Key LAO Findings on the Governor’s January Budget

- February LAO Forecast: Lower Revenues of $1.5 Billion
- Larger Budget Problem $16 Billion
- Failure to Set Priorities
Operating Shortfalls Return After 2008-09 Under Governor’s Budget

General Fund (In Billions)
Taxable Sales Growth to Trail Personal Income

Annual Percentage Change

![Bar chart showing taxable sales growth compared to personal income from 1998 to 2010.](chart.png)
Weakness in California Corporate Profits Expected

Annual Percentage Change

![Annual Percentage Change Graph](image)
LAO Alternative Budget Approach

- Targeted Approach to Spending
- Balanced Approach Includes Revenues
- Balanced Budget Through 2012-13
Targeted Program Reductions

- Core Services at Current Levels
- Eliminate/Modify Ineffective Programs
- Use Other Funding Sources for Services
- Local Administrative Flexibility
Add Revenues in a Reasonable Manner

- Reduce or Eliminate 12 Tax Credits, Deductions, and Exemptions
  - Reduce Dependent Credit
  - Limit R&D Credit and NOL Carryforwards

- No Broad-Based Tax Rate Increases

- Do Not Adopt Governor's $2 Billion Accrual Proposal
LAO Alternative: Other Key Elements

- Rethink State Responsibilities
- "Parole Realignment"
- No Additional Borrowing or Debt
Alternatives to Governor’s Budget Reform Proposals

- Governor’s Reforms Flawed
  - Transfers to Reserve Would Be Inflexible
  - Across-the-Board Reductions Ill-Advised

- Though Alternatives Could Build on Positive Aspects
  - Strengthen Proposition 58 Reserve Requirements
  - Rethink State’s Budgetary Formulas
Special Session Actions Will Help

- Reduce Identified Problem By About Half

- Actions Include:
  - Issuance of $3.3 Billion in Additional Debt
  - Delay in Supplemental Debt Payments
  - Capturing Unspent Education Funds
  - Reducing Medi-Cal Rates by 10 Percent
Budget Outlook Remains Bleak

- Revenue Update Will Help Drive Decision Making
- Many Tough Decisions Ahead
  " Impact on Local Governments?