

State Budget Update



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Fiscal Forecast

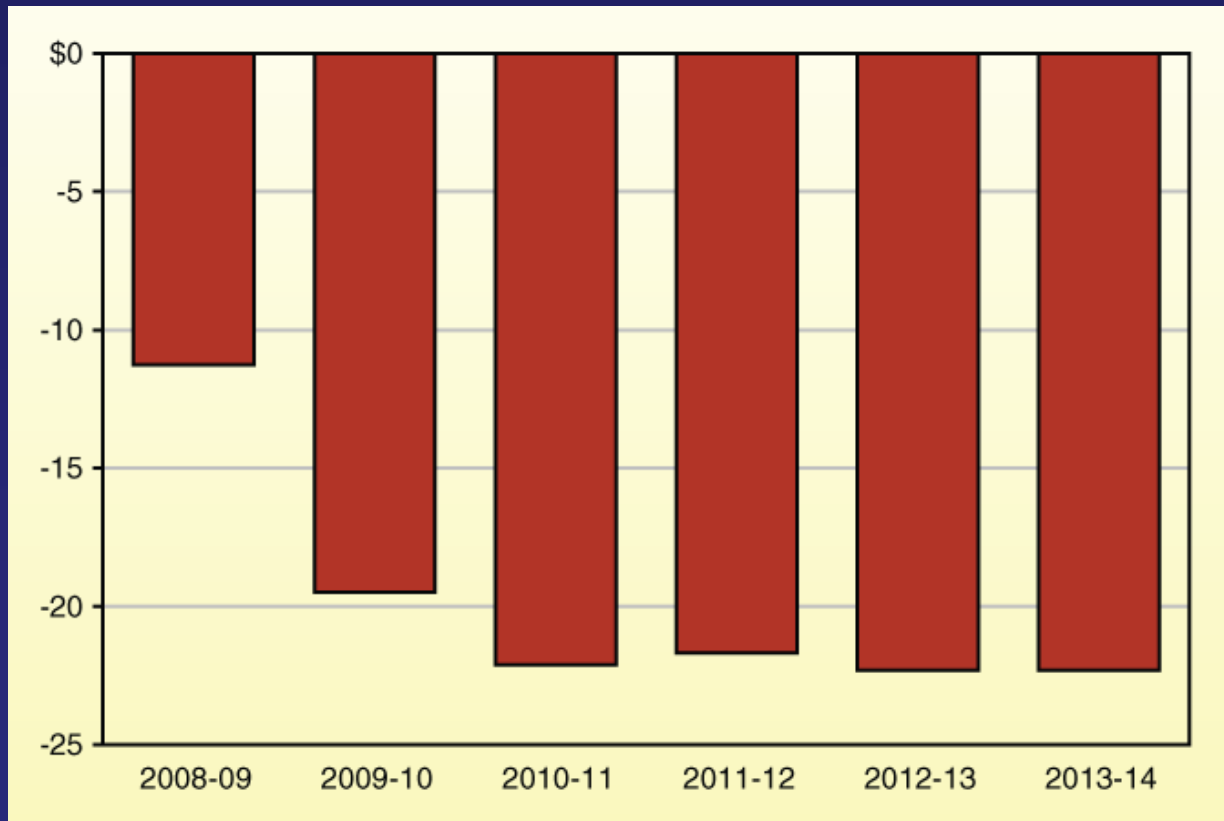
LAO Projection of General Fund Condition

2007-08 Through 2009-10 (In Millions)

	2007-08	2008-09	2009-10
Prior-year fund balance	\$4,777	\$3,786	-\$7,501
Revenues and transfers	102,649	93,248	86,835
Total resources available	\$107,426	\$97,034	\$79,334
Expenditures	\$103,640	\$104,535	\$106,293
Ending fund balance	\$3,786	-\$7,501	-\$26,959
Encumbrances	885	885	885
Reserve	\$2,901	-\$8,386	-\$27,844
Budget Stabilization Account	—	—	—
Special Fund for Economic Uncertainties	\$2,901	—	—

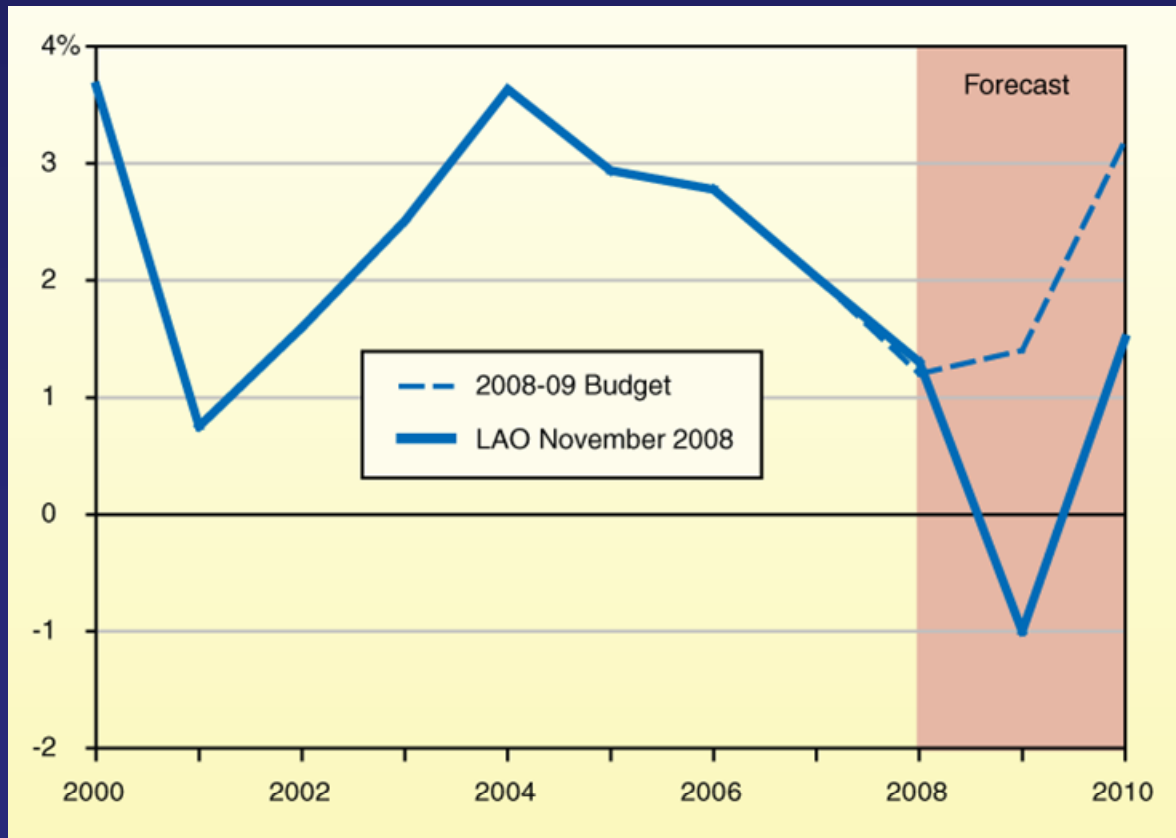
Huge Operating Shortfalls Projected Throughout Forecast Period

General Fund (In Billions)



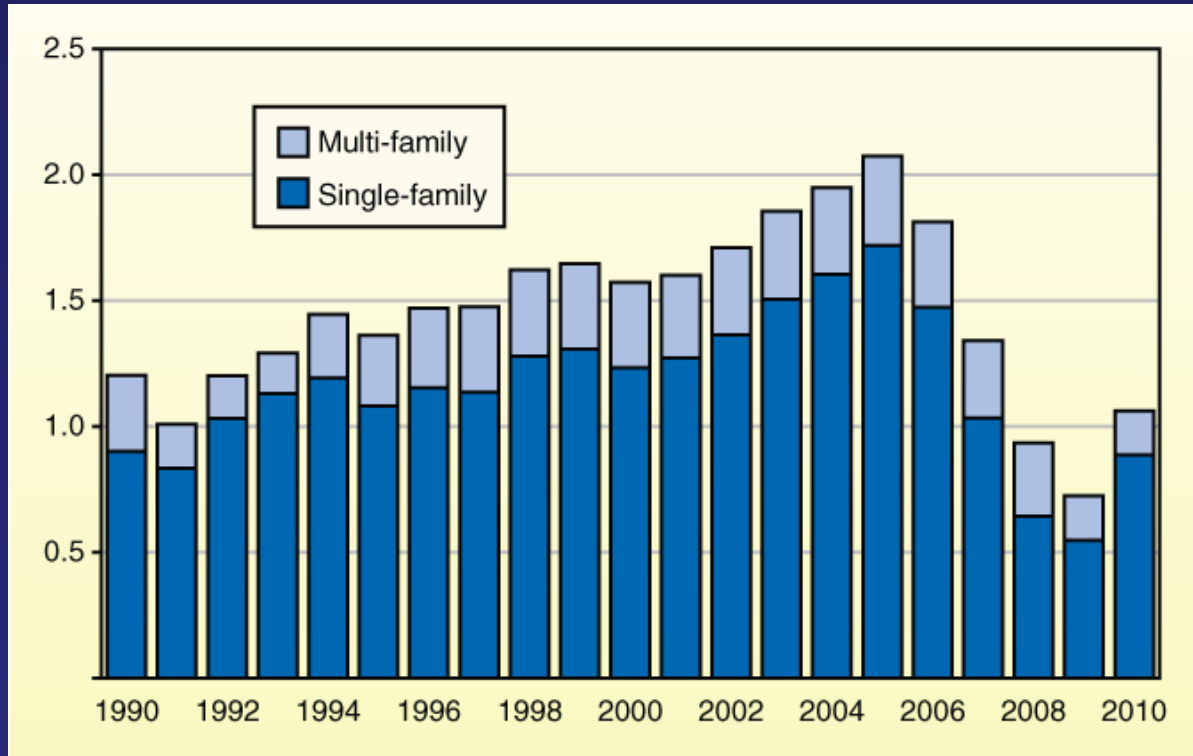
U.S. Economy Has Deteriorated

Annual Percent Change in Real Gross Domestic Product



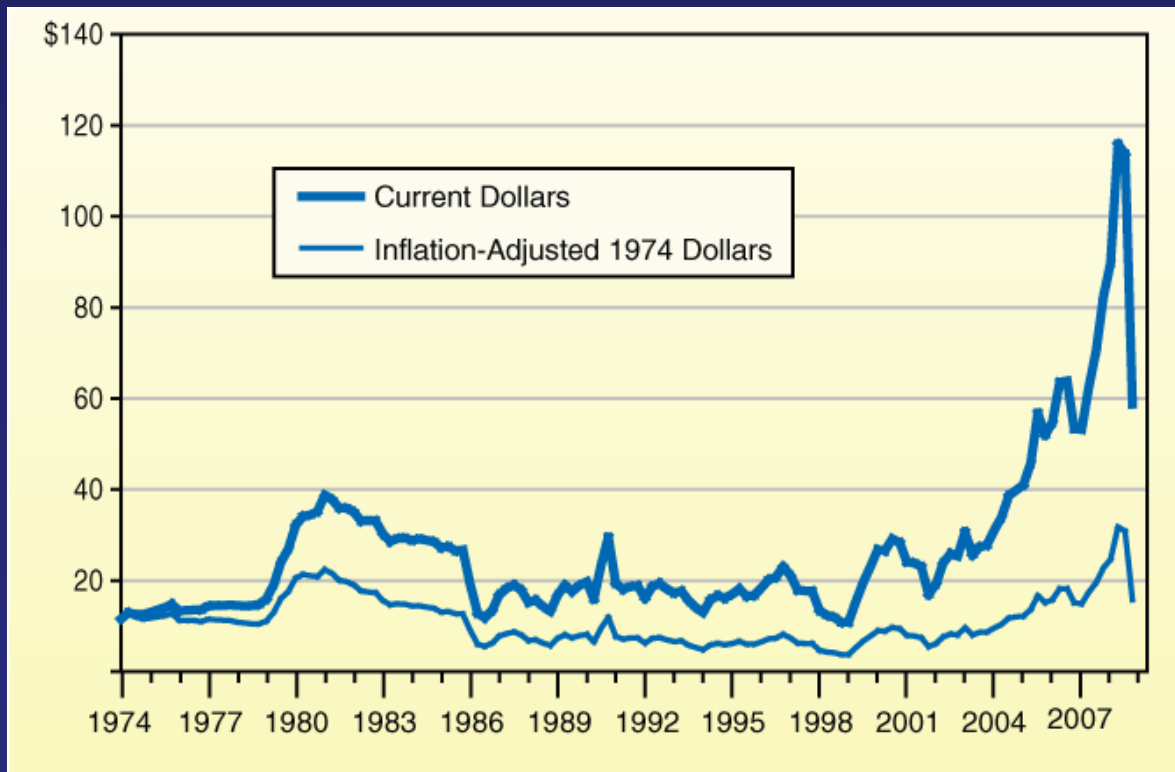
U.S. Housing Starts to Hit New Low

Annual U.S. Housing Starts, in Million of Units



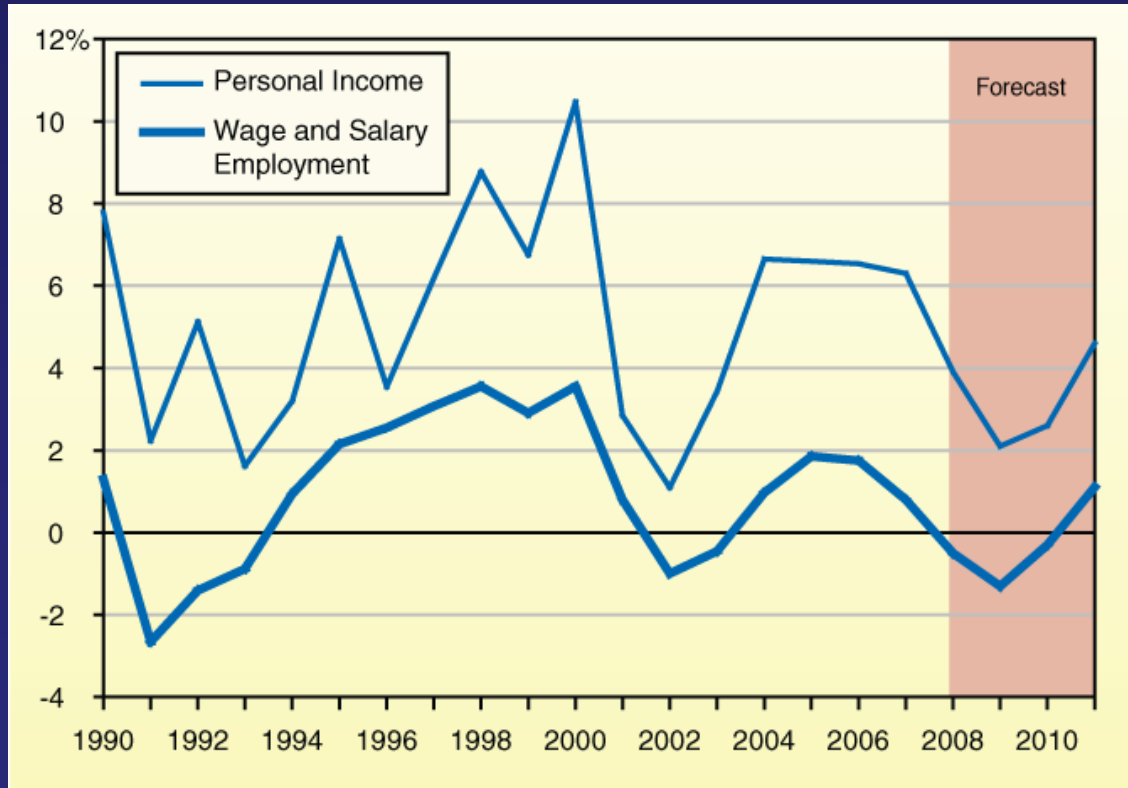
Oil Prices Have Fallen Sharply

Average Per Barrel Price of Imported Crude Petroleum
1974 to Present



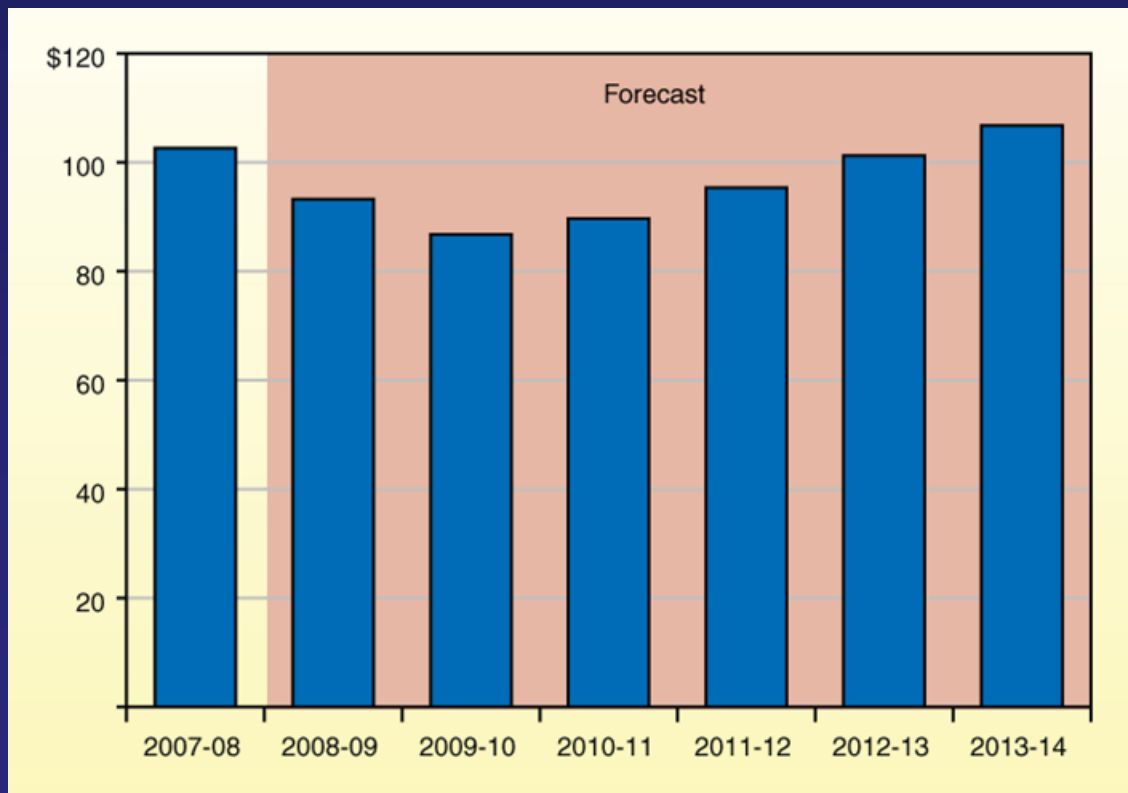
Subdued Economic Growth Anticipated for California

Annual Percentage Change

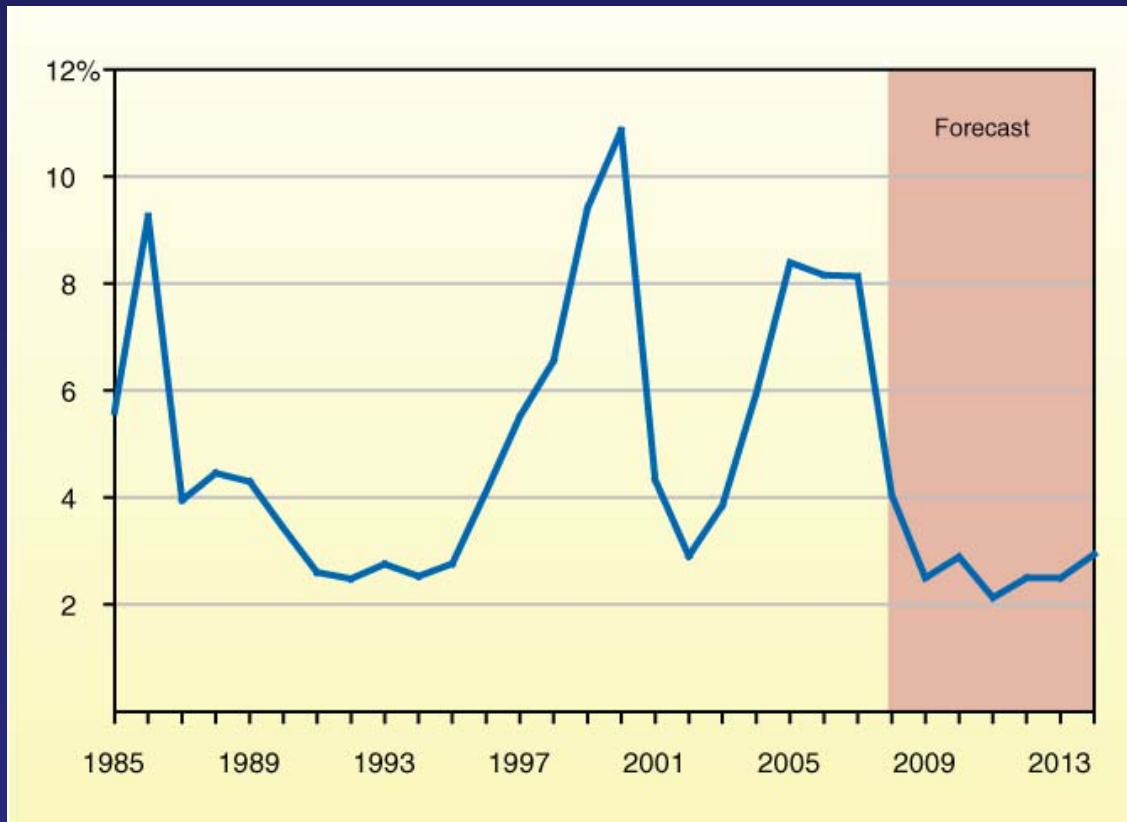


General Fund Revenues Take Years to Recover

(In Billions)



Capital Gains As a Percent of Personal Income



Proposition 98 Forecast

(Dollars in Billions)

	2008-09 ^a	2009-10	2010-11	2011-12	2012-13	2013-14
General Fund	\$42.4	\$38.8	\$40.1	\$42.4	\$44.9	\$47.2
Local property tax	15.7	15.5	15.6	15.9	16.4	17.1
Totals	\$58.1	\$54.3	\$55.6	\$58.3	\$61.2	\$64.3
Percent change	—	-6.4%	2.4%	4.8%	5.0%	5.0%

^a Reflects 2008-09 Budget Act spending levels, with revised General Fund and property tax contributions.

Proposition 98

Underlying Forecast Factors

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Annual Percent Change						
K-12 average daily attendance	-0.5%	-0.5%	-0.3%	0.1%	0.2%	0.4%
Per capita personal income	4.3	3.3	1.3	1.7	2.5	4.6
Per capita General Fund	-6.7	-7.7	2.9	5.2	5.0	4.4
CCC full-time equivalent students	2.0	1.3	0.8	0.5	0.4	0.4
K-14 COLA	5.7	6.0	1.9	1.6	1.9	2.2

School District Property Tax Estimates

(In Billions)

	2007-08	2008-09	2009-10
Governor's proposal ^a	\$15,023	\$16,143	\$16,107
LAO estimate	14,631	15,683	15,520
Difference	-\$392	-\$460	-\$587

^a Does not update property tax estimates. Based on *2008-09 Budget Act* assumptions.

Overview of Governor's Special Session Proposals

Governor's Special Session Proposals: Revenue Increases

(In Millions)

	2008-09	2009-10
Revenue Increases		
Increase sales tax by 1.5 cents for three years ^b	\$3,540	\$6,643
Expand sales tax to some services	357	1,156
Impose oil severance tax	530	1,202
Raise alcohol tax by a nickel a drink	293	585
Subtotals, Revenue Increases	(\$4,720)	(\$9,586)

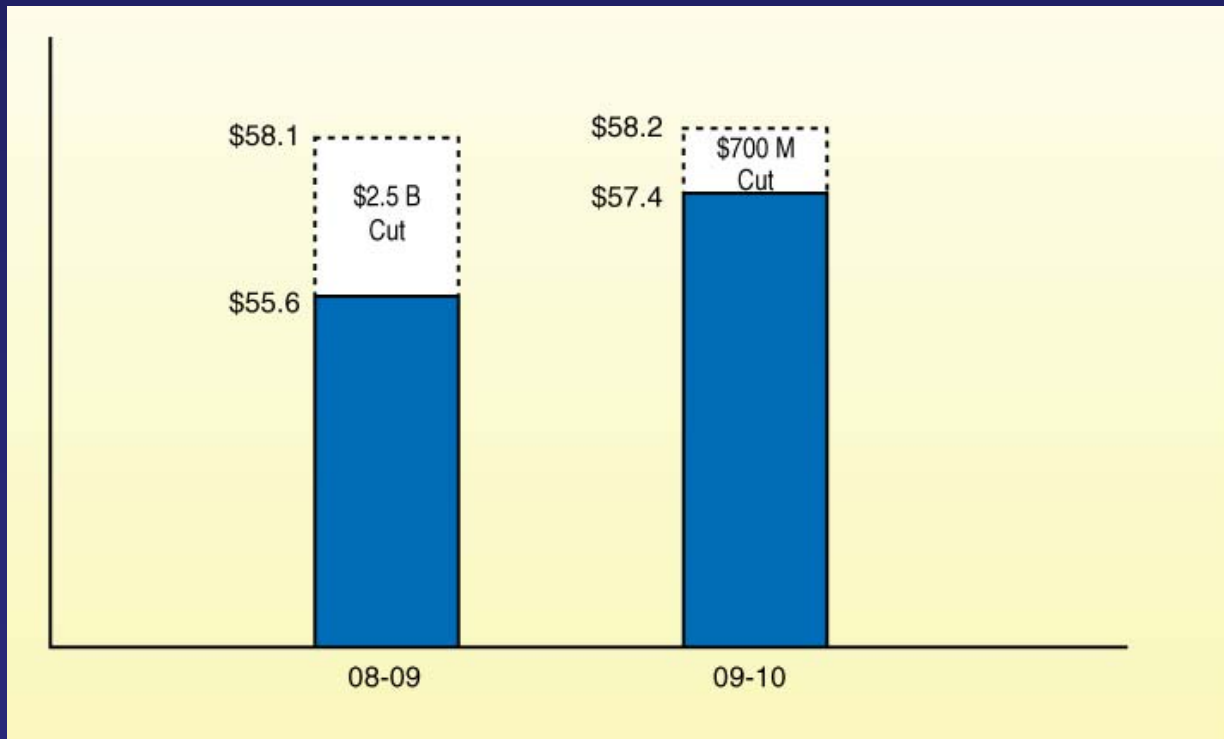
Governor's Special Session Proposals: Expenditure Savings

(In Millions)

	2008-09	2009-10
Expenditure Savings		
Reduce Proposition 98 spending	\$2,500	\$729
Reduce higher education spending (unallocated)	132	132
Reduce regional center rates by 3 percent	34	60
Restrict Medi-Cal eligibility and benefits	142	715
Reduce SSI/SSP grants	391	1,176
Eliminate California Food Assistance Program	—	30
Reduce CalWORKs grants and implement reforms	274	847
Reduce IHSS state wage participation and target services	118	357
Implement parole reform and other corrections savings	78	678
Eliminate funding for public safety grant programs	250	501
Eliminate state funding to transit agencies	230	306
Furlough state workers and reduce other costs	320	556
Eliminate funding for the Williamson Act	35	35
Subtotals, Expenditure Savings	(\$4,504)	(\$6,120)

Governor Proposes \$3.2 Billion Reduction in Proposition 98 Funding Across Two Years

(In Billions)



Governor Proposes \$2.5 Billion Midyear Reduction in Proposition 98 Funding

2008-09 (Dollars in Millions)

	Budget Act	Special Session	Difference	Percent
K-12 education	\$51,620	\$49,453	\$2,168	4.2%
California Community Colleges	6,359	6,027	332	5.2
Other	106	106	—	—
Totals	\$58,086	\$55,586	\$2,500	4.3%

Governor's Proposed Proposition 98 Midyear Reductions

(In Millions)

Rescind COLA	\$284
K-12 revenue limits	(244)
California Community College (CCC) apportionments	(40)
Reduce base funding	2,083
K-12 revenue limits	(1,791)
CCC apportionments	(292)
Capture savings from current year	132
Child care programs	(97)
K-12 programs	(35)
Total	\$2,500

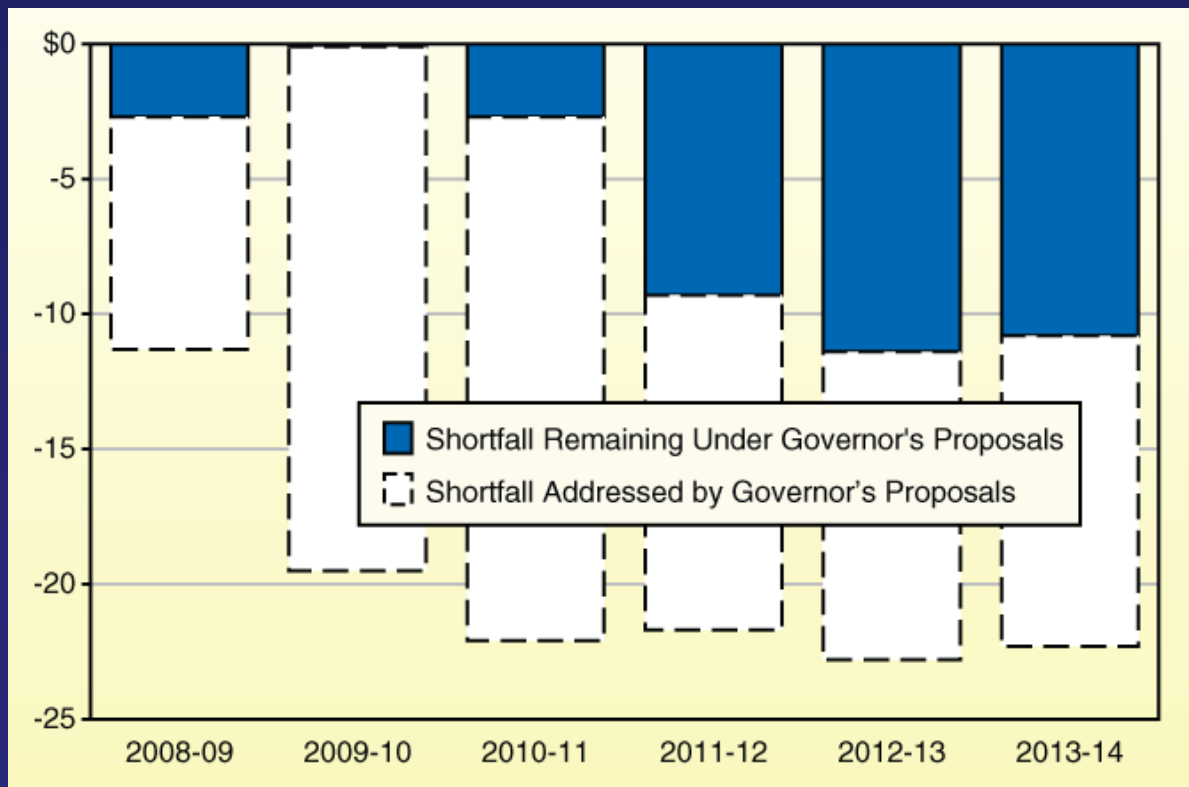
Governor's K-12 Flexibility Proposals

- **Allow transfers of current-year categorical funds to revenue limits**
- **Allow transfers of prior-year categorical ending balances to revenue limits**
- **Reduce unrestricted reserve requirement by half**
- **Reduce routine maintenance deposits from 3 percent to 2 percent**
- **Suspend local deferred maintenance match**



Governor's Proposals Would Address About Half of State's Long-Term Problem

General Fund Operating Shortfalls (In Billions)



LAO Assessment



Keys to Balancing State Budget

- **Early action**
- **Balanced approach**
- **Long-lasting solutions**
- **More efficient state operations**
- **No new borrowing**

LAO and DOF Differ in Projected Timing of Revenue Decline

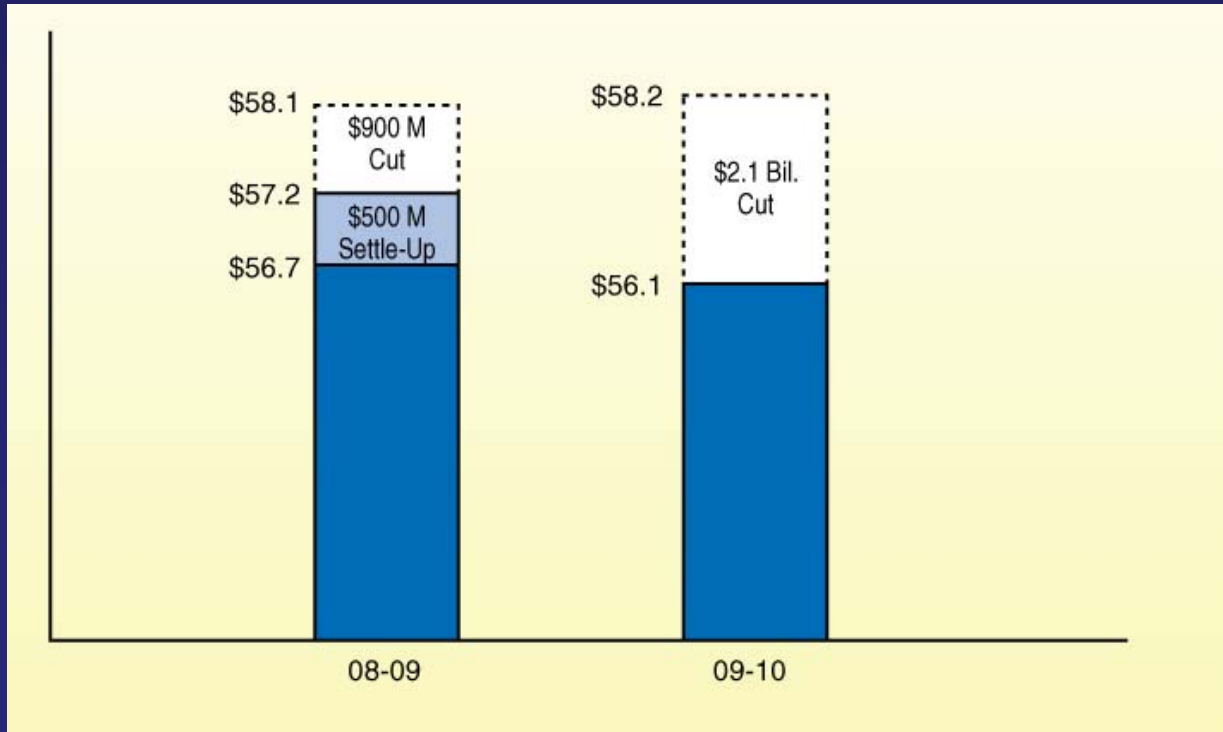
(In Millions)

Revenue Source	2008-09			2009-10		
	DOF	LAO	Difference	DOF	LAO	Difference
Personal Income Tax	\$48,479	\$50,265	\$1,786	\$48,824	\$46,339	-\$2,485
Sales and Use Tax	25,486	25,381	-105	25,234	26,100	866
Corporation Tax	11,426	12,023	597	10,731	9,102	-1,629
Other revenues and transfers	5,942	5,580	-362	4,799	5,294	495
Totals	\$91,333	\$93,248	\$1,916	\$89,588	\$86,835	-\$2,753



LAO Projection of Proposition 98 Funding Requirement

(In Billions)



Keys to Building K-12 Budget

- **Make midyear cuts that lower costs rather than shift burden**
- **Use “settle-up” to forego even deeper midyear cuts**
- **Make initial set of budget-year cuts now**

Make Targeted, Transparent Cuts

- **Eliminate programs that are:**
 - Poorly structured
 - Create poor local incentives
 - Are duplicative of other programs
 - Have largely outlived original purpose

LAO Proposition 98 Alternative*

(In Millions)

	2008-09	2009-10
Rescind 2008-09 COLA (0.68 percent)	\$284	\$284
Foregone growth	—	81
Savings from current/prior years	216	—
K-12 program suspensions	400	915
K-12 program eliminations	—	500
Increase California Community College (CCC) credit fee	40	120
Reduce funding rate for certain CCC enrichment courses	60	200
Total Reductions	\$1,000	\$2,100

* Details of the Proposition 98 Alternatives Are In This [Enclosure](#).

