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A Budget Update

LEGISLATIVE ANALYST'S OFFICE

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Senate Budget and Fiscal Review Committee
Hon. Denise Moreno Ducheny, Chair





Recap of Early Budget Problem Definitions



Governor's Budget—January 2008

- \$14.5 billion shortfall across 2007-08 and 2008-09.
- Two major drivers:
 - Structural gap between ongoing revenues and expenditures.
 - *2007-08 Budget Act* assumptions fail to hold.
 - Drop in revenues of \$9.3 billion over a three-year period.
 - Higher spending, such as from teachers' retirement lawsuit, wildfires, and K-12 education (due to lower property taxes).



LAO's *Analysis of the 2008-09 Budget Bill*— February 2008

- Further deterioration of national and state economy reduces revenue projection by \$1.5 billion.
- Larger budget problem estimated at \$16 billion, prior to legislative action.



Special Session Actions

2007-08 and 2008-09 Savings (In Millions)

Sale of additional deficit-financing bonds	\$3,313
Suspension of BSA transfer	1,509
Reduction of Medi-Cal provider rates	508
Reduction in Proposition 98 spending	507
Public Transportation Account reimbursement to the General Fund	409
Regional center cost containment measures	229
Higher tideland oil revenue estimate	218
Delay of Medi-Cal checkwrite	165
Delay of SSI/SSP COLA	91
Delay of new judges	76
Shift payment schedule for mandate claims	75
Delay of CalWORKs COLA	42
Elimination of CalWORKs performance incentives	40
Recognition of CDCR program delays	40
Shift of parks maintenance to bond funds	30
Other	201
Total	\$7,452

- Legislature adopted about \$7.5 billion in solutions. Using our February forecast, these solutions reduced the identified problem by about one-half, but the remaining shortfall is still over \$8 billion.

- More than \$6 billion of the adopted solutions are one-time, which do not address the state's multibillion ongoing shortfall between revenues and expenditures. In fact, the two largest solutions—the issuance of additional deficit-financing bonds and suspending the Budget Stabilization Account transfer—add future costs to the state's General Fund.



Cash Management

- In order to help avoid a shortage of cash in July and August, the Legislature adopted \$3.7 billion in delays of payments to schools, local governments, Medi-Cal providers, and the teachers' retirement system. The administration implemented an additional \$1.1 billion in similar delays using existing authority.
- The administration and State Controller have set a minimum monthly cash cushion of \$2.5 billion. The special session actions provide roughly a \$6 billion cash cushion in July and August based on the Governor's budget revenue forecast.
- To the extent that current-year revenues come in below the administration's January estimates, this cushion will be reduced.



Current-Year Revenue Receipts Are Lagging

2007-08 General Fund Revenues Through March 2008 (In Millions)

Source	Amount Compared to Governor's Budget
Personal income tax	\$163
Sales and use tax	-420
Corporation tax	-846
Other	-81
Total	-\$1,184

- Our February forecast assumed that these revenues would be down only \$242 million for the year compared to the Governor's budget (after accounting for some different timing assumptions).
- Two of the state's largest revenue months are still to come for 2007-08—April (\$16 billion) and June (\$10 billion).
- Budget relies on \$500 million from the sale of EdFund, which may no longer be realistic given changes in the student loan industry.
- Continuing negative economic news raises concerns that previous revenue forecasts may need to be significantly reduced.



Some Expenditures May Be on the Rise

- Receiver-related costs in the California Department of Corrections and Rehabilitation are projected to continue to increase.
- Some social services caseloads, such as CalWORKs and In-Home Supportive Services, are higher than expected.
- The weak housing market may further dampen property tax growth—driving higher state General Fund costs for K-14 education.
- In addition, some savings proposals could no longer be implemented in time to generate full-year savings in 2008-09.