

California's Fiscal Outlook

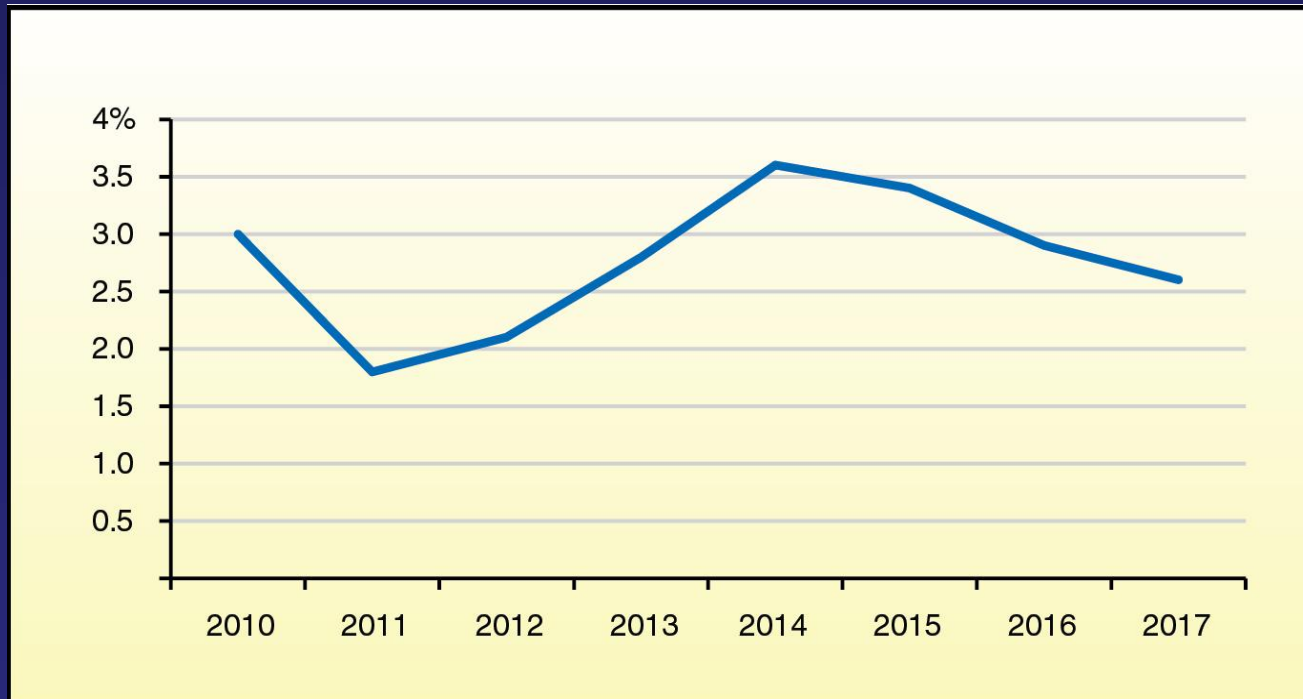


Legislative Analyst's Office
Jennifer Kuhn
November 17, 2011

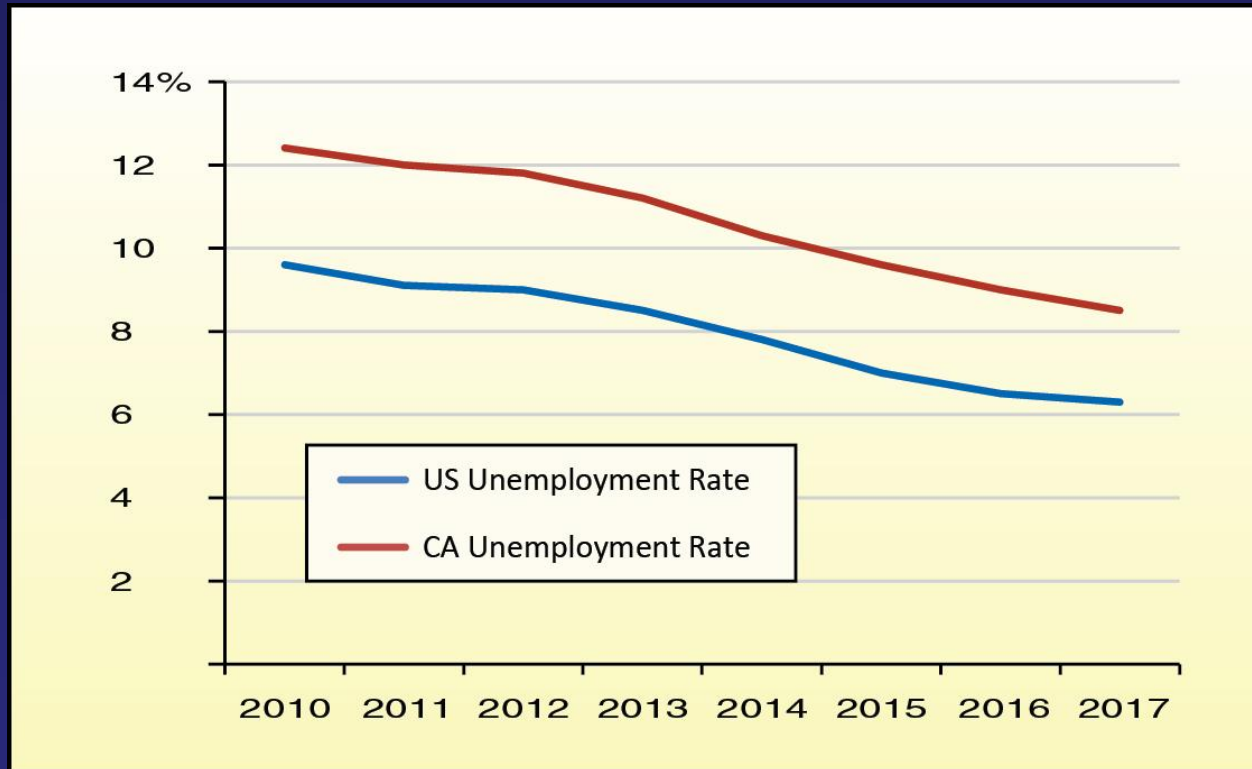
Outlook: Economy

Slow Recovery Expected

(Growth in Real Gross Domestic Product)

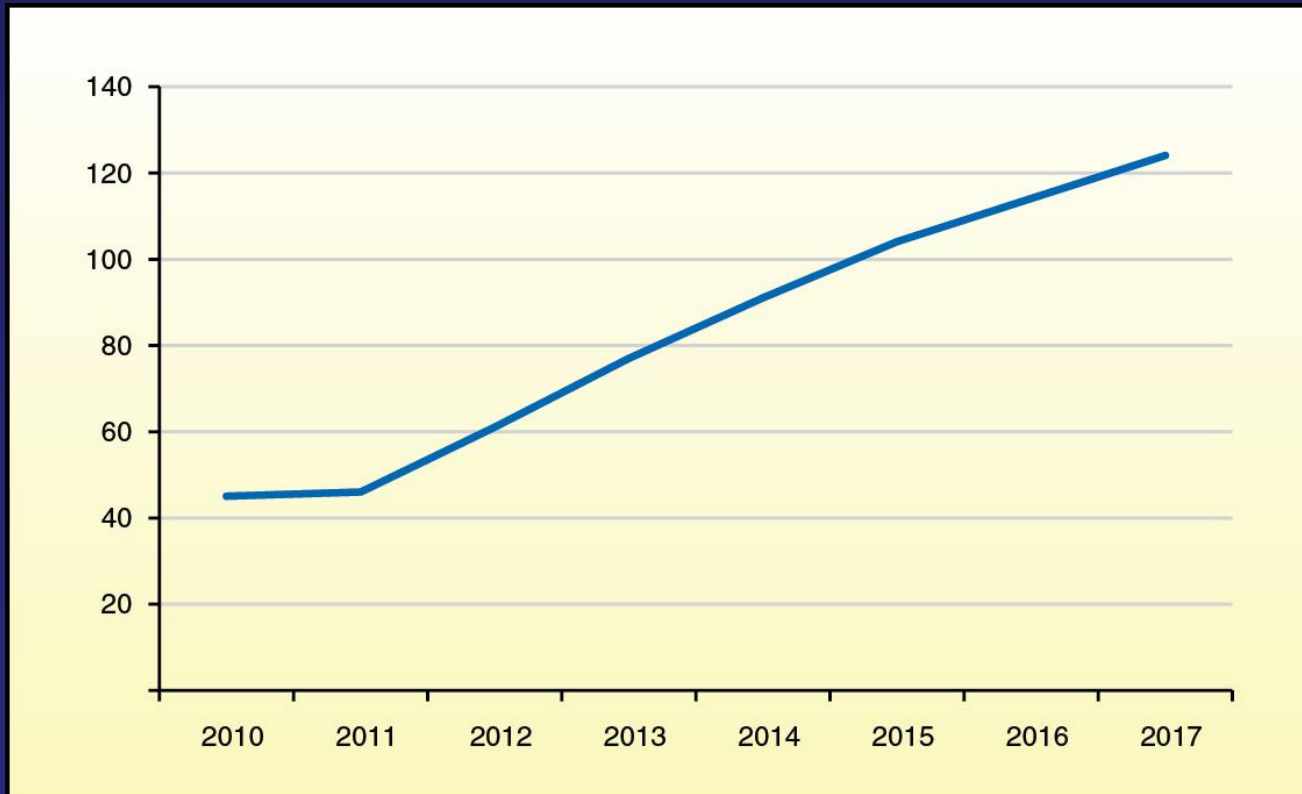


Unemployment Rate to Decline Gradually Over Period



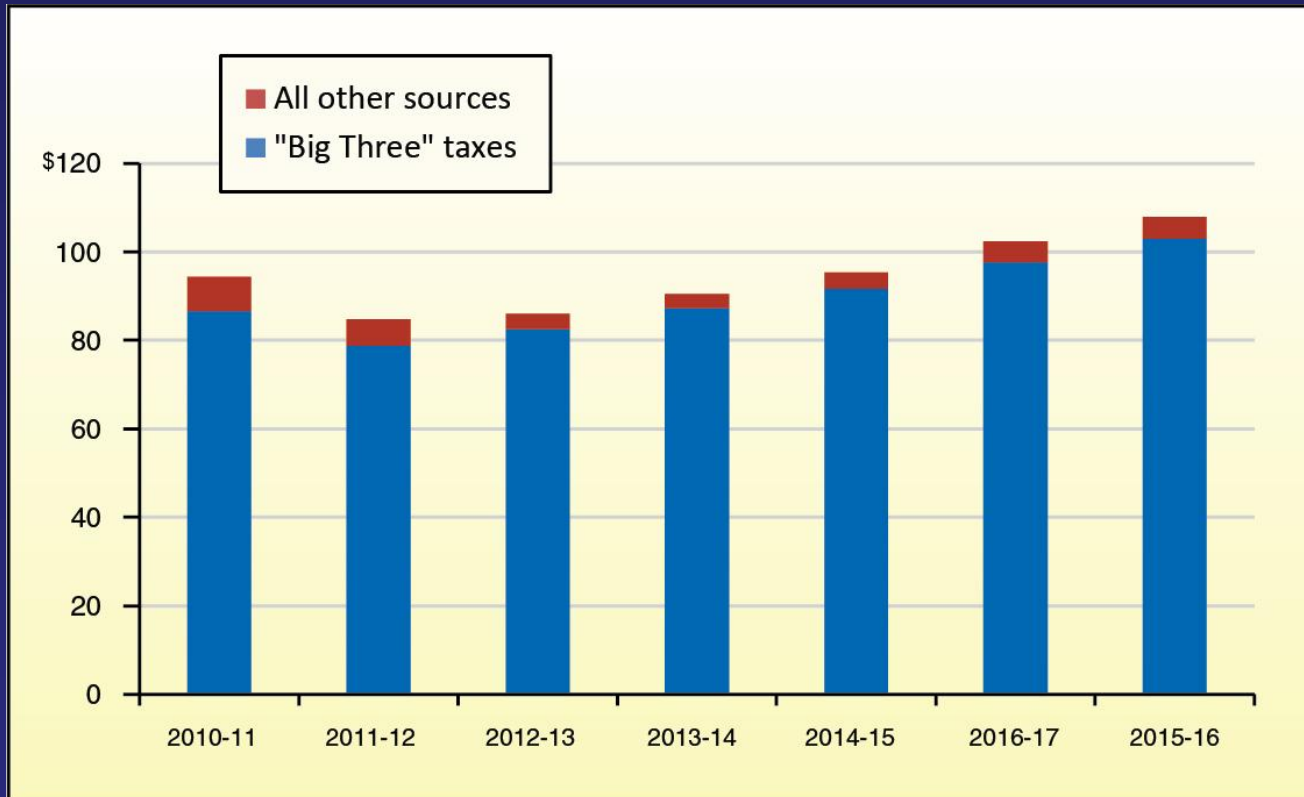
Housing Activity to Grow But Remain Below 2005 Level

(Housing permits, in thousands)



LAO General Fund Revenue Forecast

(In Billions)



Outlook: State Budget

LAO Projections of General Fund Condition if No Corrective Actions Are Taken

(In Millions)

	2010-11	2011-12	2012-13
Prior-year fund balances	-\$4,507	-\$1,695	-\$2,239
Revenues and transfers	94,292	84,764	86,038
Expenditures	91,480	85,308	95,787
Ending fund balance	-\$1,695	-\$2,239	-\$11,988
Encumbrances	770	770	770
Reserve	-\$2,465	-\$3,009	-\$12,758

November 2011 LAO Revenue Estimates Compared With Budget Act Level

General Fund (In Millions)

Revenue Source	2011-12		
	LAO November 2011 Forecast	Budget Package	Difference
Personal income tax	\$50,812	\$50,408	\$404
Sales and use tax	18,531	19,009	-478
Corporation tax	9,483	9,012	471
Subtotals, "Big Three"	(\$78,826)	(\$78,429)	(\$397)
Other revenues	\$4,486	\$8,561	-\$4,075
Net transfers and loans	1,451	1,465	-14
Total Revenues and Transfers	\$84,764	\$88,456	-\$3,692

Almost \$3 Billion Current-Year Deficit

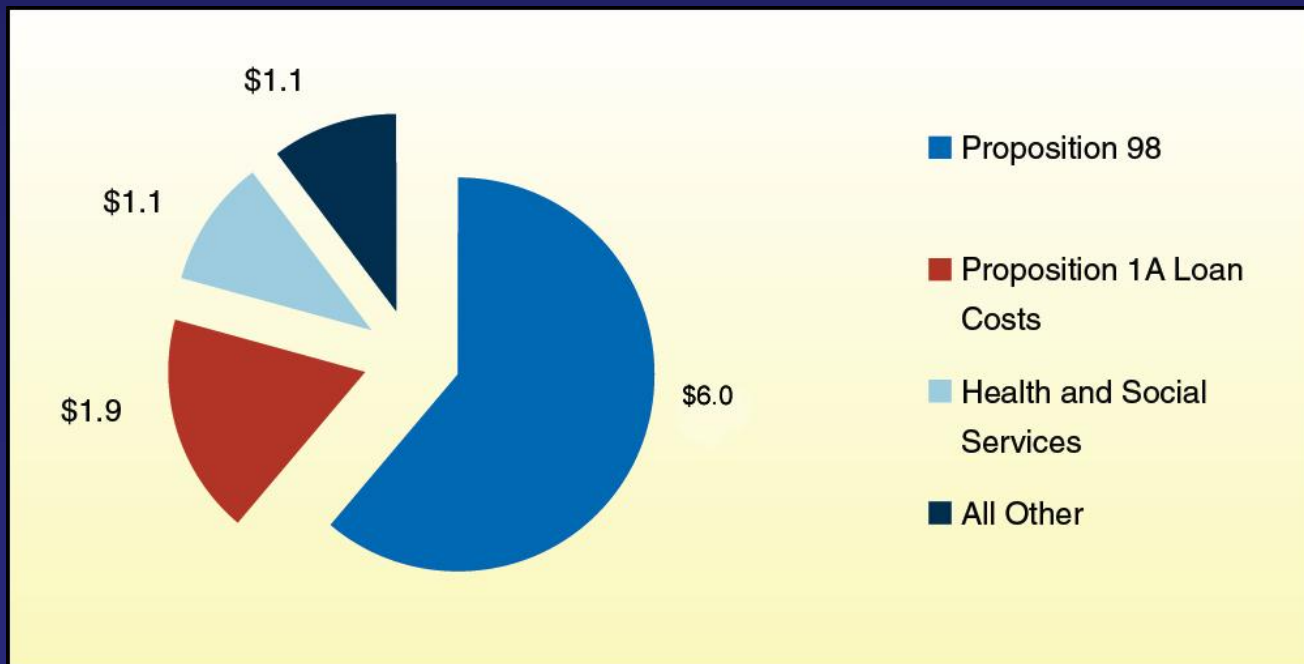
- **\$3.7 billion due to lower revenues**
- **\$1.2 billion due to higher costs**
- **Offset by \$2 billion in trigger cuts**

\$10 Billion Operating Shortfall in 2012-13

- **Revenues up \$1.3 billion**
- **Carry forward operating imbalance of \$500 million**
- **Expenditures up \$10.5 billion**

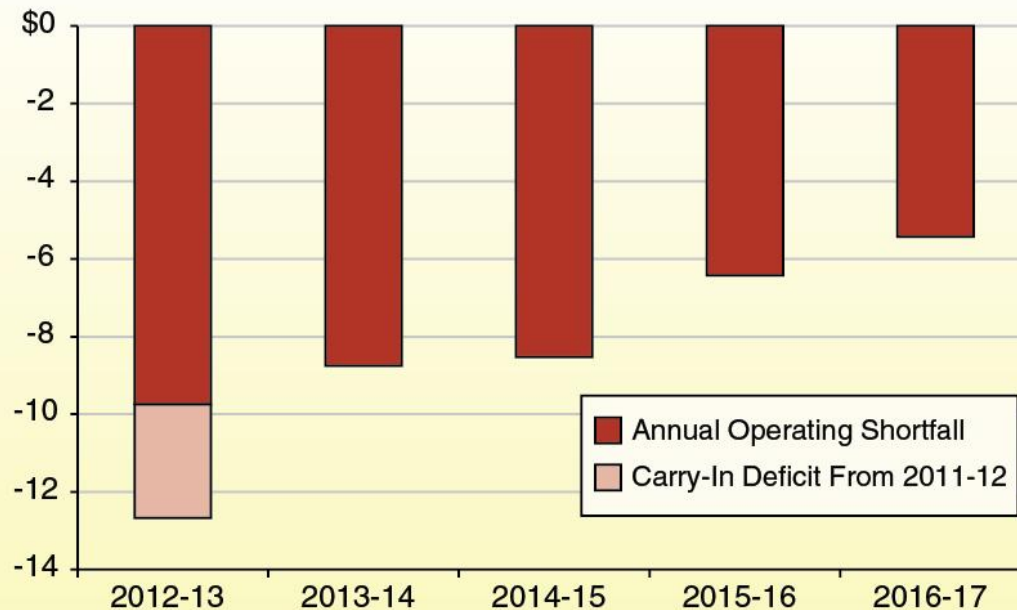
Year-Over-Year Growth in Expenditures

(2011-12 to 2012-13)



Operating Shortfalls Gradually Decline Throughout Forecast Period

General Fund (In Billions)



Outlook: Education Budget

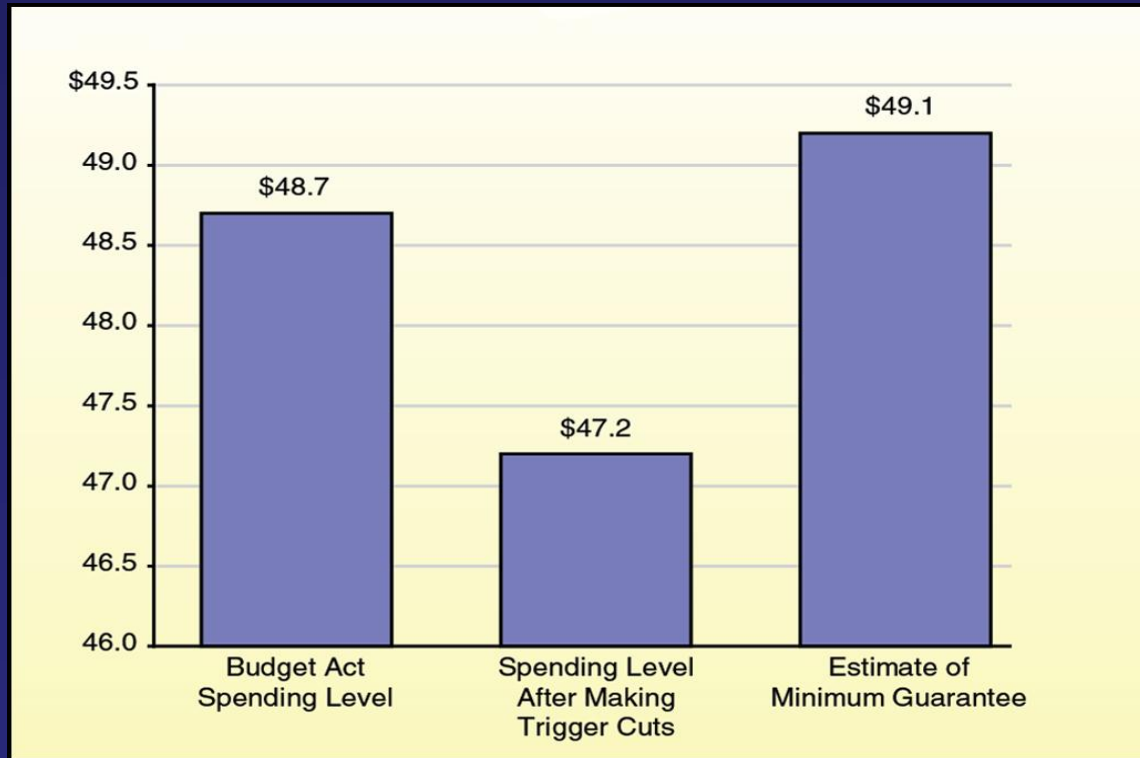
All Tier I and Most Tier II Proposition 98 Reductions to Be Triggered

(In Millions)

	Authorized Cut	Estimated Cut
Tier 1 Reductions		
Reduce CCC Apportionments	\$30	\$30
Reduce Preschool Funding	6	6
Subtotal	\$36	\$36
Tier II Reductions		
Reduce K-12 Revenue Limits	\$1,540	\$1,116
Eliminate Home-to-School Transportation	248	248
Further Reduce CCC Apportionments	72	72
Subtotal	\$1,860	\$1,436
Total	\$1,896	\$1,472

Current-Year Proposition 98 Estimates

(In Billions)

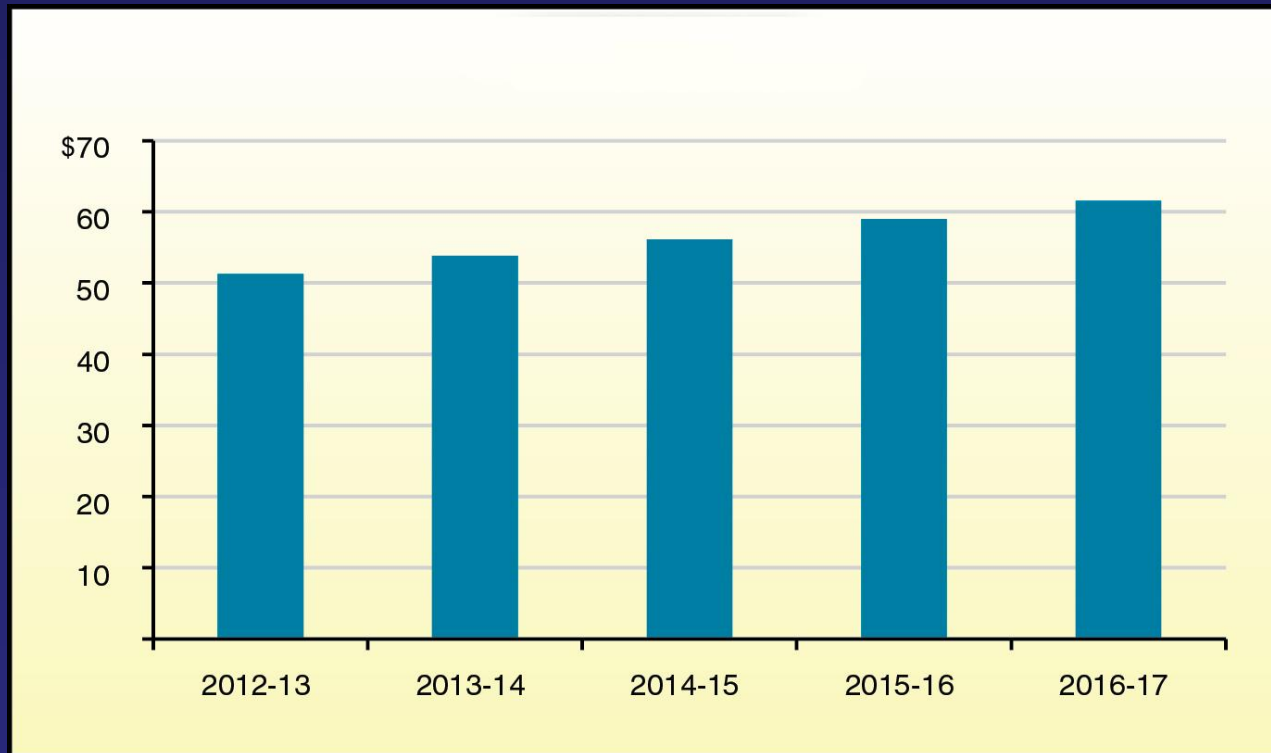


Can State Afford Minimum Guarantee in 2012-13?

- **Guarantee up \$4.1 billion from revised 2011-12 level (\$51.3 billion, up from \$47.2 billion)**
- **State faces overall \$13 billion budget shortfall**

Forecast of Proposition 98 Minimum Guarantee

(In Billions)

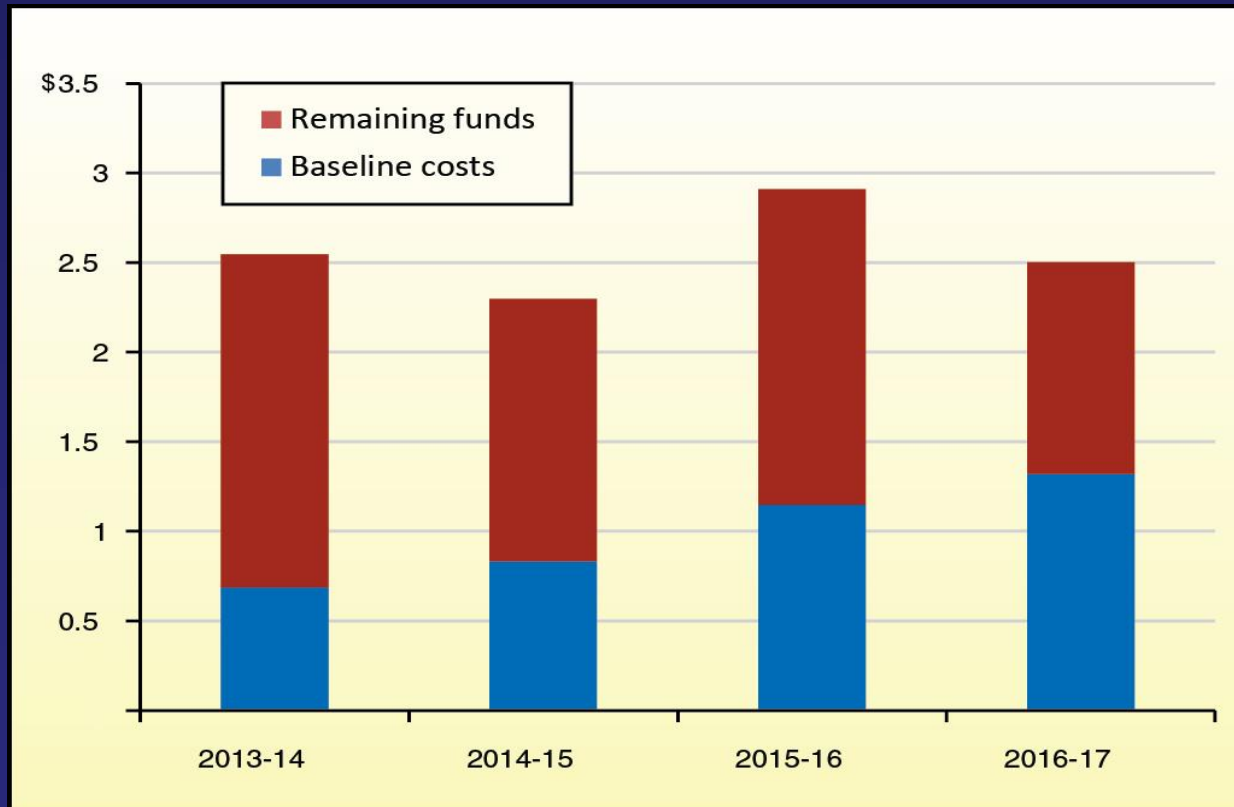


Key Factors

	2012-13	2013-14	2014-15	2015-16	2016-17
K-12 average daily attendance	0.08%	-0.07%	-0.24%	-0.13%	0.01%
Per capita personal income (Test 2)	4.04%	3.41%	3.61%	4.74%	4.10%
Per capita General Fund (Test 3)	4.28%	5.29%	4.81%	5.85%	4.74%
K-12 COLA	3.09%	1.75%	2.16%	2.41%	2.51%

Proposition 98 Minimum Guarantee Grows \$10 Billion Cumulatively Over Period

(In Billions)



Tracking the State's Statutory K-12 Obligations

(In Billions)

	2008-09 Actual	2009-10 Actual	2010-11 Estimate	2011-12 Estimate
K-12 Education				
Revenue limit deferrals	\$4,007	\$5,686	\$7,406	\$9,470
Revenue limit deficit factor	2,978	7,296	7,123	8,036
Mandates	2,849	3,237	3,307	3,380
Quality Education Investment Act	1,769	1,769	1,367	965
Emergency Repair Program	462	462	462	408
Totals	\$12,066	\$18,450	\$19,666	\$22,260

Major Budget Issues Facing School Districts

- **Responding to trigger cuts**
- **Coping with uncertainties:**
 - Ballot measure(s)?
 - Funding the guarantee in 2012-13?
 - Resolving maintenance factor issues?
- **Meeting cash demands**
- **Setting out-year priorities**