

# Analysis of the 2002-03 Budget Bill



Legislative Analyst's Office

# LAO Budget Outlook

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- ▶ **Additional Shortfall of \$5 Billion**
  - \$3.9 Billion—Revenues
  - \$1.1 Billion —Expenditures
- ▶ **Shortfall Grows if Federal Funds Not Received**
- ▶ **Ongoing Budgetary Imbalance Would Persist**
  - Operating Shortfall About \$7 Billion

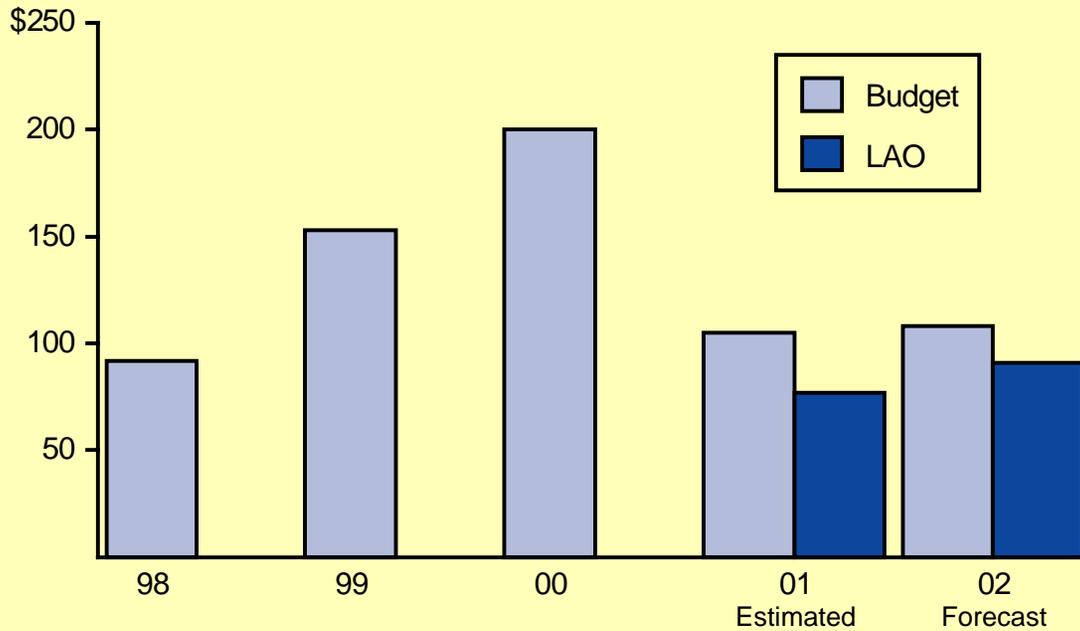
# Economic and Revenue Projections

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- ▶ **Recovery Begins in Spring**
- ▶ **Key Difference—Lower Revenues From Options/Capital Gains**
  - **\$2.8 Billion—2001-02**
  - **\$1.1 Billion —2002-03**

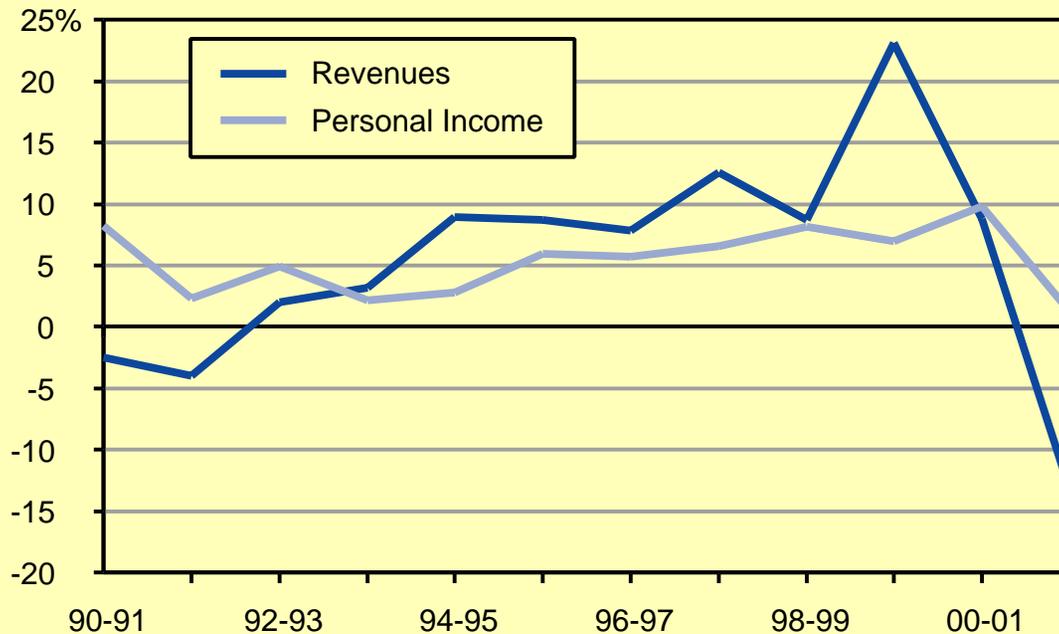
# LAO Forecasts Steeper Decline In Options and Gains Than DOF

*Combined Stock-Option and Capital-Gain Income  
Reported on California Tax Returns  
(In Billions)*



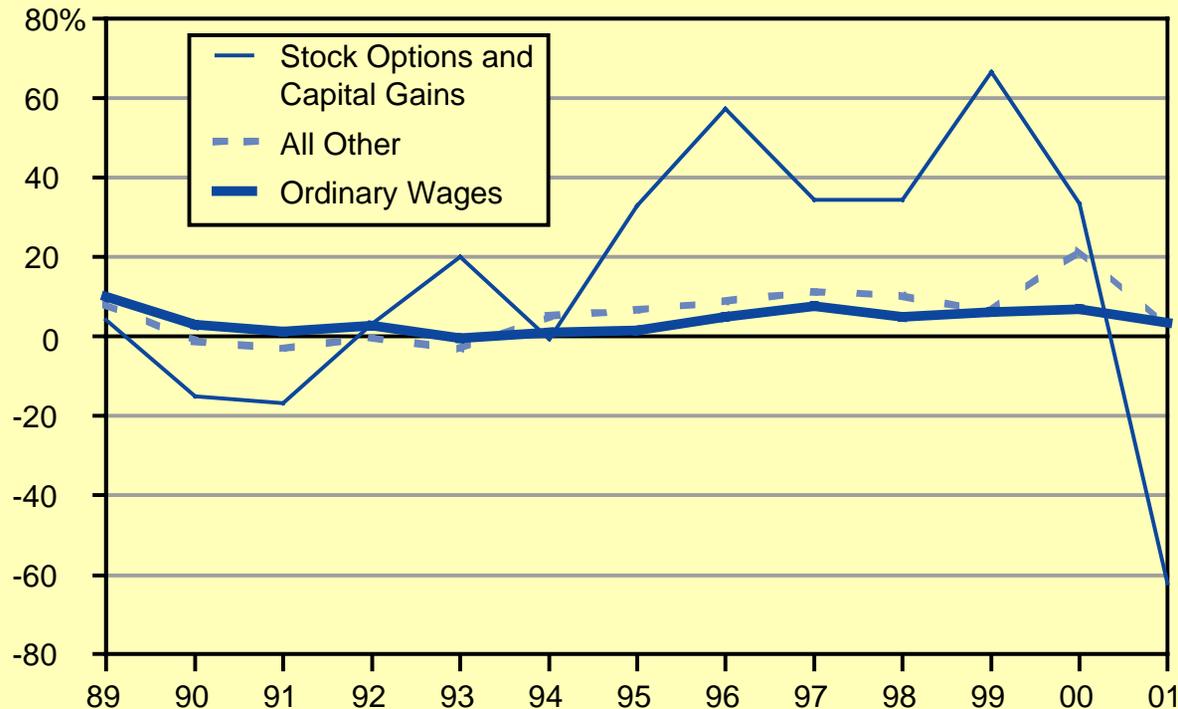
# Revenues Have Been Much More Volatile Than State's Economy

*Annual Percent Change in General Fund Revenues and California Personal Income*



# Nonwage Income— Key Source of Revenue Fluctuations

*Annual Percent Change in Income Reported on California Returns*



# Education

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- ▶ **Guarantee Could Increase \$825 Million**
- ▶ **Evaluate Education in Broad Context**
- ▶ **Reform Categorical Program Funding**
- ▶ **Higher Education Fee Policy Needed**

# Borrowing to Help Address Budget Problem

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- ▶ **Over One-Third of Governor's Proposed Solution (\$4.8 Billion)**
- ▶ **Partial Tobacco Securitization (\$2.4 Billion)**
- ▶ **Deferral of Retirement Fund Contributions (\$1 Billion)**
- ▶ **Transportation Loan (\$672 Million)**