

CBO Hot Topics 101: State Budget Outlook



Legislative Analyst's Office

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Governor's January Budget

Estimated Budget Problem

- **\$9.2 Billion Budget Problem**
 - \$4.1 billion deficit in 2011-12.
 - \$5.1 billion shortfall in 2012-13.
 - Baseline General Fund revenues: \$89.2 billion.
 - Baseline General Fund spending: \$94.3 billion.

Budget-Balancing Actions

- **Total of \$12.6 Billion in Proposed Solutions**
 - \$7.2 billion in new revenues.
 - \$4 billion in expenditures cuts.
 - \$1.4 billion in other savings.
- **Offset by \$2.5 Billion Increase in Proposition 98 Guarantee**

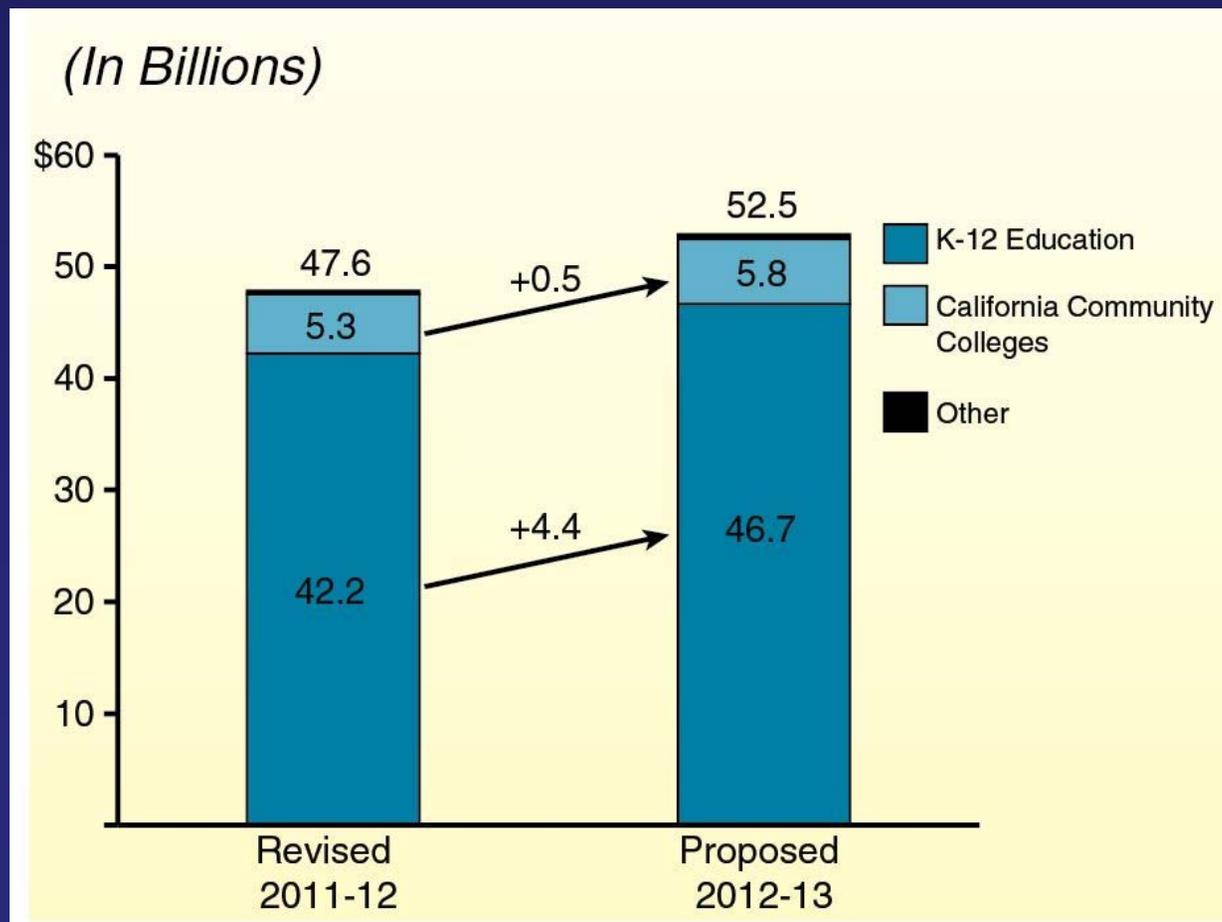
Tax Measure: January Version

- **\$6.9 Billion of Revenue Solutions**
 - \$2.2 billion accrued to 2011-12.
 - \$4.7 billion attributed to 2012-13.
- **Personal Income Tax (PIT) Rate Increases:
1 Percent to 2 Percent for Five Years**
- **Sales and Use Tax (SUT) Rate Increase:
0.5 Percent for Four Years**

Tax Measure: Other Provisions

- **Guarantees Ongoing Revenues to Local Governments for Realigned Programs**
 - Roughly \$5.5 billion.
- **Removes Realigned Sales Tax Revenue From Proposition 98 Calculation**

January Proposition 98 Funding Proposal



January Proposition 98 Spending Proposal

- **Five Major Components**
 - Backfill one-time actions (\$2.8 billion).
 - Pay down deferrals (\$1.8 billion).
 - Create mandate block grant (\$110 million).
 - Hold harmless: weighted student formula (\$90 million).
 - Do not initiate Transitional Kindergarten program (\$224 million savings).

January “Trigger” Plan

2012-13 General Fund Benefit (In Millions)

Proposition 98 funding for schools and community colleges	\$4,837
University of California	200
California State University	200
Judicial branch	125
CalFire	15
Department of Water Resources flood control programs	7
Department of Fish and Game	4
Department of Parks and Recreation	2
Department of Justice law enforcement programs	1
Total	\$5,390

LAO February Forecast

LAO February Economic Forecast

- **Job Growth, Economic Confidence Rising**
- **Corporate Profits, Technology Booming**
- **Persistent Joblessness Remains Problem**
- **Housing Market Still Depressed**

LAO February Revenue Forecast

- **\$6.5 Billion Lower Than Administration**
 - \$3 billion lower in 2011-12.
 - \$3.5 billion lower in 2012-13.

March Developments

Tax Measure: March Version

- **\$6.8 Billion to \$9 Billion Revenue Solution**
- **PIT Rate Increases:
1 Percent to 3 Percent for Seven Years**
- **SUT Rate Increase:
0.25 Percent for Four Years**

March Revenue Update

- **March “Big Three” Tax Collections About \$290 Million Below Forecast**
- **Year-to-Date Big Three Revenues \$1.1 Billion Below Forecast**
- **Weakness in Corporate Tax Revenues Latest Concern**

LAO March Proposition 98 Estimates

- **Based on LAO Baseline Revenue Forecast and LAO Estimate of New Tax Measure:**
 - Proposition 98 minimum guarantee would drop about \$200 million below current-year spending level.
 - Proposition 98 minimum guarantee in 2012-13 about \$800 million lower than administration's estimate.

California School Boards Association Lawsuit

- **Preliminary Superior Court Ruling Appears to Uphold State Action**
- **Final Ruling Expected Within 30 Days**

Looming Uncertainties

Comparison of Tax Measures

	Governor	Munger
Taxes Affected	PIT and SUT	PIT
Highest PIT Rate Increase	3%	2.2%
Revenues Raised	\$5.4 - \$7.6 Billion	\$10 - \$11 Billion
Revenue Uses	State budget balancing	Education, preschool, budget balancing
Affects Proposition 98	Yes	No
Operative Time	7 years	12 years

How Good Could It Get?

- **Both Tax Measures Pass**
- **Facebook Offering Exceeds Expectations**
- **No Trigger Reductions**
- **State Begins Paying Down Deferrals**
- **Education Receives Programmatic Augmentations**
- **Few Cuts to Other State Programs**

How Bad Could It Get?

- **Both Tax Measures Fail**
- **Baseline Revenues Down Billions**
- **Facebook Yields Less Than Expected**
- **Even “Plan A” Contains Education Cuts, Deeper Non-Education Cuts**
- **Trigger Reductions Enacted**
- **District Flexibility Reduced Not Enhanced**