

State Budget Situation



Legislative Analyst's Office

Presented to:

CDIAC and The Bond Buyer

September 14, 2009

General Fund Condition

(In Billions)

	2007-08	2008-09	2009-10
Revenues and transfers	\$103.8	\$84.1	\$89.5
Expenditures	103.0	91.5	84.6

Budget Solutions

(Dollars in Billions)

	February	July	Totals
Reduced Spending	\$14.5	\$18.0	\$32.5
Revenues	12.5	3.5	16.0
Federal Stimulus	8.5	—	8.5
Borrowing	0.3	2.2	2.5
Totals	\$35.8	\$23.7	\$59.5

Proposition 98

- **Large Reductions in Spending in Both 2008-09 and 2009-10.**
- **Largely Offset by One-Time Federal Stimulus Funds (ARRA).**
- **Provision for Repayment of “Maintenance Factor.”**

Higher Education

- **Large Reductions in Spending in Both 2008-09 and 2009-10.**
- **Largely Offset by One-Time ARRA Funds and Fee Revenue.**

Local Government

- **Borrowed \$1.935 Billion
(8 percent of property tax revenues)**
 - Pay back in three years at up to 6 percent.
- **Securitization Option**
 - State pays up to 8 percent and issuance costs.

Redevelopment

- **\$1.7 Billion in 2009-10 and \$350 Million in 2010-11.**
- **Used to Offset State School Costs and/or Other State Costs.**

Assessing the Budget Package: General Concerns

- **Most Solutions Short-Term**
 - All revenues.
 - Proposition 98.
- **Federal Funds as “Backfill”**
- **Use of Deferrals
(schools, state employees)**

Assessing the Budget Package: Concerns With Specific Solutions

- **Sale of State Compensation Insurance Fund (SCIF)**
- **Achievement of \$1.2 Billion in Corrections Savings**
- **Achievement of \$1.3 Billion in Medi-Cal Savings**

Assessing the Budget Package: Legal Risks

- **Transit—On Appeal**
 - \$3.5 billion at stake.
- **Vetoes—Filed**
 - \$500 million at stake.
- **Redevelopment—On the Way?**

Current Status: Economics

- **National Economy: Doing Better Than Expected**
 - Second quarter GDP was -1 percent (our May Revision estimate was 2.5 percent).
 - Leading indicators have gone up four months in a row (in May, indicators were still declining).
- **State Economy: Appears to Be Doing About the Same or a Little Worse Than Projected Last May**
 - Second quarter employment losses (-240,000) were worse than projected (-125,000).

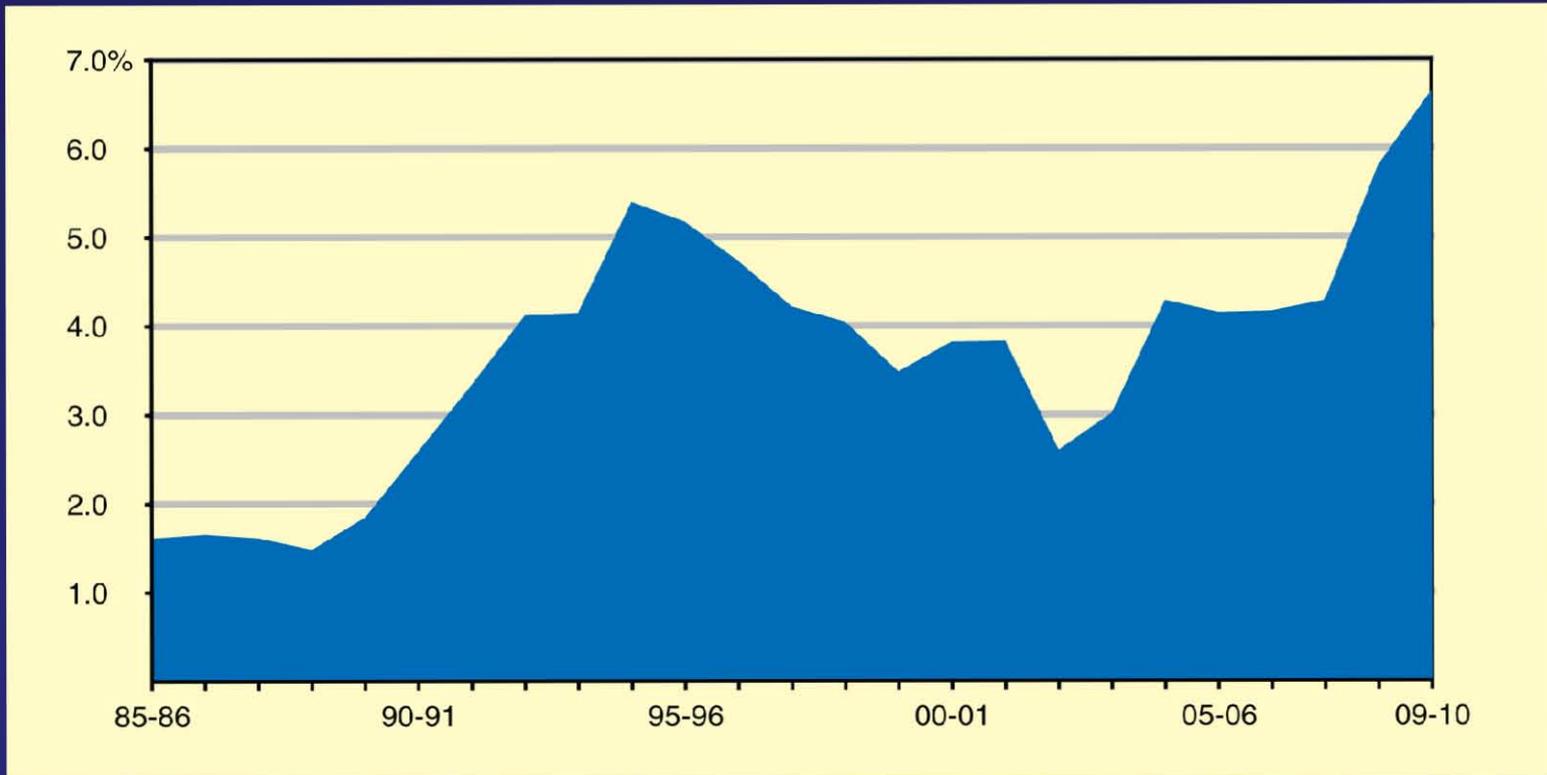
Current Status: Revenue Estimates

- **Budget Assumptions Were Reasonable and Up-to-Date**
 - Reflected poor June performance and LAO's lower estimate of \$3 billion in 2009-10.
- **July and August Cash "On Track"**
 - Small revenue months.

Current Status: Cash

- IOUs Ended.
- Administration Proposes \$8.8 Billion RAN This Month.

Current Status: Debt Service



Future Outlook: Administration

- **Deficits of:**
 - 2010-11 — \$7.5 billion.
 - Following Two Years — Over \$15 billion.
- **Downside Risks to Estimates**
 - Risk on budget solution.
 - Revenues.
 - ARRA funds.

Future Outlook: LAO

- **Fiscal Forecast Out in Mid-November.**
- **www.lao.ca.gov**