

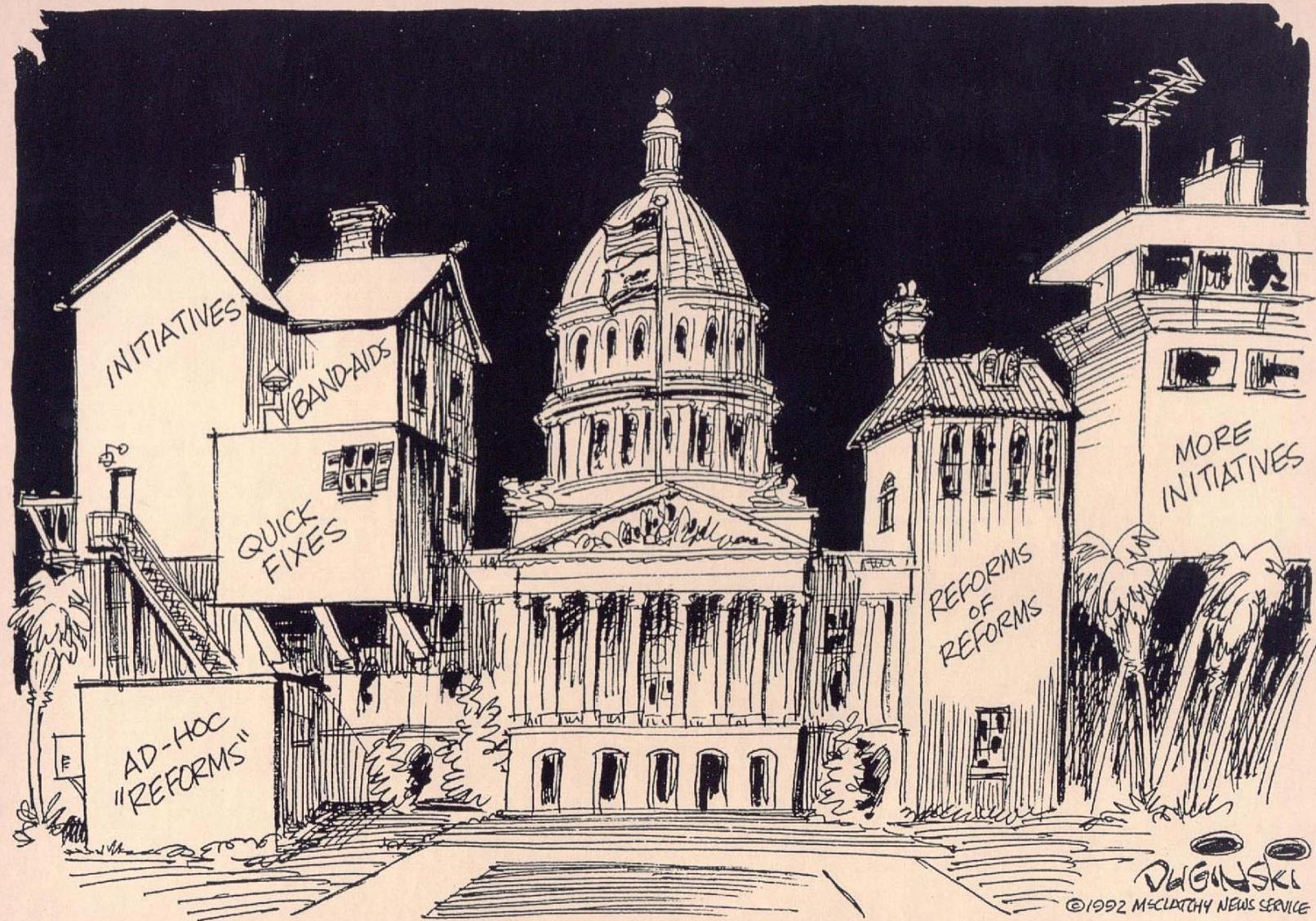
California: Challenges and Opportunities



Legislative Analyst's Office

California Agenda

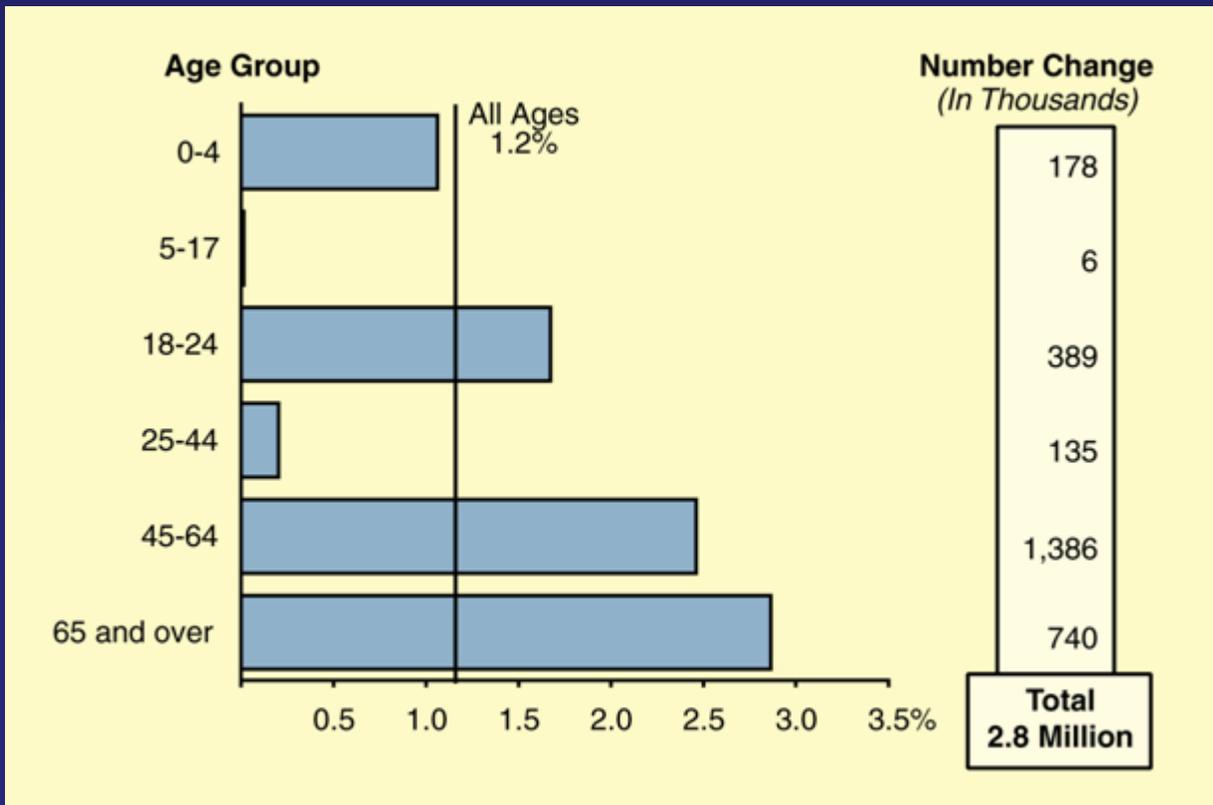
Pat Brown Institute of Public Affairs



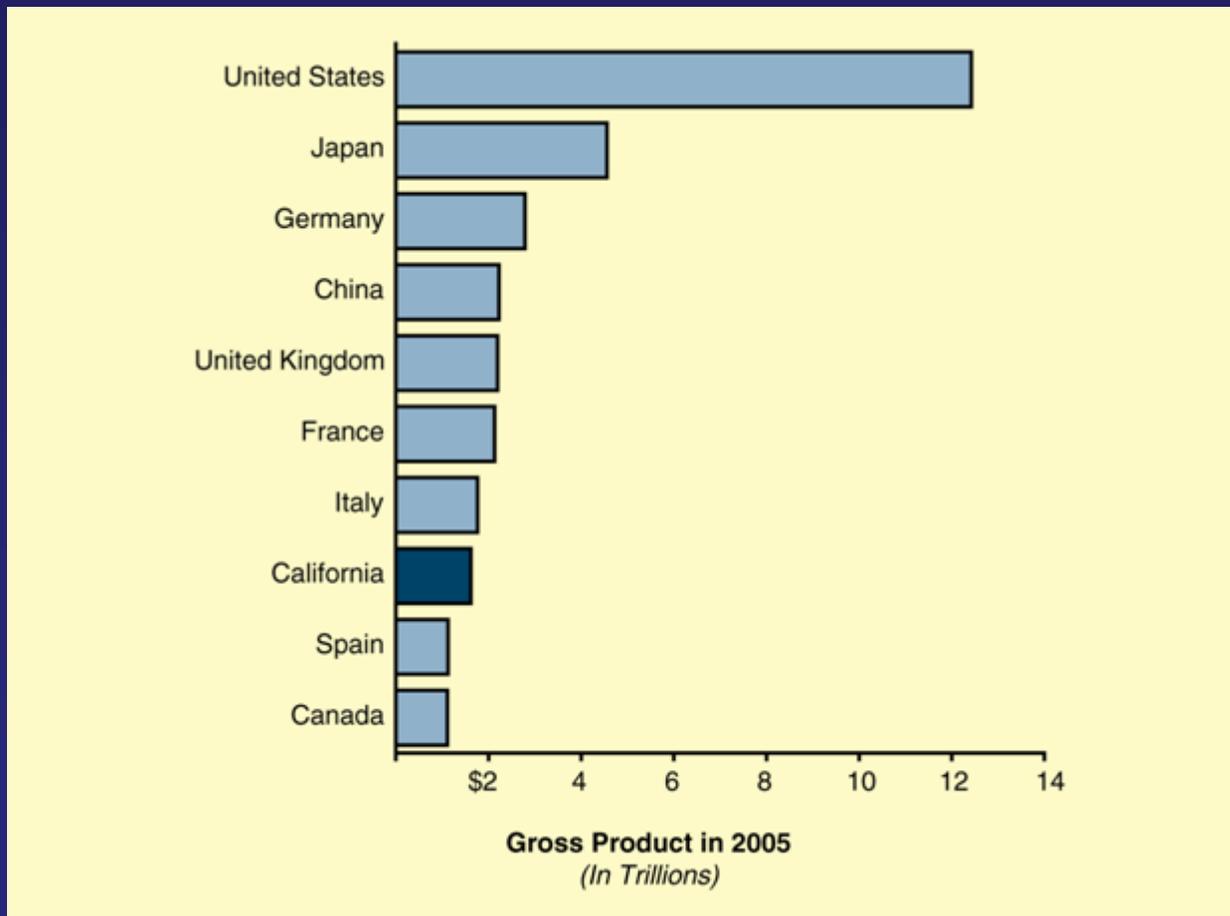
CALIFORNIA'S WINCHESTER MYSTERY GOVERNMENT

California's Age Mix Changing as Baby Boomers Grow Older

Population Change—2006 Through 2012
(Average Annual Percent Change)



California Ranks Among the World's Top Ten Economies



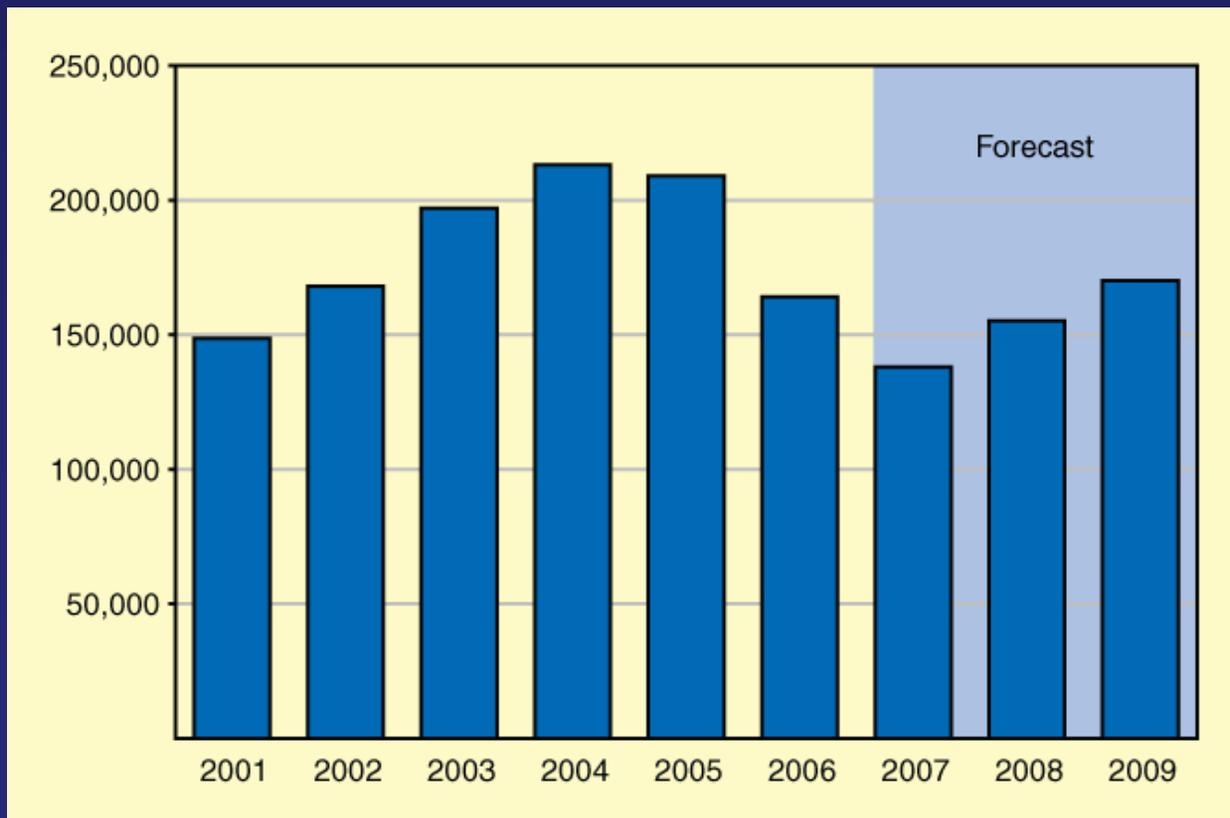
California Employment Slowdown Confined to Real Estate Industries

California Wage and Salary Employment
Year-to-Year Percent Change, by Month



California Home Construction to Bottom Out in 2007

Permits for New Residential Construction



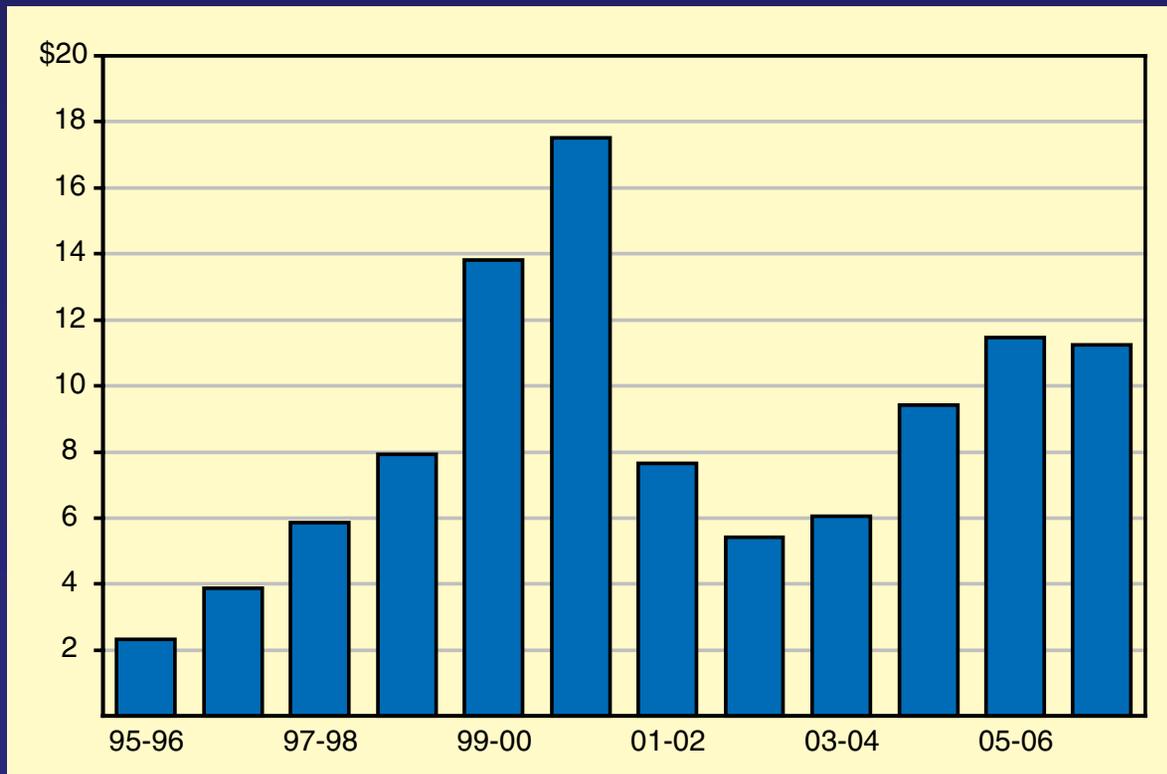
State Revenues in 2007-08

In Billions

General Fund Revenues	Total State Revenues \$127.8 Billion	Special Funds Revenues
Personal Income Tax \$55.6		Motor Vehicle-Related Revenues \$9.1
Sales and Use Tax 29.3		Sales and Use Tax 5.5
Corporation Tax 10.8		Personal Income Tax 1.7
Insurance Gross Premiums Tax 2.4		Tobacco-Related Taxes 1.0
All Other 4.1		All Other 8.3
Total \$102.3		Total \$25.5

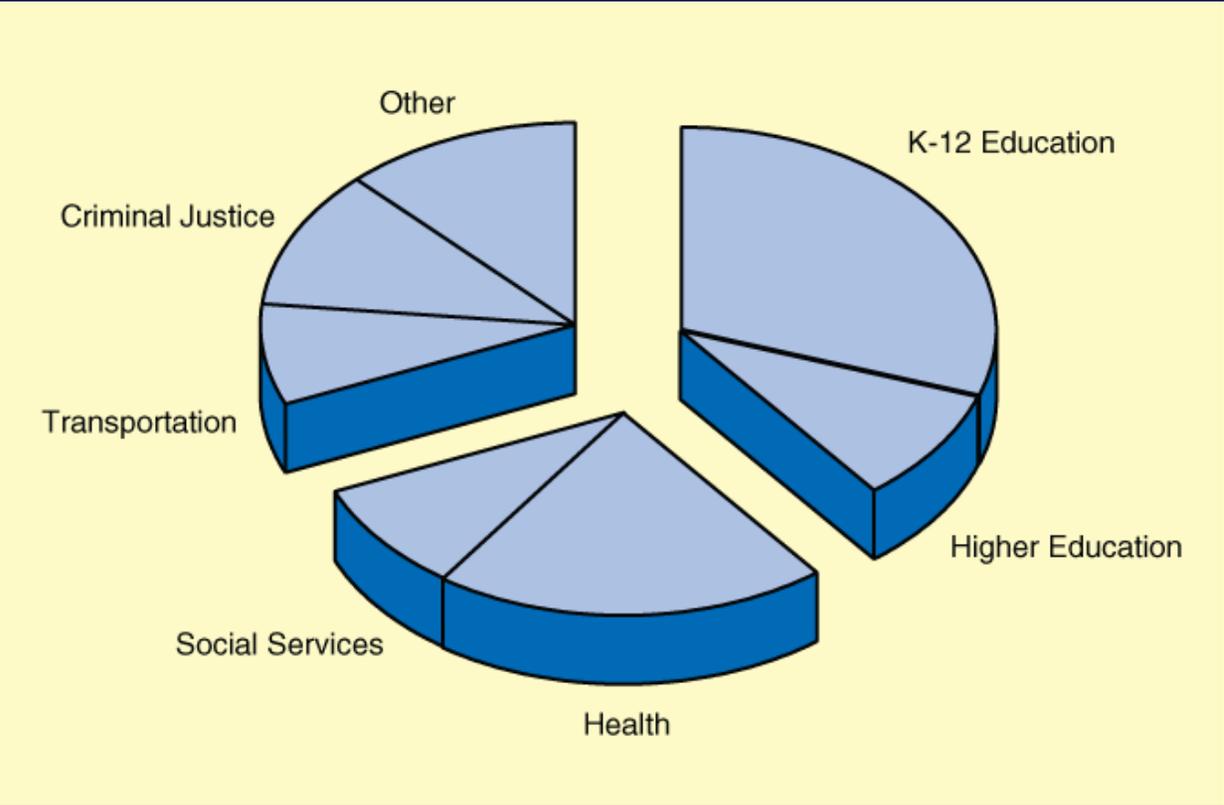
State Has Been Buffeted by Major Swings in Revenues

Personal Income Taxes From Options and Gains
(In Billions)



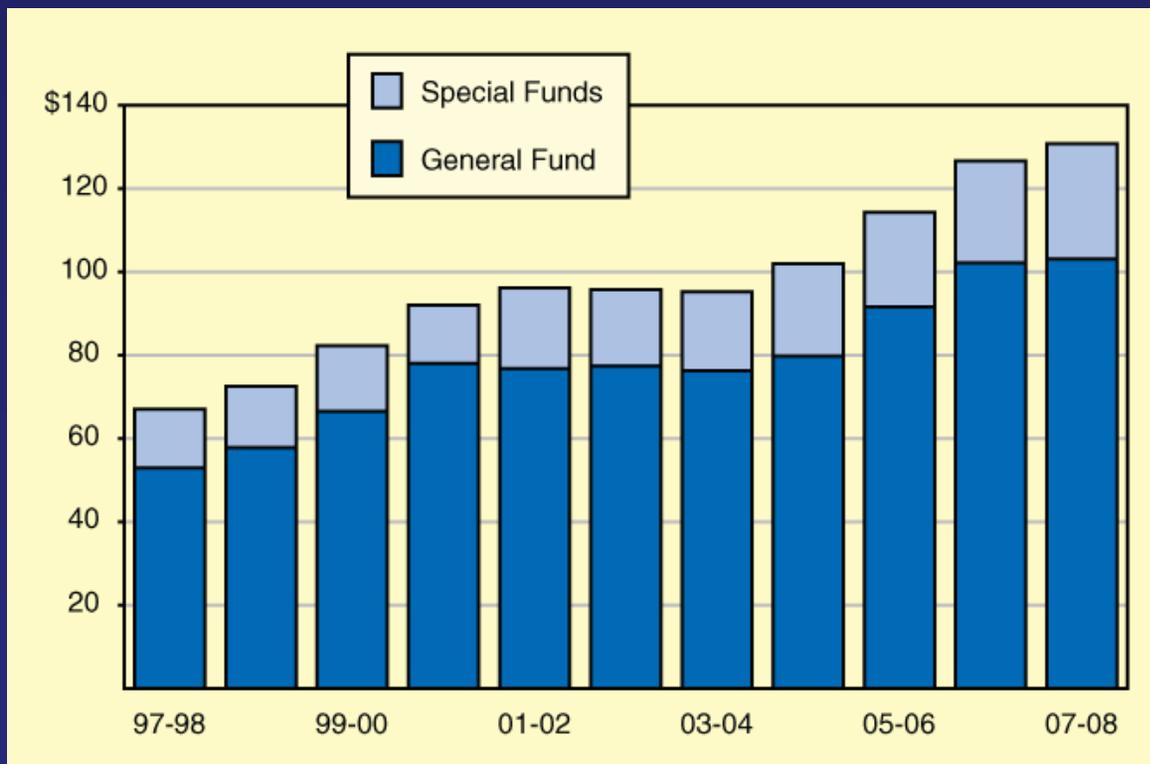
Proposed Total State Spending by Major Program Area

2007-08



Total State Spending Over Time

1997-98 Through 2007-08
(In Billions)



Key LAO Budget Findings

- **2007-08 Ends With \$726 Million Deficit**
- **Structural Shortfall Continues**
- **State Faces Major Risks and Pressures**

Lower LAO Revenues

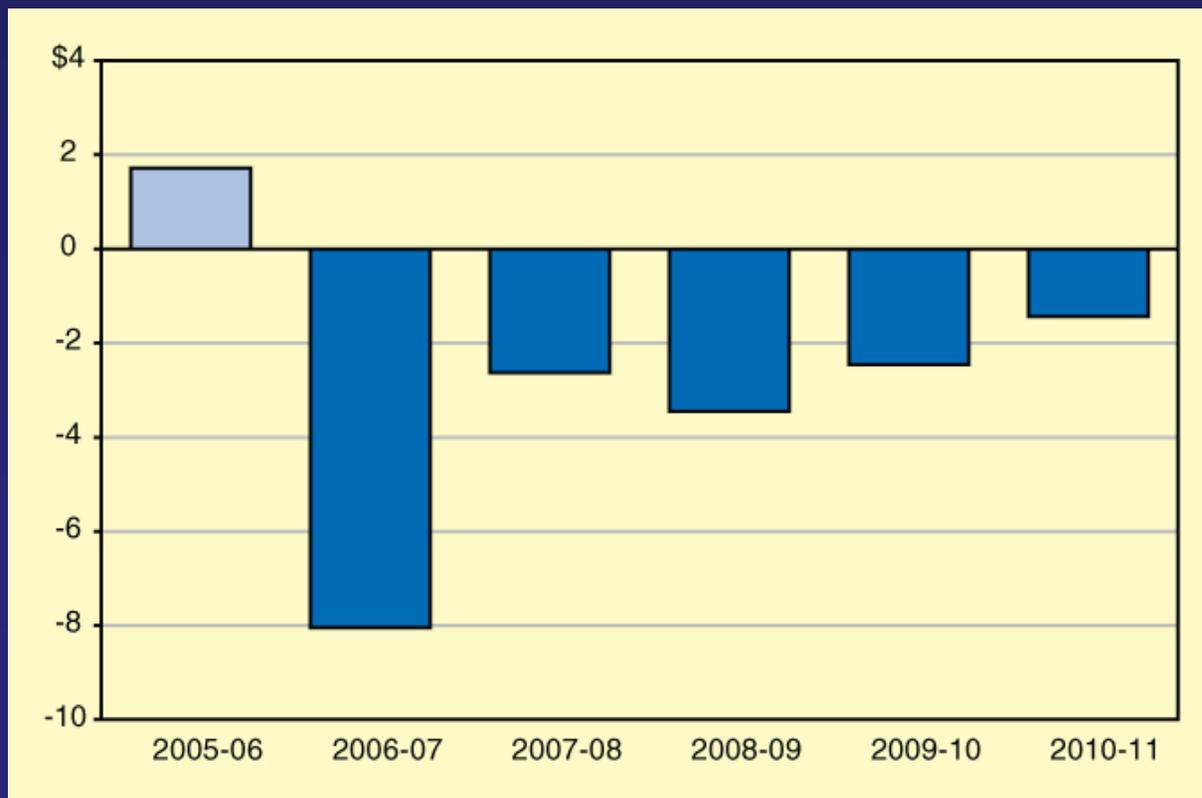
- **2006-07–Down \$939 Million**
- **2007-08–Down \$1 Billion**
- **Reduction Due to Decreased Taxes and Lower Estimates of Tribal Gambling and Other Revenues**

LAO Spending—Up \$825 Million

- **Proposition 98**
 - Higher Guarantee
 - Lower Property Taxes
- **Pension Obligation Bonds**

Significant Operating Shortfalls Remain

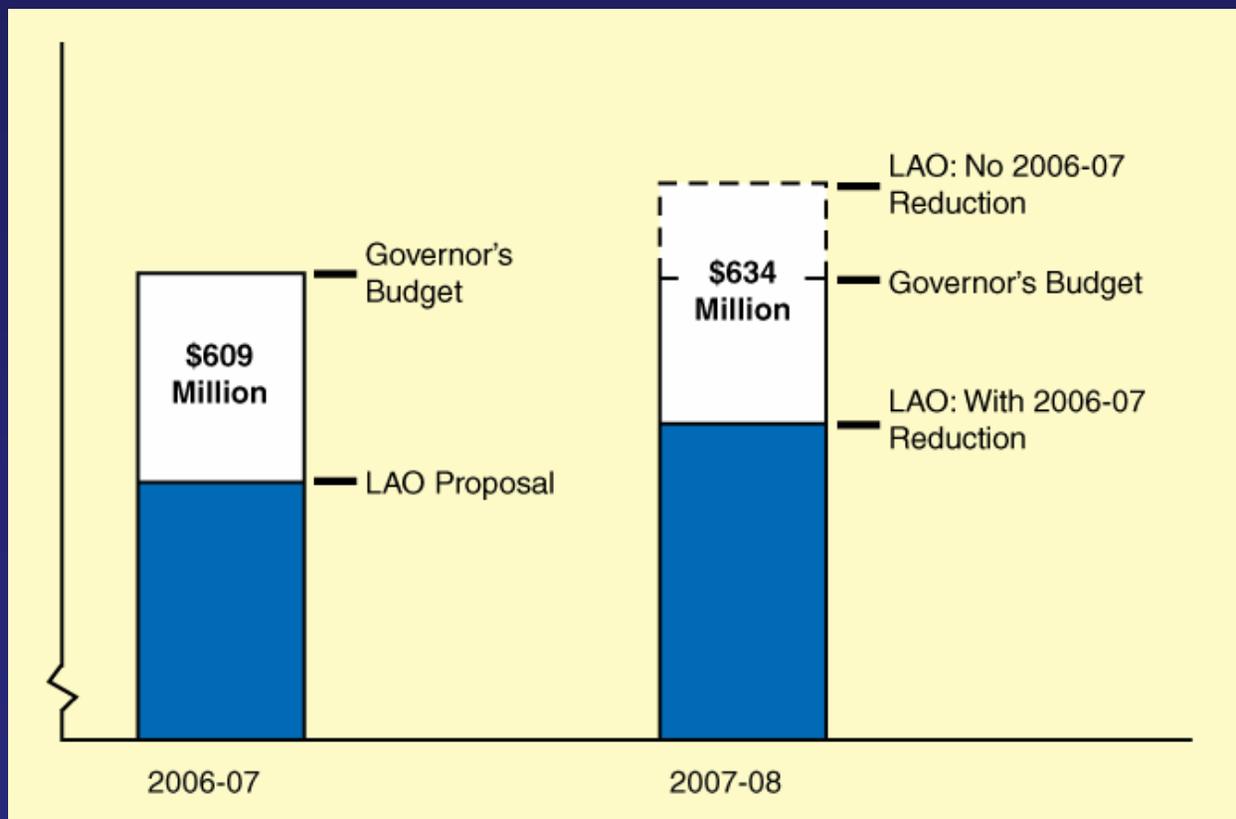
General Fund (In Billions)



Action Steps

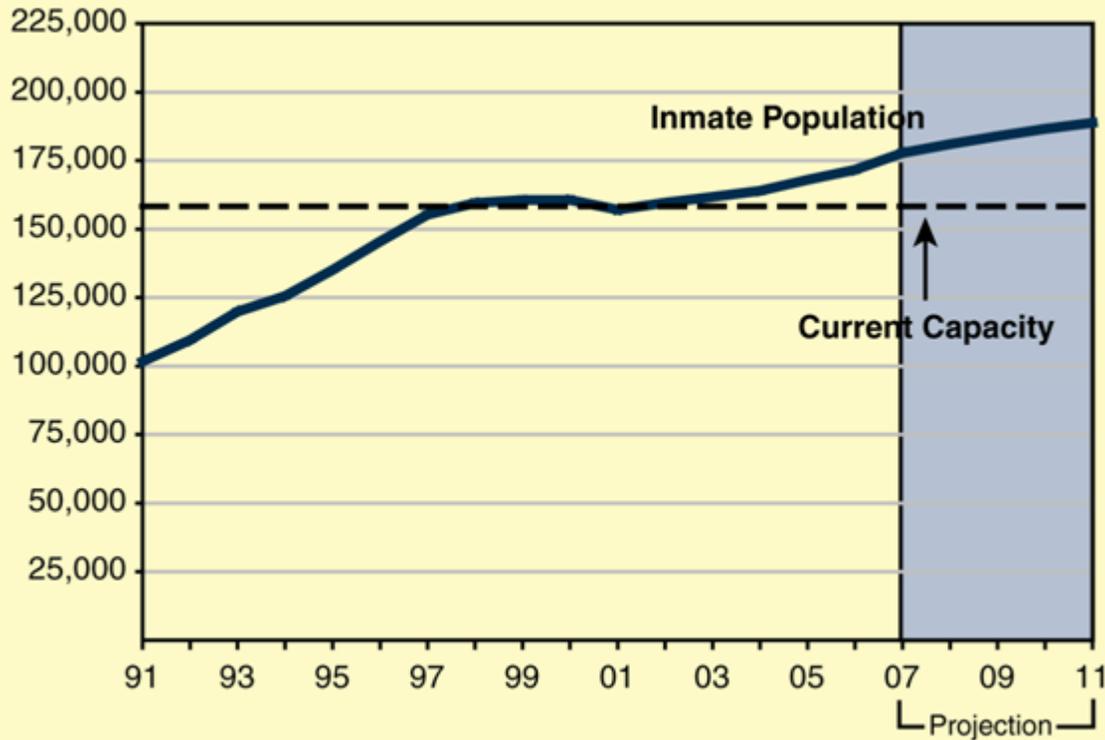
- **Reduce Spending**
- **Increase Resources**
- **Reduce Supplemental Payments**

Proposition 98: Taking Action in 2006-07 Achieves Major Budgetary Savings



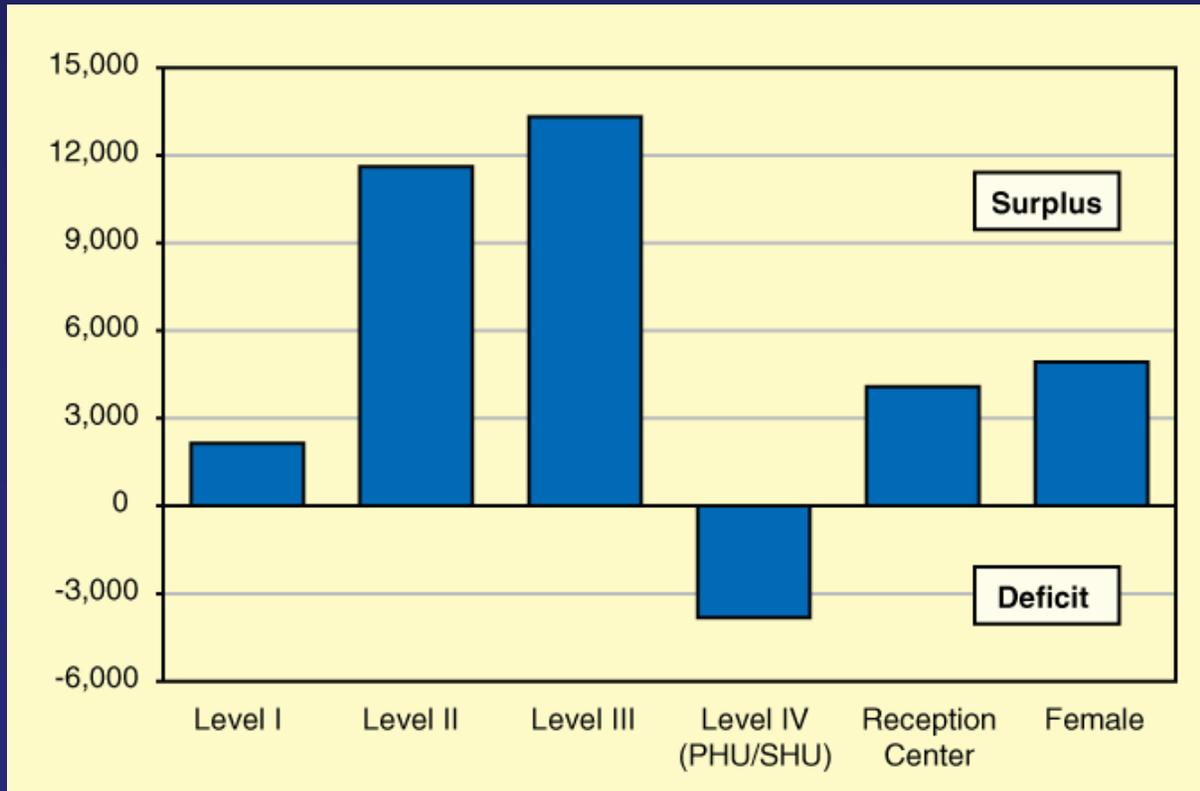
Prison Population Projected to Further Exceed Capacity

1991 Through 2011



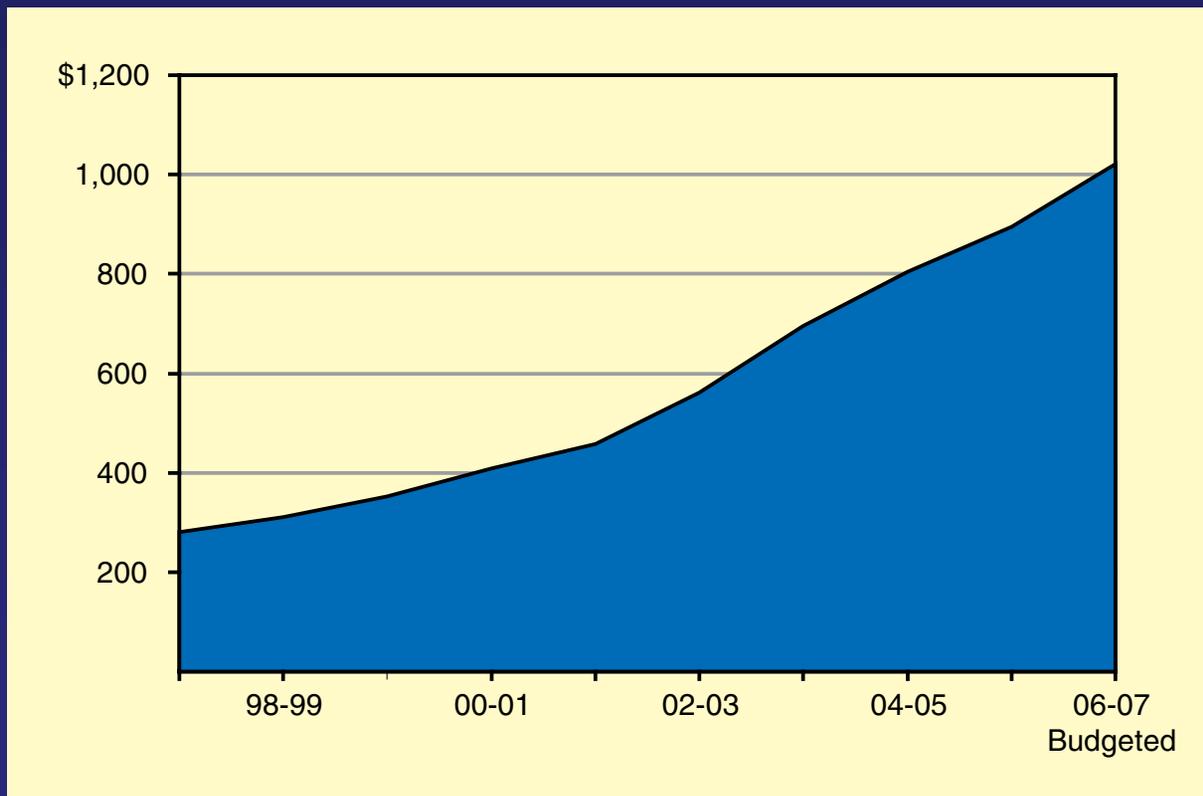
Governor's Plan: Too Many Beds, Wrong Mix

Estimated Surplus/Deficit (-) of Prison Beds (2012)



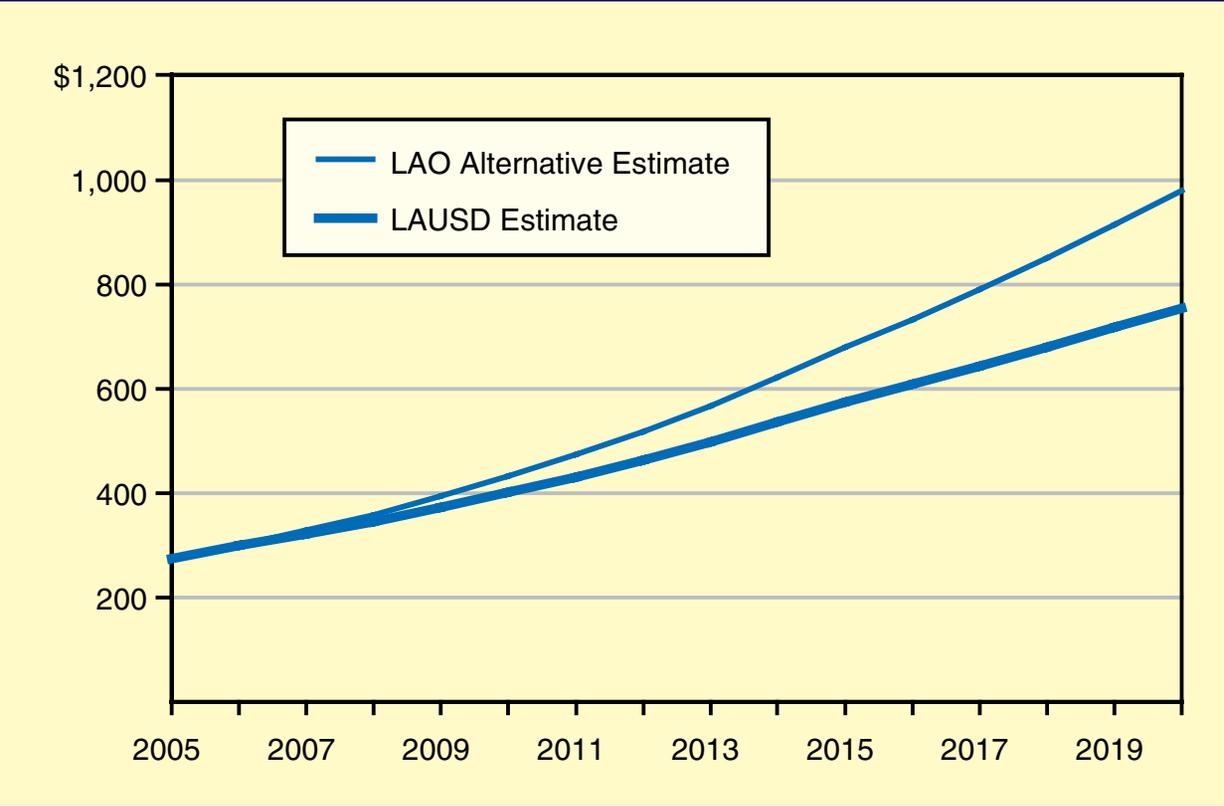
State Spending for Retiree Health and Dental Benefits

(In Millions)



Estimated Costs of Retiree Health Benefits, Los Angeles Unified School District

Dollars Per Pupil



Key Challenges for California State Government Budgeting

- **Volatile Revenues**
- **Complex Budgeting Requirements**
 - Proposition 98—school funding.
 - Proposition 42—transportation funding.
 - Proposition 49—after school funding.
 - Proposition 63—mental health funding.
- **Federal and Court Requirements**

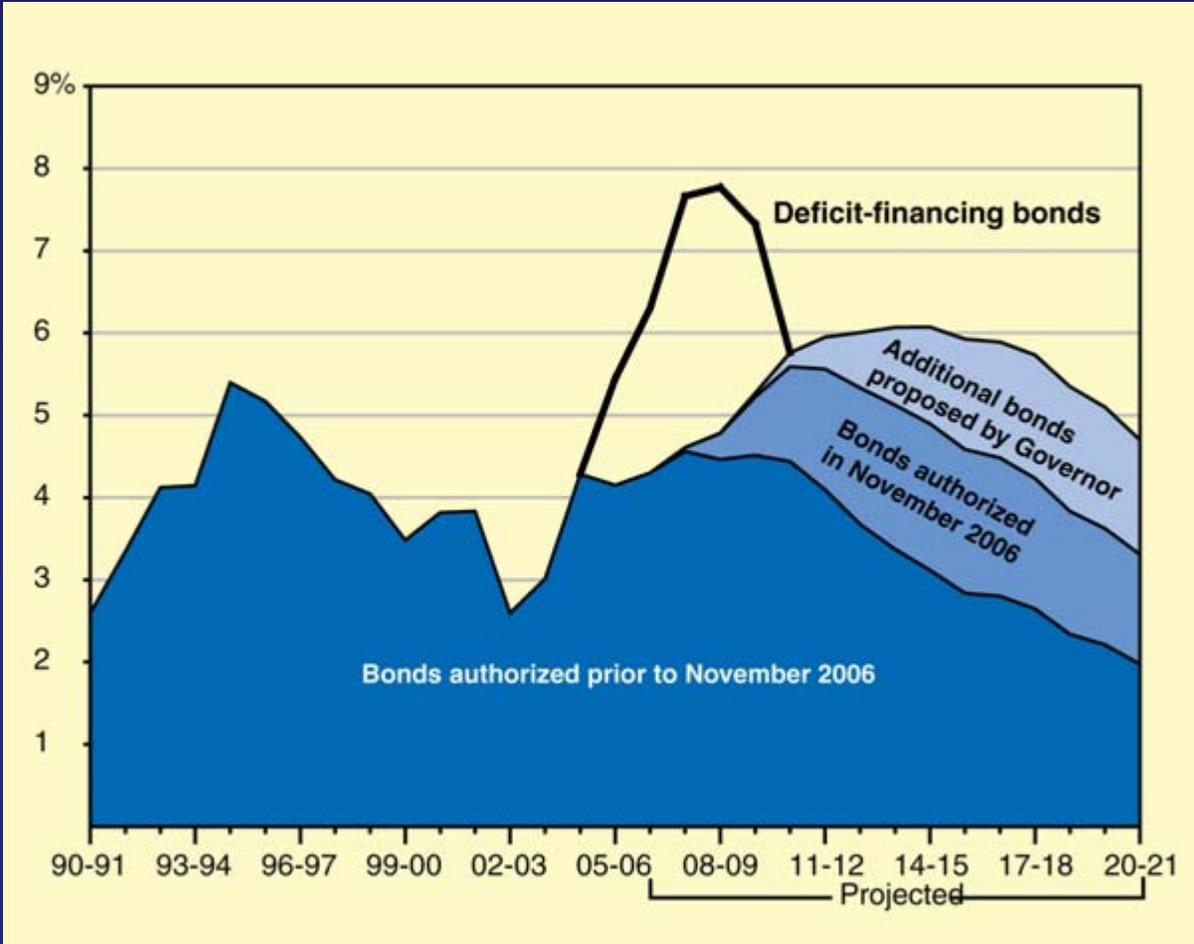
Major Opportunity for Infrastructure Investment

- **\$43 Billion in Five Bonds**
- **67 Different Programs**
 - 21 New
 - 46 Existing
- **At Least Two Dozen Implementing Entities**

Infrastructure Considerations

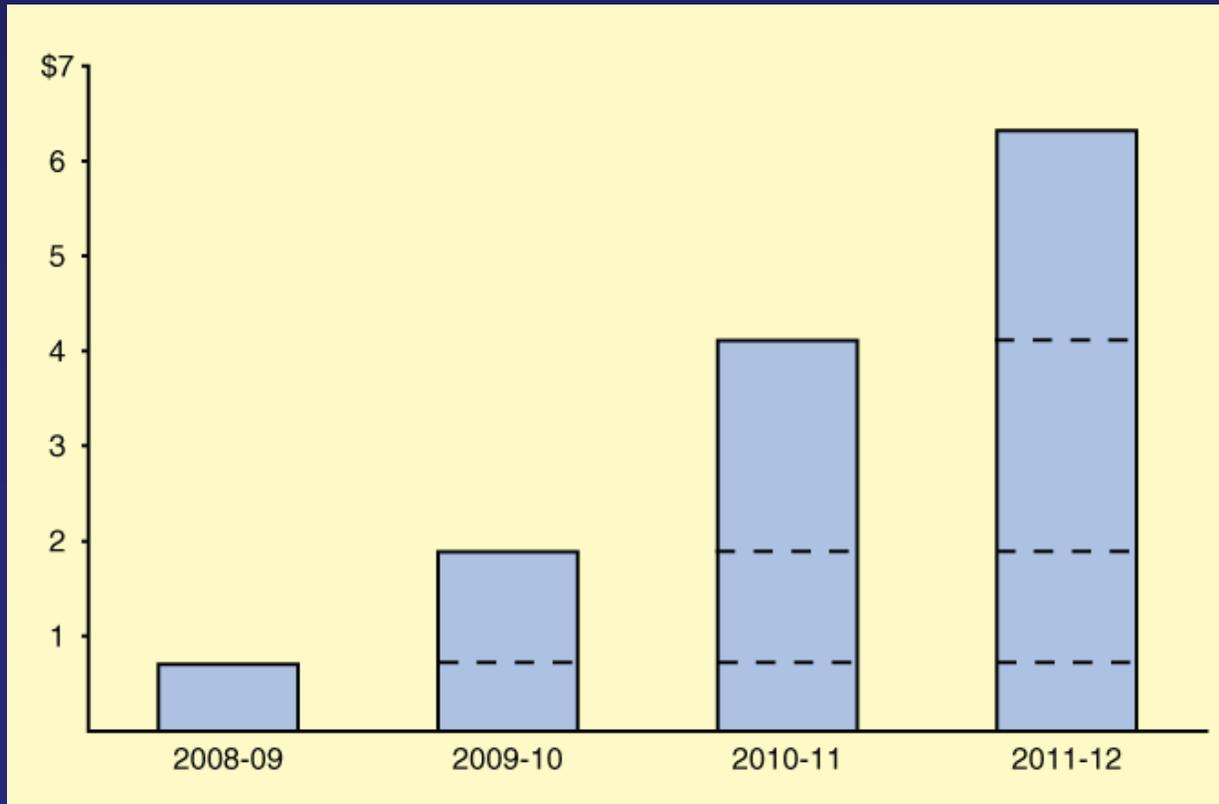
- **Fit Into Long-Term Budget Plan**
- **Focus on Long-Term Benefits/
Statewide Priorities**
- **Ensure Accountability**

Historical and Projected Debt-Service Ratios



Proposition 98: Substantial Increases on Horizon

In Billions



LAO Suggested K-12 Roadmap

- **Preschool for all low-income children**
- **Additional resources for special education, low-income, and English Learner students**
- **Fiscal solvency block grants**