



Economic and Budget Developments

In this update, we report on the Governor's actions on the 1996-97 budget, and review recent economic and revenue developments.

1996-97 Budget

On July 8, 1996, the Legislature passed the 1996-97 budget and sent it to the Governor. Details of this plan are highlighted in *Major Features of the 1996 Budget*, which we released on July 10. The plan: (1) includes major increases in funding for K-12 education, (2) suspends the renters' tax credit for one year, and (3) extends or makes permanent past temporary grant reductions in the state's welfare programs (but does not include any new cuts to welfare grant levels). The budget also includes a 5 percent reduction in bank and corporation taxes, beginning in January 1997.

Governor's Vetoes. Before signing the budget, the Governor vetoed \$80 million in General Fund expenditures and \$2 million in expenditures from special funds. The General Fund vetoes include \$12 million in resources programs, \$14 million in health and welfare programs, and \$20 million in legislative augmentations for capital outlay and deferred maintenance for the University of California and California State University systems. The Governor also deleted \$26 million from the com-

munity colleges earmarked for program improvement, and set aside the funds for other purposes, consistent with Proposition 98 funding requirements.

The Governor also adjusted the spending totals upward by \$35.5 million to reflect the lack of statutory authority to prohibit prenatal services for illegal immigrants. As a result of these actions, the 1996-97 Budget Act includes General Fund revenues and transfers of \$47.6 billion, expenditures of \$47.3 billion and an ending reserve of \$305 million (see Figure 1).

Figure 1

1996-97 Budget Estimated General Fund Condition^a

(In Millions)	1995-96	1996-97	Percent Change
Prior-year balance	-\$477	\$219	
Revenues and transfers	46,137	47,643	3.3%
Total resources available	\$45,660	\$47,862	
Expenditures	\$45,440	\$47,251	4.0%
Ending fund balance	219	611	
Reserve	-\$87	\$305	
Other obligations	306	306	

^a Detail may not add to totals due to rounding.

CAL UPDATE

We will provide a more complete review of the 1996-97 budget in *The State Spending Plan for 1996-97*, scheduled to be released later this summer.

Recent Economic And Revenue Developments

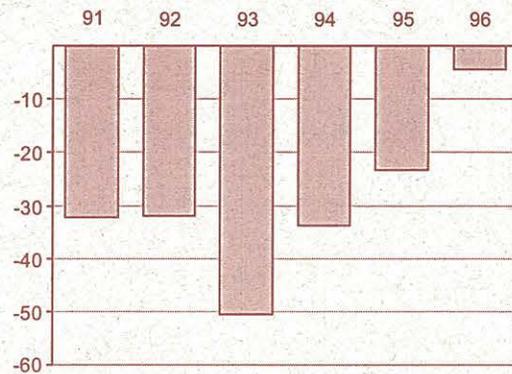
The Economy. The pace of economic growth in California accelerated during the spring. Wage and salary employment grew by 51,000 jobs in May and 33,000 jobs in June—the second largest back-to-back monthly increases of the current expansion. Recent employment gains have been broad-based, with all private industries except for finance and mining showing employment increases.

All of the major economic regions of the state are participating the expansion. The “Silicon Valley” remained the fastest-growing region in the first half of 1996, with jobs increasing nearly 5 percent from the prior year (despite the recent slowdown in the computer and semiconductor industries). Growth in the southern region of the state is accelerating, reflecting continuing gains in international trade, tourism, and services. Southern California is also benefitting from the stabilization of aerospace employment. After falling by as much as 50,000 jobs per year in the early 1990s, job losses over the past twelve months have shrunk to just 3,500 (see Figure 2).

Figure 2

Annual Change in California Aerospace Employment

(In Thousands)



Revenues. Cash receipts in May and June were down from the administration’s most recent revenue forecast by \$35 million. However, the losses are due to special factors rather than an underlying weakness in receipts. Specifically, the Employment Development Department shifted \$200 million out of the state’s General Fund to the Unemployment Insurance fund in May to compensate for misallocations that occurred in 1993-94 and 1994-95. Absent this one-time transfer, the underlying trend in tax receipts is modestly exceeding the new budget forecast.

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