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LAO
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Overview of the 2003-04 May Revision

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The May Revision adopts a multiyear approach to addressing the state's massive budget problem, relying more on borrowing and less on near-term spending reductions than the January proposal. Adoption of the plan would likely result in a precariously balanced 2003-04 budget, but would leave the state with a still-formidable structural imbalance between ongoing revenues and expenditures in the future. Primarily because of this imbalance, we believe that if the Governor's multiyear approach is adopted, it should include additional *ongoing* solutions beyond those proposed in the May Revision.

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INTRODUCTION

The May Revision budget plan reflects a major change in how the administration proposes to deal with the state's enormous budget shortfall. In contrast to his January budget proposal, which attempted to solve the budgetary problem in an 18-month period, the Governor's May Revision adopts a multiyear approach, which relies on much more borrowing and relatively less on near-term spending reductions. On the positive side, the revised plan would enable the state to achieve a balanced budget in 2003-04, provided its assumptions are realized and its estimates prove accurate. However, it also would leave California with a still-formidable imbalance between ongoing revenues and expenditures, which would reemerge in 2004-05 and persist thereafter, absent corrective actions. Similarly, while the proposed increased borrowing avoids the pain from cutting back on spending or raising taxes to the extent that would be required to fully address the budget problem in the near term, it also imposes out-year costs to pay off the debt. By diverting future tax revenues away from funding public services in order to meet debt service obligations, future Legislatures will have relatively fewer options and less flexibility to deal with budget shortfalls beyond the budget year.

Our Bottom Line. Should the Legislature conclude that it wishes to use the Governor's multiyear approach to addressing the budget problem, it is our view that it should adopt *more* ongoing solutions than proposed in the May Revision. This is so it can reduce the substantial operating deficit that awaits the state next year under the plan. We believe that this is especially important given the risks inherent in some of the May Revision's proposed solutions, the sizeable amount of borrowing that would already be required under the plan in 2003-04, and the inherent uncertainties about revenues associated with the current economic environment. In addition, to the extent that the Legislature rejects any of the solutions proposed in the plan, it is critical that they be replaced with savings of at least a comparable magnitude and duration so that the plan's potential benefits are not eroded.

BUDGET-RELATED DEVELOPMENTS SINCE JANUARY

The January budget proposed to deal with the state's massive budget shortfall through a mix of program reductions, tax increases, funding redirections, deferrals, and transfers over the remainder of 2002-03 and in 2003-04.

Prior to when the January budget plan was released, the administration had already proposed a number of immediate actions to get a "head start" on addressing the budget problem in the current year. These early proposals, along with additional current-year proposals unveiled in January, sought to achieve about $5.5 billion in current-year savings. It was also expected in January that the administration's expenditure and revenue projections would be revised in May, once critical information was available on caseload, workload, and revenue trends through the first part of 2003, and once 2002 income tax returns had been filed and processed. As of this time, the following developments have occurred in these areas since January.

Recent Revenue and Expenditure Developments. The May Revision reflects an approximately $1.5 billion increase in caseloads and cost factors in several areas including Medi-Cal, developmental services, and corrections. Partially offsetting this is projected tax revenue increases, totaling about $400 million, due to favorable trends in personal income tax withholding, corporation tax prepayments, insurance premium taxes, and estate taxes.

Legislative Actions. During the same time-period, the Legislature enacted about $3.3 billion in current-year savings, primarily related to Proposition 98 deferrals, as well as a variety of reversions, cuts, and redirections in other programs. It rejected current-year savings proposals related to the elimination of the vehicle license fee (VLF) backfill payment to localities and most health care reductions, leaving current-year savings about $2.3 billion short of the $5.5 billion amount proposed by the Governor. The Legislature has also enacted about $3 billion in budget-year savings, however, including the authorization of $1.9 billion in pension obligation bonds.

Although some progress has been made, the Legislature and the Governor clearly have a long way to go to fully address the budget shortfall. Given the passage of time and the fundamental ongoing disagreements that have persisted over the appropriate mix and composition of spending reductions and tax increases needed to resolve the shortfall, it is unlikely that any revised 2003-04 budget plan could at this point realistically address the full magnitude of the budget shortfall in only one year.

MAY REVISION'S ECONOMIC AND REVENUE REVISIONS

Economic Outlook Relatively Unchanged. In recent years, major changes to the economic and revenue outlook after the January budget proposal has been prepared have been by far the most important factors affecting how the May Revision budget proposal differs from the January proposal. The current May Revision update, however, reflects only modest changes in these areas since January. As in January, the May Revision assumes that the U.S. and California economies will experience sluggish growth through much of 2003, before accelerating modestly late this year and in 2004. California personal income, a key determinant of state revenues, is projected to increase by 3.1 percent this year and 4.9 percent in 2004, or marginally slower than January's projected increases of 3.4 percent and 5.3 percent, respectively.

Revenues Revised Up Modestly. The main factor affecting the revised revenue outlook is recent cash trends. As indicated above, these trends have been somewhat favorable, leading to modest upward adjustments in projected tax revenues of about $400 million for the current year and budget years combined.

Uncertainties Remain. This is not to suggest that the economic, and thus revenue, outlook is not without risks in a number of areas. These include the likely timing of a strengthening of business investment, the willingness of consumers to continue spending in the face of a soft labor market, and the outlook in key foreign markets for California exports. Weaker-than-expected economic performance in such areas could obviously have an adverse impact on revenues in 2003-04. For example, if personal income growth were to drop by one percentage point over the next year from forecasted levels, state revenues could easily decline by $1 billion.

KEY FEATURES OF THE MAY REVISION

The key May Revision changes to the January budget proposal are summarized in Figure 1. It shows that, relative to January, the updated plan differs from the budget in four main ways:

- First, it moves the 2002-03 year-end deficit "off book" by proposing to issue a $10.7 billion deficit reduction bond, which would be repaid over roughly five years using revenues dedicated from a new half-cent sales tax.

- Second, it eliminates *all* state VLF backfill payments to local governments effective July 1. It assumes that a VLF rate increase will be triggered by the "insufficient funds" provision of existing law, thereby raising the VLF rate to its earlier 2 percent level early next fiscal year.

- Third, it scales back some of the spending reductions proposed in January, mainly in the areas of local government, CalWORKs, SSI/SSP, Medi-Cal, community colleges, and K-12 schools.

- Fourth, it substantially reduces the scope of the proposed realignment of programs from the state to local governments.

The revised plan no longer assumes proceeds from a second tobacco bond sale, which had been expected to raise $2 billion in the current year. (The 2002-03 budget package authorized $4.5 billion in tobacco securitization bonds, of which $2.5 billion has already been sold.) The specific proposals in the May Revision affecting individual program areas are discussed later.

Figure 1

Key Features of May Revision

- ✓ Sale of $10.7 billion deficit reduction bond.
- ✓ Reliance on triggered VLF rate increase.
- ✓ Restoration of spending, mainly in CalWORKs, SSI/SSP, Medi-Cal, community colleges, local governments, and K-12 education.
- ✓ Reduction in realignment proposal.

Amount of Tax Increases Assumed in May Versus January Proposal

Although the *mix* of new taxes has changed, the overall *amount* of tax increases assumed in the May Revision is roughly equal to those assumed in January. As shown in Figure 2, the revised proposal would rely on $7.1 billion in new tax revenues in 2003-04 and $8.4 billion in 2004-05. This compares to proposed increases of $8.4 billion in 2003-04 and $7.5 billion in 2004-05 in the January proposal. Relative to January, the May Revision relies on less taxes to support realignment, but assumes additional taxes to fund deficit reduction bonds. The updated plan also assumes a VLF rate increase, as opposed to a shift in the responsibility for the cost of the VLF rate reduction from the state to local governments.

Finally, compared to the January plan, which proposed permanent tax increases to support realignment, about three-fourths of the tax increases assumed in the May Revision are for a limited term. The half-cent sales tax would expire once the deficit bonds are paid off—in roughly five years—and the triggered VLF increase would presumably expire once the state's finances improve.

Governor's Projected General Fund Condition

Figure 3 shows the administration's projections of the General Fund's condition in the current and budget years, taking into account the expenditure and revenue proposals included in the May Revision.

2002-03. The current year would end with a deficit of $10.7 billion. However, after applying the proceeds from the deficit reduction bond sale, the "on book" budget balance would be a positive $8 million.

2003-04. In the budget year, the administration's projected revenues ($70.9 billion) slightly exceed expenditures ($70.4 billion), leaving a

Figure 2

Major Tax Increase Proposals
January Governor's Budget Versus May Revision

(In Billions)

	Increased Tax Revenues			
	2003-04		2004-05	
	January	May	January	May
Realignment-Related Tax Increases				
Personal Income Tax	$2.6	$1.6	$1.8	$1.3
Sales and Use Tax	4.6	—	4.9	—
Cigarette Tax [a]	1.2	0.3	1.1	0.7
Subtotals	$8.3	$1.8	$7.8	$2.0
Deficit Reduction Bonds				
Sales and Use Tax	—	$1.7	—	$2.4
VLF Rate Increase[b]	—	$3.1	—	$4.3
Other Revenue Increases[c]	$0.1	$0.4	-$0.3	-$0.3
Totals	**$8.4**	**$7.1**	**$7.5**	**$8.4**

a Revenues prior to reimbursing special funds for tobacco-related revenue losses induced by rate increase.

b Assumes reversion to previous 2 percent rate effective October 1, 2003.

c Includes suspension of teacher tax credit, suspension of National Heritage Preservation tax credit, restriction of certain income sheltering activities, extension and narrowing of the manufacturers' investment credit, and other revenue measures.

Details may not total due to rounding.

modest reserve of $509 million at the conclusion of 2003-04. The May Revision spending plan also indicates that, under the revised budget proposal, spending would exceed revenues by $7.9 billion in 2004-05. The reemergence of the budget shortfall at that time primarily reflects the large amount of one-time borrowing and deferrals included in the 2003-04 budget plan. Later in this report, we discuss in more detail the out-year implications of the May Revision proposal.

LAO Assessment. Overall, we believe that the basic revenue and expenditure assumptions underlying the budget plan are reasonable, although they are subject to significant risks. Our own revenue forecast is slightly higher than the administration's, resulting in about $600 million in additional revenues in the current year and budget year combined. This increase is primarily related to higher estimates of personal income tax and insurance tax receipts.

Partly offsetting this revenue gain, we believe that expenditures will be about $200 million higher in the two years combined, mainly due to additional costs for corrections. In addition, some of the May Revision's budget solutions, even if adopted, may achieve less savings than anticipated. For example, although the administration has sharply reduced its estimate of proceeds from renegotiated tribal compacts (from $1.5 billion to $680 million in the budget year), the actual amount of receipts from these compacts could be considerably less than even the revised estimates. As another example, we believe that some of the administration's assumed cost savings in areas of state contracting, workers' compensation, and state employees' wages are subject to downside risks. Together, the various risks we have identified total several hundreds of millions of dollars.

Figure 3

Governor's May Revision General Fund Condition

(In Millions)

	2002-03	2003-04
Prior-year fund balance	-$1,985	$1,410
Revenues and transfers	70,751	70,934
Deficit financing bond	10,700	—
Total resources available	$79,466	$72,344
Expenditures	$78,056	$70,433
Ending fund balance	$1,410	$1,911
Encumbrances	1,402	1,402
Reserve	**$8**	**$509**

Detail may not total due to rounding.

Amount and Distribution of Total Spending

Figure 4 shows the programmatic distribution of proposed General Fund spending in 2003-04. It shows that overall spending would decline from $78 billion to $70 billion, or by 9.8 percent ($7.6 billion). Virtually all of this year-to-year decline is related to four factors:

- The proposed program realignment.
- The elimination of the VLF backfill.
- A Medi-Cal accounting shift.

- ➢ The use of pension obligation bond proceeds in place of General Fund payments to employee pension funds.

Absent these factors, spending on total programs is basically flat between the current and budget years. Taking into account the impact of inflation and caseload increases, the budget reflects large savings relative to current-service spending levels, particularly in the areas of K-12 education, community colleges, health, and social services.

Figure 4

Summary of May Revision Spending Proposal By Major Program—General Fund

(Dollars in Millions)

Program/Agency	2002-03	2003-04 Amount	2003-04 Percent Change
Education Programs			
K-12—Proposition 98	$26,600	$27,404	3.0%
Community Colleges—Proposition 98	2,642	2,236	-15.4
UC/CSU	5,898	5,617	-4.8
Other	3,952	2,660	-32.7
Health and Social Services Programs			
Medi-Cal	$10,885	$9,758	-10.4%
CalWORKs	2,107	935	-55.7
SSI/SSP	3,007	3,082	2.5
Other	7,456	7,350	-1.4
Youth and Adult Corrections	$5,833	$5,728	-1.8%
Vehicle License Fee Offset	$3,985	—	—
All Other	$5,691	$5,663	-0.5%
Totals	**$78,056**	**$70,433**	**-9.8%**

MAY REVISION PROPOSALS BY PROGRAM AREA

Figure 5 highlights the key expenditure-related May Revision budget proposals by major program area. Additional discussion about these proposals is provided below for the program areas of education, Medi-Cal, social services, as well as the revised realignment proposal.

PROPOSITION 98—K-14 EDUCATION

Current Year

In the First Extraordinary Session, the Legislature rejected much of the Governor's proposed mid-year reductions—including $1.5 billion in across-the-board K-12 cuts and about half of the proposed specific community college reductions. Instead, the Legislature deferred $1.2 billion in funding from June 2003 to July 2003, and found additional one-time program savings. The Governor's May Revision reflects this very different starting place. It proposes a $38 million increase in current-year Proposition 98 funding (primarily reflecting higher student attendance), despite a slight decline in the Proposition 98 minimum guarantee ($84 million) for 2002-03

Figure 5

Key Expenditure-Related May Revision Budget Proposals
General Fund

Education

- Increases K-12 funding by about $400 million, reflecting increased student attendance, restoration of some proposed reductions in revenue limit funding, and more targeted reductions in categorical programs.
- Increases General Fund support for community colleges by roughly $300 million. The proposed student fee increase is reduced by almost half.

Realignment

- Reduces size of January realignment package from $8.2 billion down to $1.7 billion.
- Remaining realignment involves a shift in share-of-costs for CalWORKs, Foster Care, Child Welfare Services, child abuse prevention programs, and mental health.
- Funds reduced proposal with a 10.3 percent rate on high-income personal income tax payers, and a 23-cent per pack increase in cigarette taxes (rising to 63 cents in 2004-05).

Social Services

- Restores proposed 6.2 percent reduction in grants for SSI/SSP ($662 million) and CalWORKs ($229 million, TANF).
- Child care savings from family fee increases, reimbursement rate reductions, and eligibility changes ($216 million, General Fund and TANF).

Health Services

- Shifts Medi-Cal system accounting from an accrual to a cash basis ($930 million one-time savings).
- Restores funding to continue the 1931(b) Medi-Cal expansion ($118 million increase).
- Adjusts for the additional costs from delaying imposition of Medi-Cal provider rate reductions ($113 million increase).
- Assumes higher net cost increase for services for persons with developmental disabilities ($187 million increase).

Judiciary and Criminal Justice

- Increases funding by $341 million, reflecting elimination of realignment proposal and unrealized savings from prior budget actions.
- Includes new reductions related to inmate health care, delayed opening of Delano II, and other factors.

Transportation

- Transfers sales tax revenue to fund $207 million in projects. Remaining $938 million in Proposition 42 transfers deferred for up to six years.
- Suspends transfer of sales taxes to the Public Transportation Account ($87 million).

Resources

- Increases loans from various special funds.

Statewide

- Retains January proposal for $470 million in employee compensation savings.
- Captures savings from renegotiating various state contracts ($50 million).
- Captures savings from proposed workers' compensation reforms ($30 million).

Local Government

- Assumes VLF rate increase offsets loss of most state backfill.
- Eliminates proposed shift of one-time $500 million redevelopment funds. Maintains proposed ongoing $250 million shift of redevelopment property taxes.

because of lower-than-anticipated revenues. Combined, these factors result in the minimum guarantee being over-appropriated by $122 million in 2002-03.

Budget Year

In 2003-04, the Governor proposes appropriating $45.6 billion for Proposition 98—right at the projected minimum guarantee level. This is $1.5 billion above the January level. The minimum guarantee has increased because the Governor (1) rescinded his child care realignment proposal and (2) projects increases in General Fund revenues, per capita personal income, and student attendance in 2003-04. The Governor also proposes continuing the $1.2 billion in Proposition 98 deferrals from 2003-04 to 2004-05.

K-12 Education—Changes From January. The May Revision restores $262 million of a $612 million reduction to revenue limit funding, leaving a $350 million (1.2 percent) cut. It also replaces across-the-board reductions to categorical programs with more targeted reductions (including state mandate reimbursements, supplemental instruction, and supplemental grants) and the elimination of numerous programs. In addition, the Governor provides $184 million for additional K-12 attendance and $58 million for higher Public Employees' Retirement System costs. The Governor eliminates the proposed $250 million in funding for revenue limit equalization.

The Governor now proposes $806.9 million (Proposition 98 funding) for various child care programs that were initially proposed in January for realignment. This amount includes funding for the child care needs of former CalWORKs families expected to be eligible for Stage 3 child care in the budget year. In order to accommodate increased child care costs within Proposition 98, the Governor proposes to reform the state's subsidized child care system by modifying current eligibility rules, reimbursement rate limits, and family fees.

The May Revision proposes to spend $69 million in federal funds to partially offset state-mandated mental health services that are provided through county mental health agencies. Currently, county agencies provide mental health services that are required as part of a special education student's Individual Education Plan. In past years, these mandated costs have exceeded $100 million annually. The specifics of this proposed new funding arrangement are yet to be determined.

Community Colleges—Changes From January. For the California Community Colleges, the May Revision increases Proposition 98 expenditures by $304.1 million above the level proposed in January. About half ($154.7 million) of this amount is due to costs associated with reducing the proposed student fee increase by $6 per unit. (The January budget proposed to increase the per unit fee from $11 to $24; the May Revision now proposes an $18 per unit fee.) The other half of the increase is due to the withdrawal of proposed cuts to apportionment funding ($66.6 million), the restoration of funding for several categorical programs ($29.6 million), and the restoration of most funding for concurrent enrollment ($55 million), as well as some minor technical changes. In total, the May Revision would provide funding for about 40,000 more full-time equivalent students than the level proposed in January.

OTHER PROGRAM AREAS

Higher Education

The May Revision contains only minor technical changes to the University of California and California State University budgets, resulting in a net reduction of just $3.5 million from January. It shifts funding from the California Postsecondary Education Commission to the California Student Aid Commission, in anticipation of consolidating the two agencies. It also makes a base reduction of $20 million for Cal Grant awards, reflecting revised participation rate estimates for these programs. Finally, it reduces General Fund support to the Scholarshare Investment Board by $16.8 million, reflecting the deferral of funding for qualified 9th and 10th grade students until they reach 12th grade.

Medi-Cal

The budget proposes about $9.8 billion in state General Fund support for Medi-Cal in 2003-04, a reduction of more than $1.1 billion (or greater than 10 percent) below the proposed current-year spending level of $10.9 billion. The current-year spending level is about $290 million more than assumed in the Governor's January 10 budget plan, while the budget-year spending level is about $2.8 billion higher than initially proposed.

These net increases in expenditures, in comparison to the Governor's initial budget plan, reflect several factors. These include the reversal of the proposed realignment of $3 billion in Medi-Cal costs, the rejection by the Legislature of a number of significant current-year program reductions, the failure of various previously enacted budget-cutting actions to achieve the level of savings that had been projected, and new administration proposals to reverse some cuts that it had proposed earlier. For example, the administration no longer is recommending a significant reduction in eligibility for 1931(b) working poor families, would restore some optional benefits initially proposed for elimination, and is proposing increases in nursing home and managed care rates that would partly offset proposed reductions for these providers.

The administration has also proposed a number of new actions, including a proposed shift in accounting methods for the Medi-Cal Program that would result in a one-time savings to the General Fund of $930 million in 2003-04 and a significant expansion of antifraud activities.

Social Services

As noted below, the May Revision limits the new proposed realignment plan to CalWORKs, Child Welfare Services, Foster Care, and Adult Protective Services. The May Revision eliminates the 6.2 percent reductions in CalWORKs and SSI/SSP grant levels proposed in January. However, it sustains the proposals to suspend the 2003 and 2004 state cost-of-living adjustments (COLAs) for CalWORKs and SSI/SSP. These COLA suspensions result in combined General Fund and Temporary Assistance for Needy Families savings of about $550 million in 2003-04. The federal SSI/SSP COLA would be passed on to recipients.

Realignment

In January, the Governor proposed to increase taxes by a net $8.2 billion and to shift this funding to counties and courts, along with a commensurate amount of program obligations, primarily in the health and social services areas. The May Revision reduces the programmatic shift of costs to counties to $1.7 billion, while providing the counties with $1.8 billion in new revenues (see earlier discussion regarding the May Revision's tax proposals).

Realignment Tax Package. Revenues for the updated realignment proposal would come from two sources:

- ***Personal Income Tax (PIT).*** Under the proposal, a new PIT tax rate of 10.3 percent would be established for married-filing-joint taxpayers earning more than $300,000, and for singles earning more than $150,000. The new rate would be effective January 1, 2003, and result in additional revenues of $1.6 billion in 2003-04 and $1.3 billion in 2004-05. (The decline in the second year is due to the additional withholding that occurs during the initial year of a PIT rate increase.)

- ***Cigarette Tax.*** The administration's plan calls for an increase in the cigarette excise tax from the existing 87 cents per pack, to $1.10 per pack beginning July 1, 2003, and to $1.50 per pack beginning July 1, 2004. This would result in additional revenues of $267 million in 2003-04 and $678 million in 2004-05.

Programs Realigned. The revised realignment proposal involves a shift in the share-of-costs for CalWORKs, Foster Care, Child Welfare Services, child abuse prevention programs, and certain mental health programs. Figure 6 shows for each program to be realigned: the existing county share of cost, the proposed county share of cost, and the amount of realigned costs.

In the out-years, it appears that realigned program costs and revenues are both expected to grow by about 4 percent.

Figure 6

Governor's Revised Realignment Proposal

(Dollars in Millions)

Program Area	County Share of Cost		Realigned Costs
	Current	Proposed	
Social Services			
CalWORKs Grants	2.5%	30%	$782
CalWORKs Employment Services and Administration	MOE[a]	30	359
Adult Protective Services	MOE[a]	100	61
Children and Youth			
Foster Care Grants	60%	80%	$237
Foster Care Administration	30	50	11
Child Welfare Services	30	50	197
Child Abuse Prevention, Intervention, and Treatment	—	100	12
Mental Health			
Integrated Services for Homeless	—	100%	$55
Children's System of Care	—	100	20
Total			**$1,734**

[a] For these programs, counties are required to pay a fixed amount, or maintenance-of-effort (MOE).

THE PLAN'S OUT-YEAR IMPLICATIONS

As indicated earlier, the administration projects that its May Revision plan would, if adopted and its assumptions realized, result in a large General Fund operating deficit in 2004-05 of $7.9 billion. This reflects the gap between its 2004-05 projected revenues ($71.3 billion) and expenditures ($79.2 billion). As a result, the administration estimates that under its plan, the budget would be in deficit at the end of 2004-05, *even if* all of its May Revision proposals were adopted and $10.7 billion of the current budget shortfall was moved "off-budget" through borrowing.

LAO Findings. In order to assess the out-year implications of the plan, we developed our own out-year projections of the budget's operating balance—based on the *plan's* policy assumptions but using our *own* estimates of both their fiscal effects and the performance of the economy and revenues. Our analysis indicates the following:

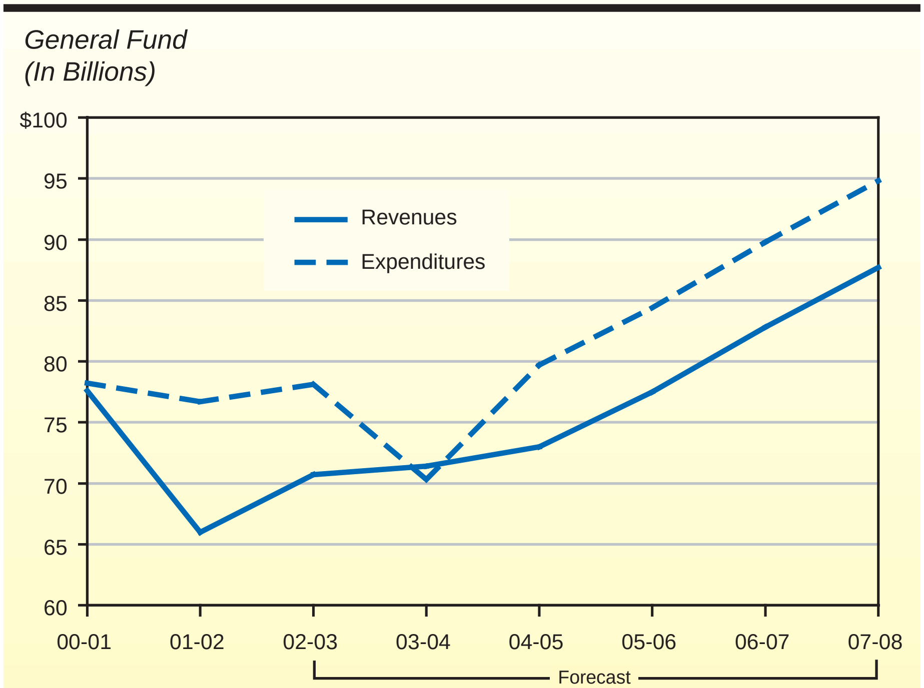
- A significant operating deficit would indeed still exist in 2004-05—in our view, close to $7 billion. Our slightly lower estimate compared to the administration reflects somewhat stronger revenue growth, partly offset by higher projected expenditures.

- As shown in Figure 7, this operating deficit would persist over time and grow modestly, absent corrective actions. Thus, the state cannot "grow its way" out of this problem.

- The persistence of the operating deficit would occur even though our projections assume a reasonably healthy annual revenue growth rate in the 6 percent range after 2004-05 and program growth in such areas as education at well below that pace. The expla-

Figure 7

Persistant Gap Would Reemerge Under Governor's Plan



nation for why the deficit grows despite these favorable trends involves the various one-time borrowings and deferrals embedded in the 2003-04 budget plan, which add significantly to out-year costs.

- Regarding borrowing, we have identified roughly $17 billion in various types of borrowing solutions in the 2003-04 budget plan, representing over one-half of the total budget solutions proposed in the May Revision. The accumulation of such budget-related debt will divert some future tax receipts away from funding public services in order to pay debt service expenses, and thereby leave future Legislatures with relatively fewer options and less flexibility for dealing with the budget shortfalls that will likely emerge beyond the budget year.

Implications. We believe that the reemergence of these large operating deficits in future years, absent corrective actions, along with the large amount of debt and the risks inherent in the budget proposal, has important implications for the Legislature. First, to the extent that the Legislature rejects some of the solutions contained in the revised budget plan, it will be important that alternative solutions of at least similar magnitude and duration be found. In this regard, it will be especially important that it not diminish the amount of ongoing solutions present in the current plan.

More importantly, we believe that if the Legislature adopts a multiyear approach such as outlined in the May Revision, it should incorporate additional ongoing solutions *beyond* those proposed in the current budget plan. These can involve both new solutions not included in the May Revision, as well as the extension of some proposed one-time solutions (such as COLA and tax credit suspensions) to multiyear solutions.