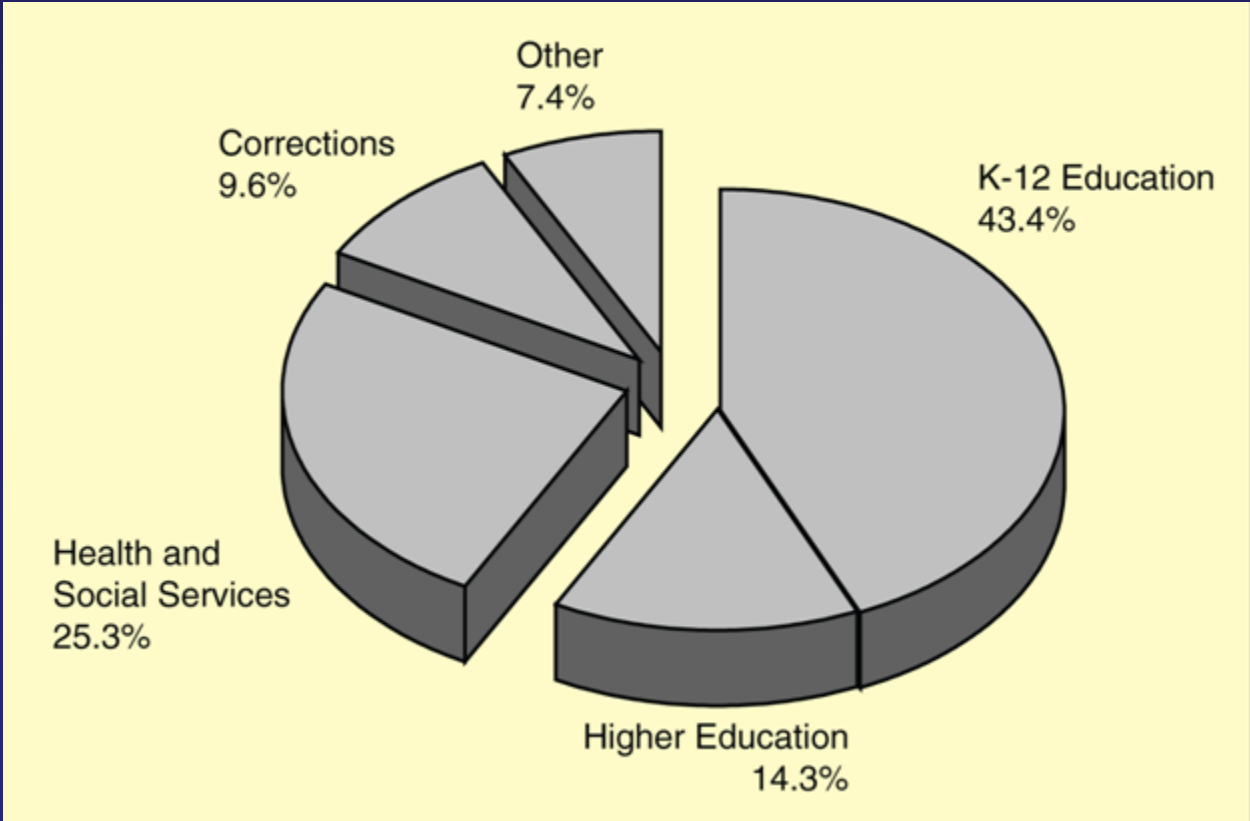
The State's General Fund: Where Does the Money Come From?

2010-11



The State's General Fund: How Are the Monies Spent?

2010-11



The Budget Problem

Recap: The 2008-09 and 2009-10 Budgets

- **Went Into the Recession With No Reserves and Unresolved, Underlying Structural Deficit**
- **Lost Roughly 20 Percent of Our Revenue Base**
- **State Addressed a \$60 Billion Problem in February and July of 2009**

The 2010-11 Problem Definition

- **We Estimate a Shortfall of \$20 Billion**

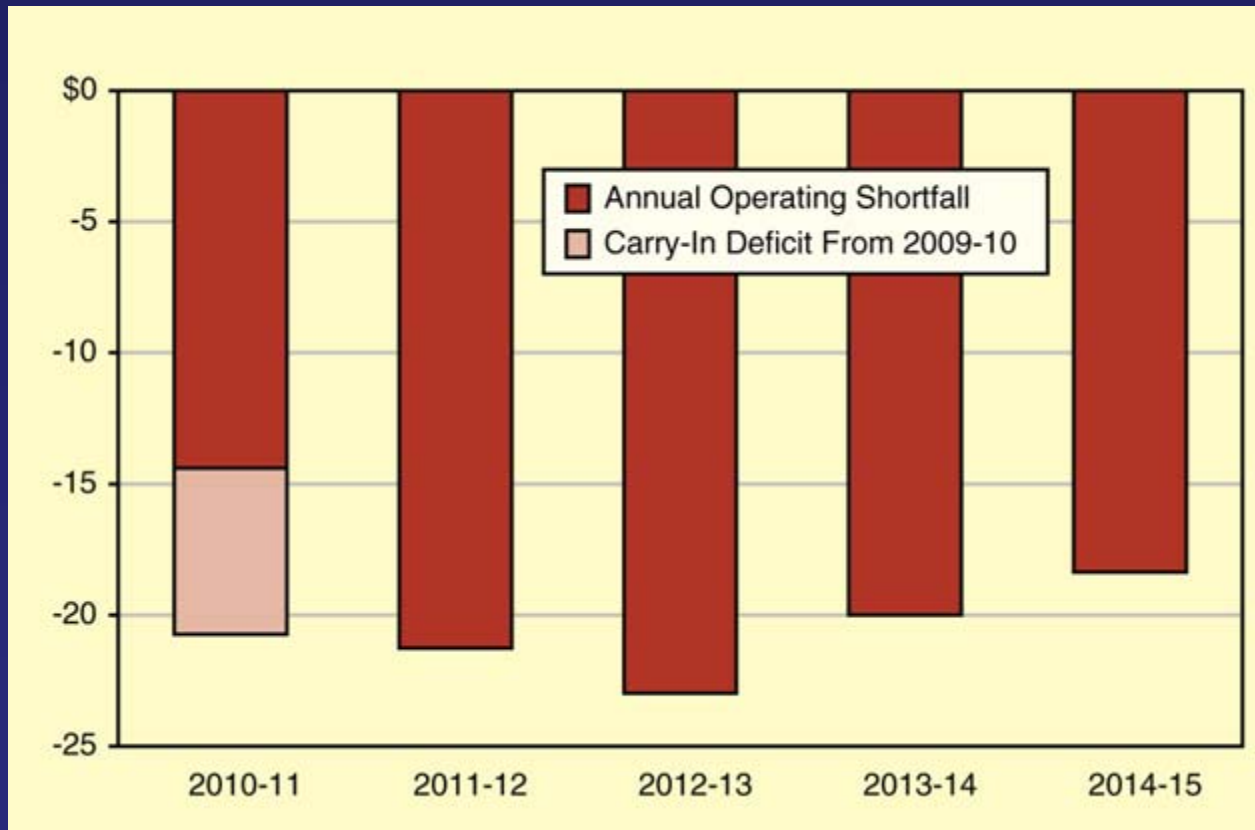
- About \$6 billion in the current year.
About \$14 billion in the budget year.

- **What Happened?**

Some current-year solutions did not pan out.
The preexisting 2010-11 shortfall grew.

The Out-Years Look Much the Same

General Fund Operating Deficits (In Billions)



So, After \$60 Billion, How Hard Can \$20 Billion Be?

- **Some Things Are Off the Table**
- **Loss of Federal One-Time Monies**
- **Federal MOE on Education/Medi-Cal**
- **Court Decisions Restrict Action**
- **Election Year**

The Governor's Proposals

Proposed Budget Solutions

(In Billions)

Expenditure Solutions	\$7.6
Federal Funds/Flexibility	7.9
Other	4.5
Total	\$19.9

Proposed Solutions: Federal

General Fund (In Billions)

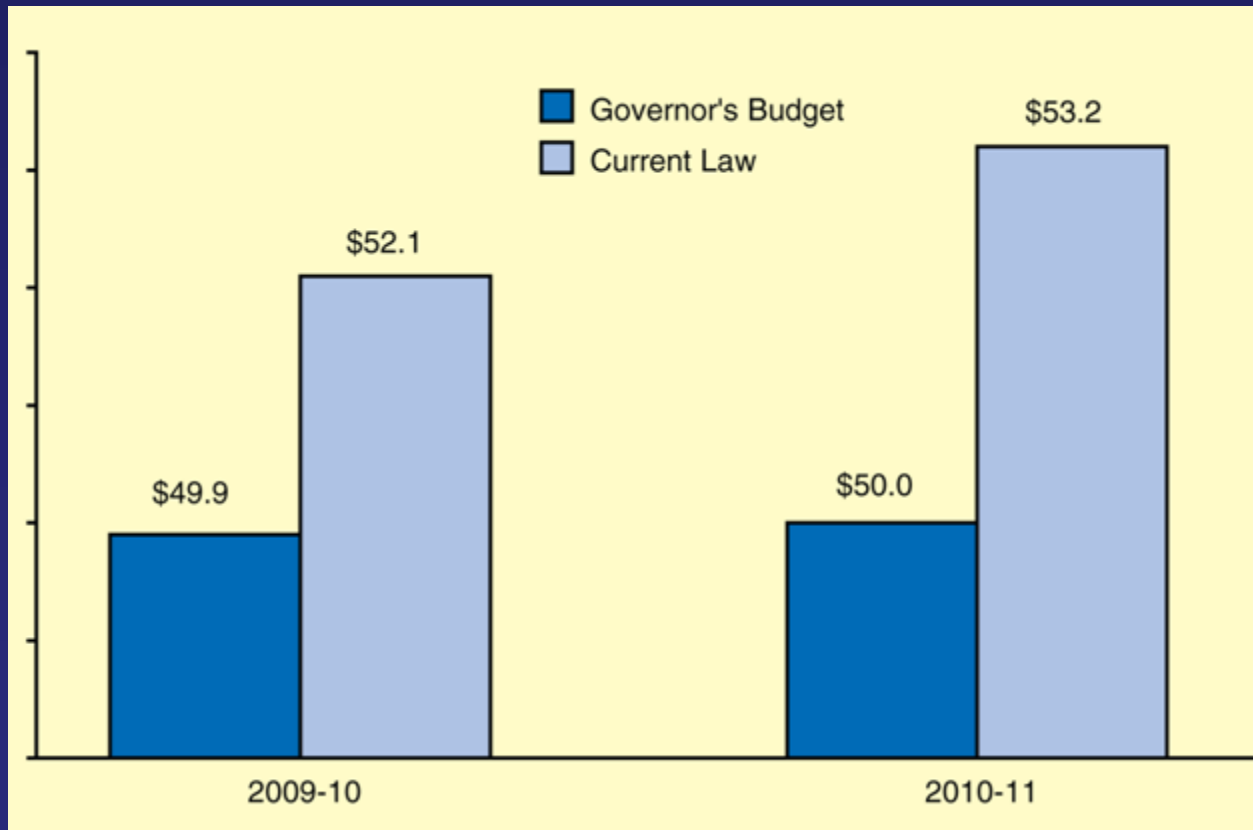
	Totals
Increased Federal Funding	
Increase base FMAP rate in Medi-Cal to national average	\$1.8
Extend enhanced ARRA FMAP rate in Medi-Cal	1.2
Receive payments related to Medicare and prescription drug costs	1.0
Increase federal fund reimbursements for special education	1.0
Obtain full reimbursement for undocumented felon costs	0.9
Extend CalWORKs ARRA funding	0.5
Extend ARRA for various health programs	0.3
Extend ARRA funding and other relief in various social services programs	0.2
Increased Federal Flexibility	
Reduce IHSS substantially, which requires federal approval	\$1.0
Total	\$7.9

Proposed “Trigger” Reductions Involving Federal/State Programs

- **Eliminate:**
 - CalWORKs
 - In-Home Supportive Services
 - Healthy Families
- **Reduce Medi-Cal Eligibility to Federal Minimum and Eliminate Some Options**

Comparing Different Proposition 98 Funding Levels

(Dollars in Billions)



Options to Address Proposition 98 Spending Level

- **Suspend**
- **Cut Other Spending**
- **Raise Revenue**
 - Addressing \$3.2 billion gap (noted earlier) would require \$7.8 billion in new revenues.
 - All dedicated to schools.

Action on the Budget

What Has Happened in the Special Session?

- **Legislature Passed About \$2 Billion in Savings**

Main Action: Transportation-Related Gas Tax “Swap.”

- **Legislature Passed Cash Measures to Minimize Risk of IOUs**

What Is the Outlook for the Economy and Revenues?

- **Economy: Coming Back ... Slowly**
Personal income growth stronger.
Employment numbers weaker.
- **Revenues: Coming in Higher-Than-Expected**
Revenues up the last four months.
April will be key.

What Is in Store For the May Revision?

- **Upside**

- Improvement in revenues (but over half goes to Proposition 98).

- **Downside: Loss of Solutions**

- Federal funds assumption risky.

- Later implementation of health/social services proposals.

- Fund diversions not on the June ballot.

A Caution: Longer-Term Liabilities Loom

- **Budget-Related: About \$35 Billion**
- **Retirement-Related: Over \$130 Billion**
- **Infrastructure-Related: About \$70 Billion**

Projected Debt-Service Ratio

