

California's Fiscal Outlook



Legislative Analyst's Office

www.lao.ca.gov



Impressive Progress on Balancing 2009-10 State Budget...

- **Spending-related reductions**
 - \$15.4 billion
- **Temporary tax increases**
 - \$12.5 billion
- **Lottery and other borrowing**
 - \$5.3 billion
- **Federal stimulus funds**
 - \$8.5 billion assumed in the budget package

Impressive Progress on Balancing 2009-10 State Budget...

(Continued)

- **Wide array of solutions to attack projected \$40 billion budget problem**
- **Assumed state would end 2009-10 with a \$2 billion reserve**

...But More Work to Be Done

- **More economic deterioration**
- **LAO's updated state revenue forecast**
 - **\$8 billion lower than assumed in the February budget package**



...But More Work to Be Done *(Continued)*

- Without corrective action, \$6 billion deficit at end of 2009-10
- More budget solutions required



Weakening Economic Outlook Since Passage of the Budget

- **Sharp rise in unemployment**
- **Sharp downward revision of gross domestic product for late 2008**
- **Lower-than-expected state revenue receipts in February**
- **Continued stock market turbulence**

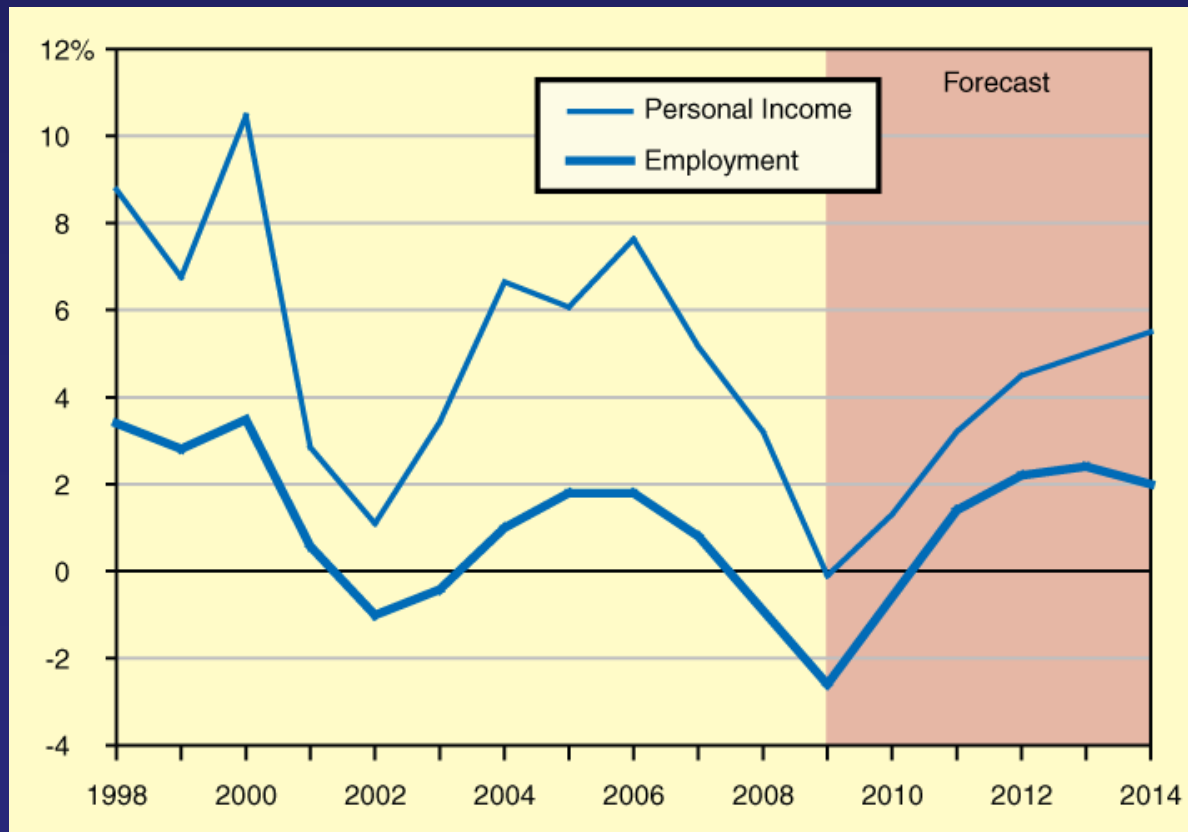
Estimated Revenues: Comparison Between Budget Package and LAO

(In Millions)

	2008-09	2009-10
Budget package	\$89,372	\$97,729
LAO	89,358	89,892
Difference	-\$14	-\$7,837

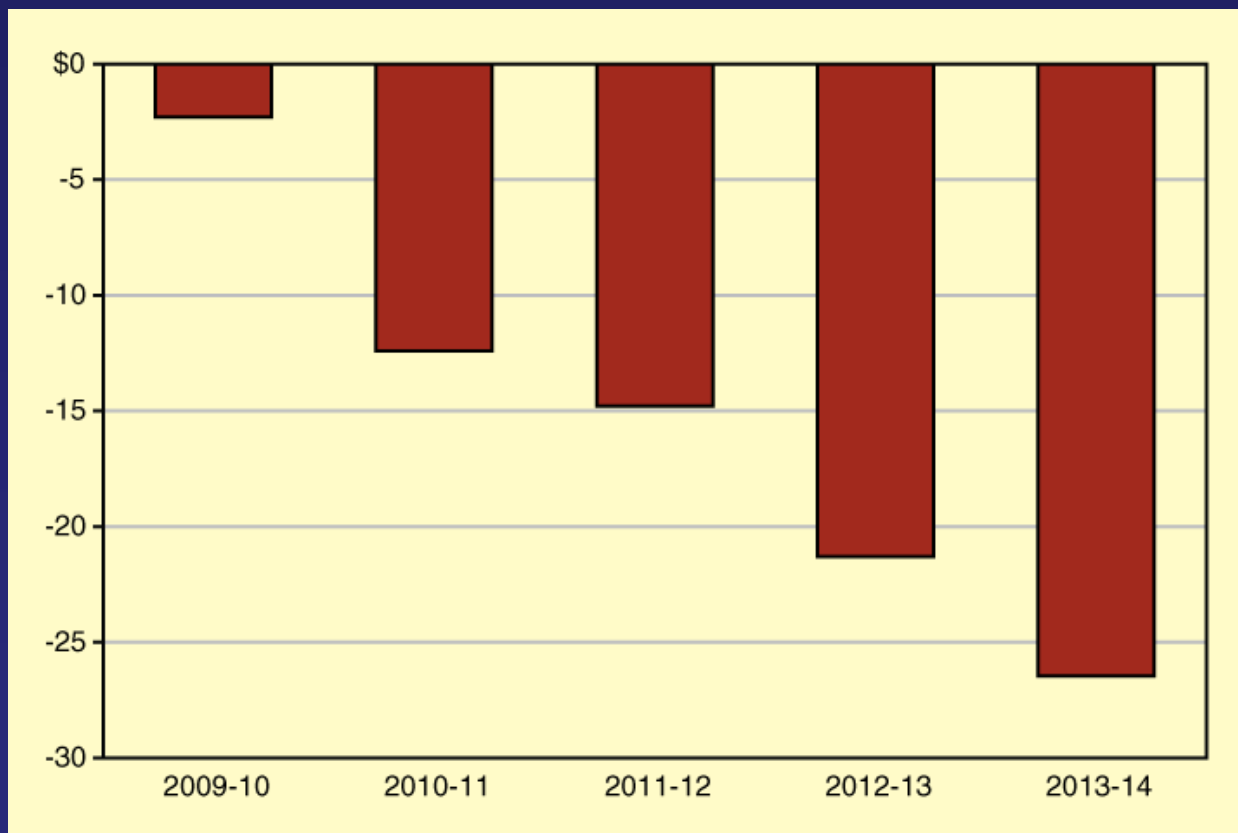
Weak Recovery Anticipated For California

(Annual Percentage Change)



Operating Shortfalls Projected to Grow Dramatically Throughout Forecast Period

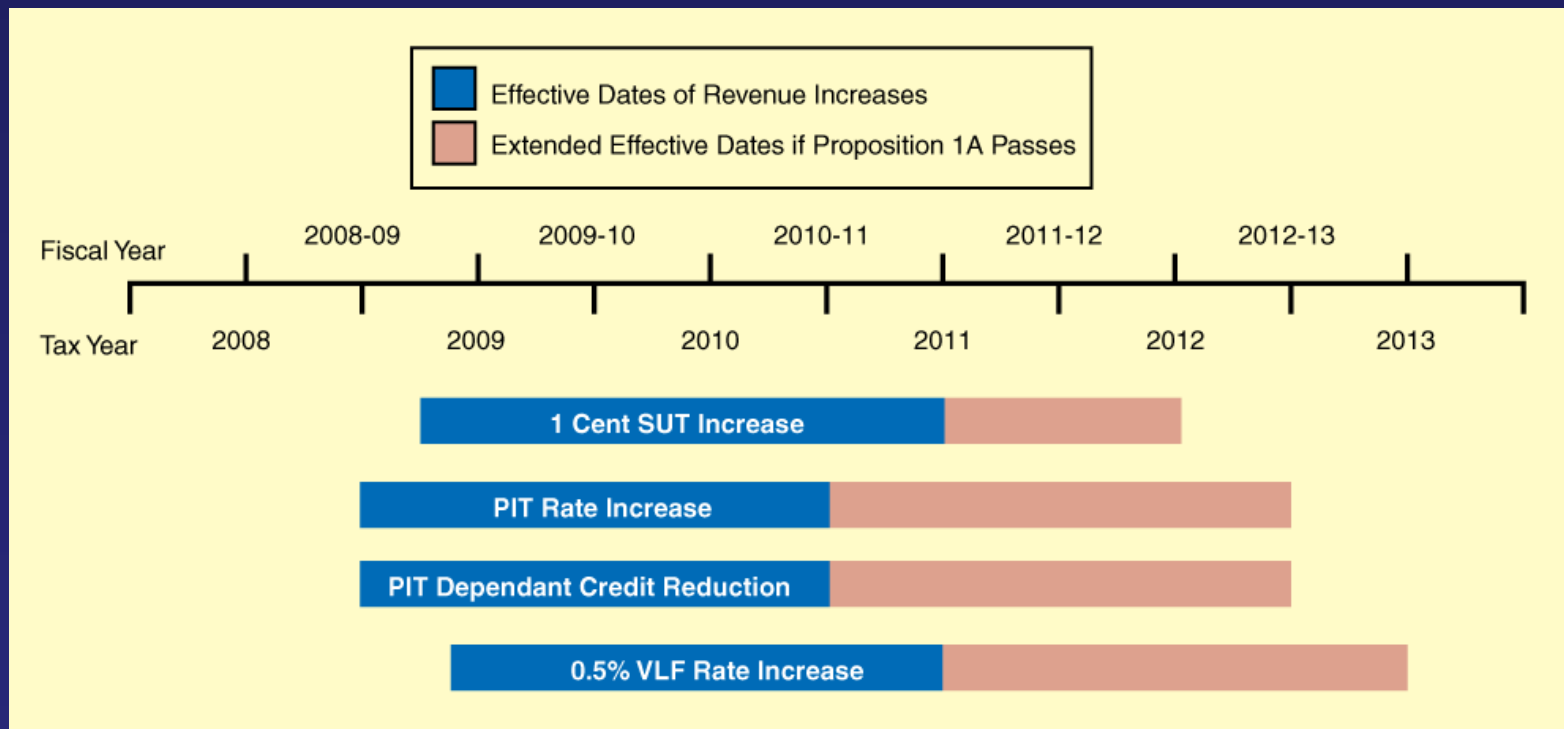
General Fund (In Billions)



Budget Package Relies on Passage Of May 19 Special Election Measures

Proposition	Topic	Effect on State General Fund Budgets	
		2009-10	Through 2013-14
1A	"Rainy day" reserve fund	Not significant	Higher tax revenues of \$15 billion through 2012-13. Transfers to reserve assumed to be accessed by the General Fund.
1B	Supplemental payments for education	None	Higher annual costs of about \$800 million by 2013-14.
1C	State Lottery	\$5 billion in benefit from borrowing from future lottery profits	Net increased costs of about \$400 million annually.
1D	Early childhood development program funds	Up to \$608 million in savings	\$268 million annually in savings from 2010-11 through 2013-14.
1E	Mental health program funds	About \$230 million in savings	About \$230 million in savings in 2010-11.
1F	State elected officials' salary increases	Potential minor reduction in costs	Potential minor reduction in costs in some years.

Tax Increases Would Be Extended By Passage of Proposition 1A



Closing the Additional Budget Gap

- **Optimize use of federal funds**
 - Swap out currently budgeted General Fund dollars for schools with federal funds
- **Continue work on more solutions**
 - Focus on broad-based programmatic changes to achieve future savings as well as immediate savings