

# Fiscal Overview



Legislative Analyst's Office

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[www.lao.ca.gov](http://www.lao.ca.gov)



# Developments Since the 2003-04 Budget's Enactment

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## ***Underlying Revenue Outlook Improving . . .***

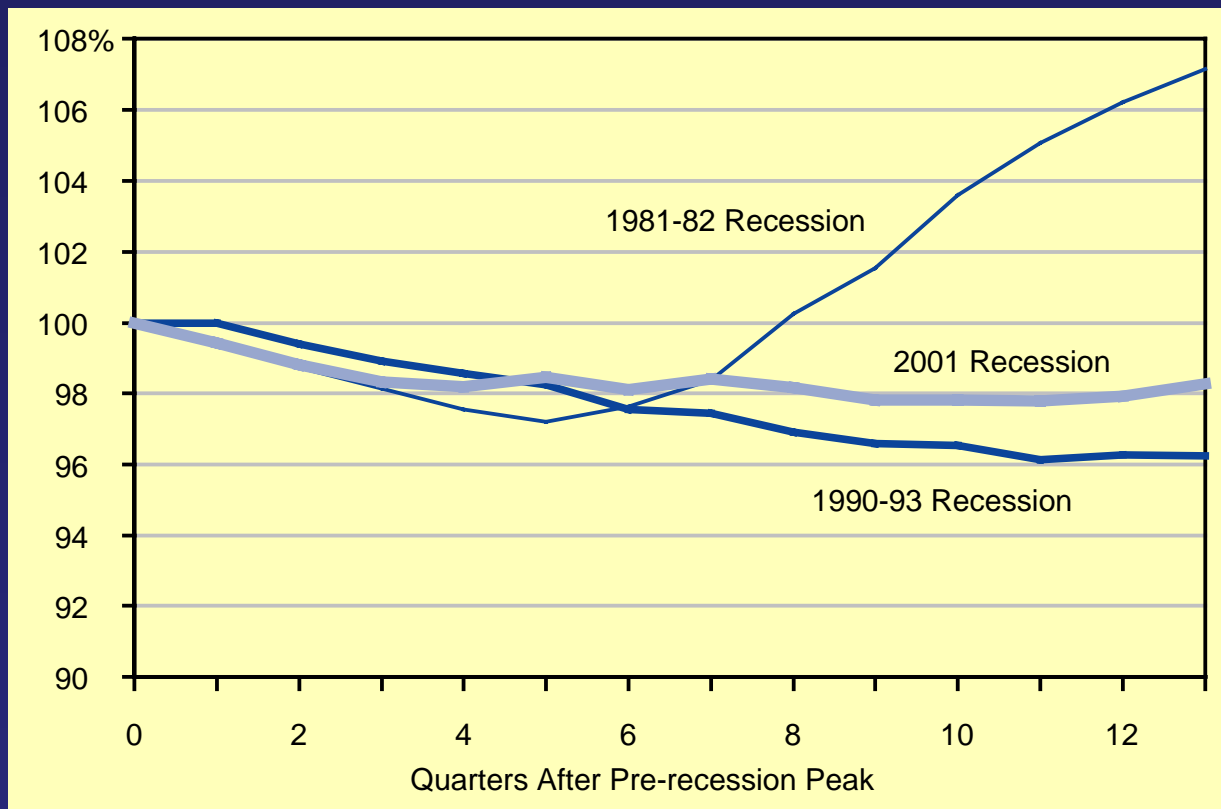
- Economy and stock market up.
- Recent tax collections higher-than-expected.

## ***. . . But New Tax Revenues Consumed by Other Budget Related-Factors***

- One-half of added revenues goes to Proposition 98.
- Pension obligation bonds invalidated by Superior Court.
- Tribal gaming revenues overestimated.
- Major deficiencies in Department of Corrections and Medi-Cal.
- Costs for Southern California fires.
- Shortfall in other budget savings.

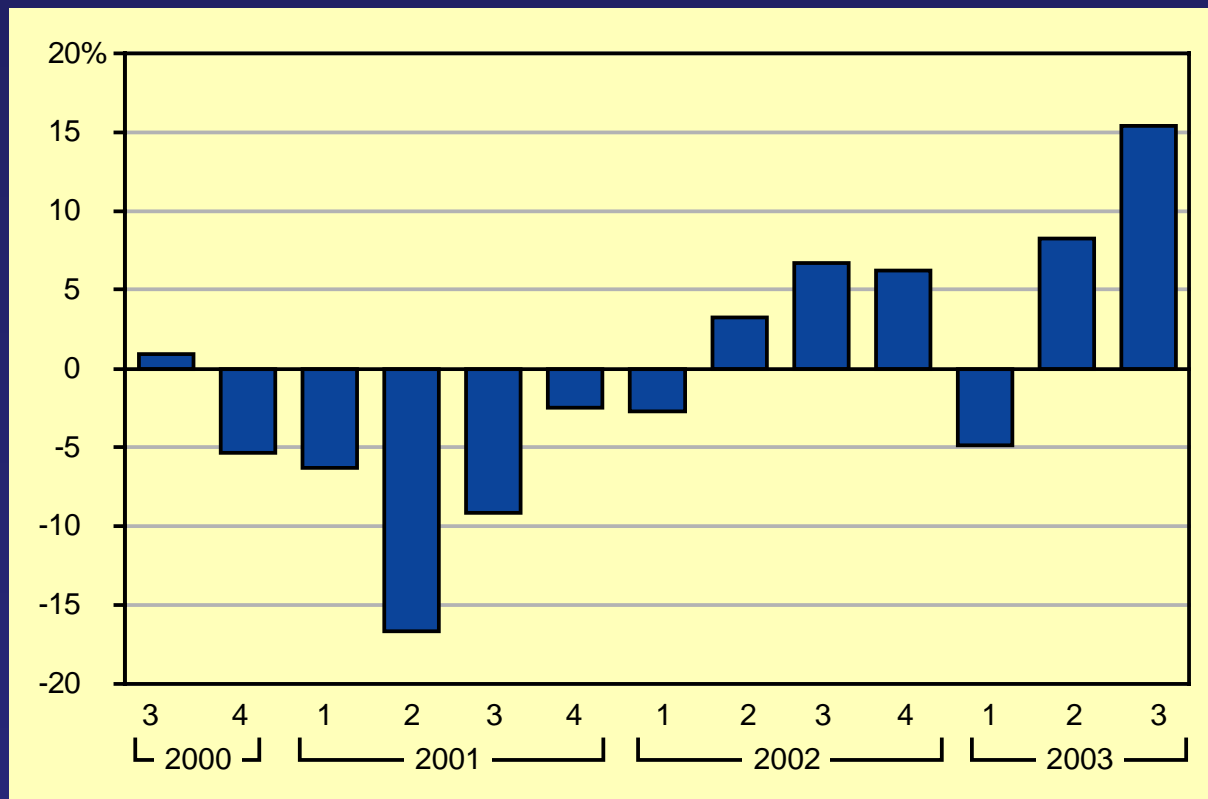
# State Still Awaiting Full Recovery

Wage and Salary Jobs, Percent of Pre-Recession Peak



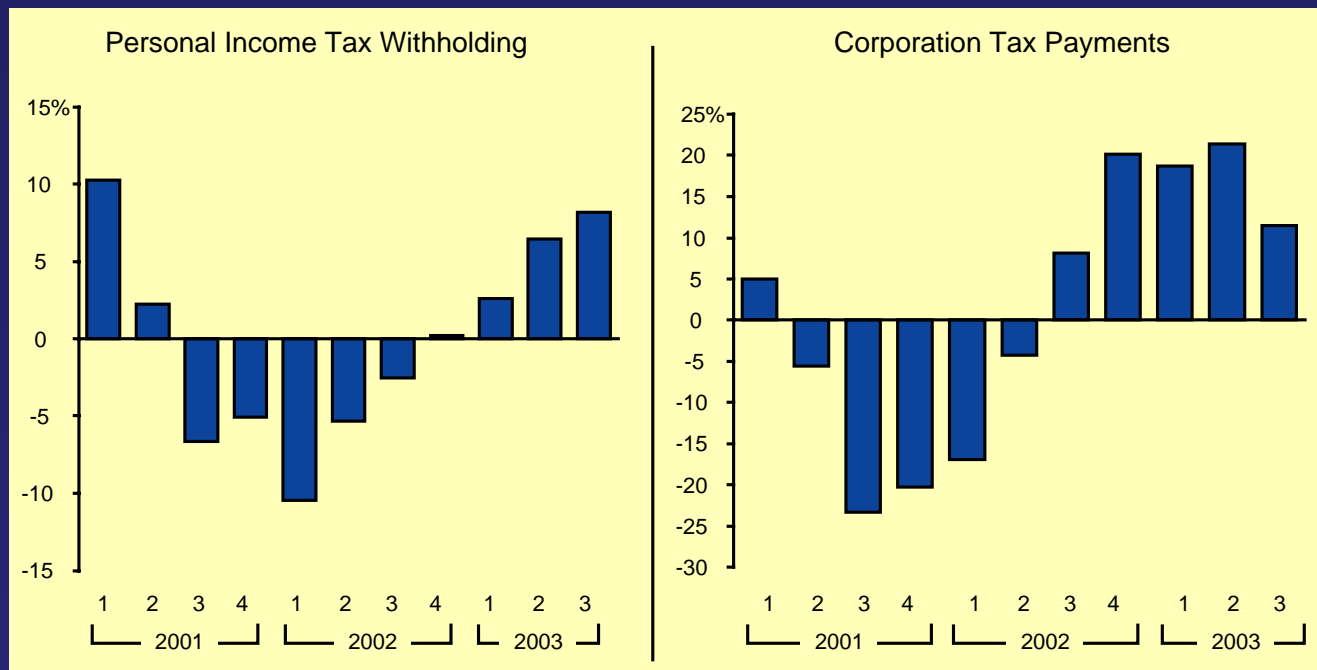
# U.S. Business Equipment and Software Investment Accelerating

Percent Change From Prior Quarter, Annual Rate



# Key California Tax Payments Rebounding

Year-Over-Year Percent Change, by Quarter



# LAO Projections of General Fund Condition

2002-03 Through 2004-05  
(In Millions)

	2002-03	Forecast	
		2003-04	2004-05
Prior-year fund balance	-\$1,983	\$1,513	\$2,003
Revenues and transfers	70,852	74,165	74,968
Deficit financing bond	10,675	—	—
Total resources available	\$79,544	\$75,678	\$76,971
Expenditures	\$78,031	\$73,675	\$85,727
Ending fund balance	\$1,513	\$2,003	-\$8,756
Encumbrances	\$1,402	\$1,402	\$1,402
<b>Reserve</b>	<b>\$111</b>	<b>\$601</b>	<b>-\$10,158</b>

# Proposition 98 Outlook

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- ▶ **2003-04 guarantee up \$875 million.**
- ▶ **2004-05 guarantee would grow an additional \$2.4 billion.**
- ▶ **Growth in guarantee would allow:**
  - **Past fiscal obligations to be addressed.**
  - **Growth and COLA funded.**
  - **An additional \$1 billion for expansions/restorations.**

# Potential Impacts of VLF Rate Rollback in 2003-04<sup>a</sup>

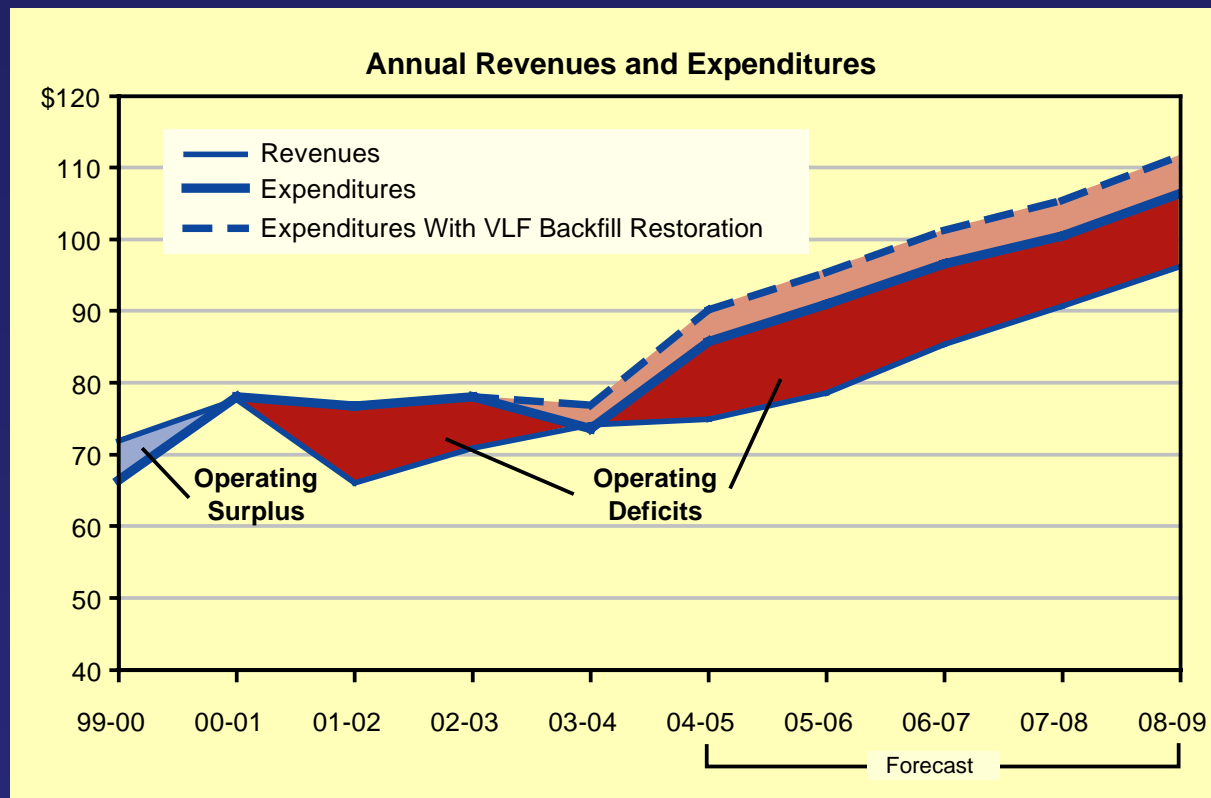
In Billions

	Vehicle Owner Savings	Governmental Cost	
		State General Fund	Local
Scenario A—Rate reduction effective February 1, 2004 but no backfill in 2003-04.	\$1.8	—	\$1.8
Scenario B—Rate reduction effective February 1, 2004 and backfill restored through legislation.	1.8	\$1.8	—
Scenario C—Rate reduction made retroactive to October 1, 2003 and backfill restored through legislation.	3.2	3.2	—

<sup>a</sup> Fiscal effects in subsequent years are identical for all scenarios at \$4.2 billion in 2004-05, \$4.4 billion in 2005-06, \$4.6 billion in 2006-07, \$4.8 billion in 2007-08, and \$5 billion in 2008-09.

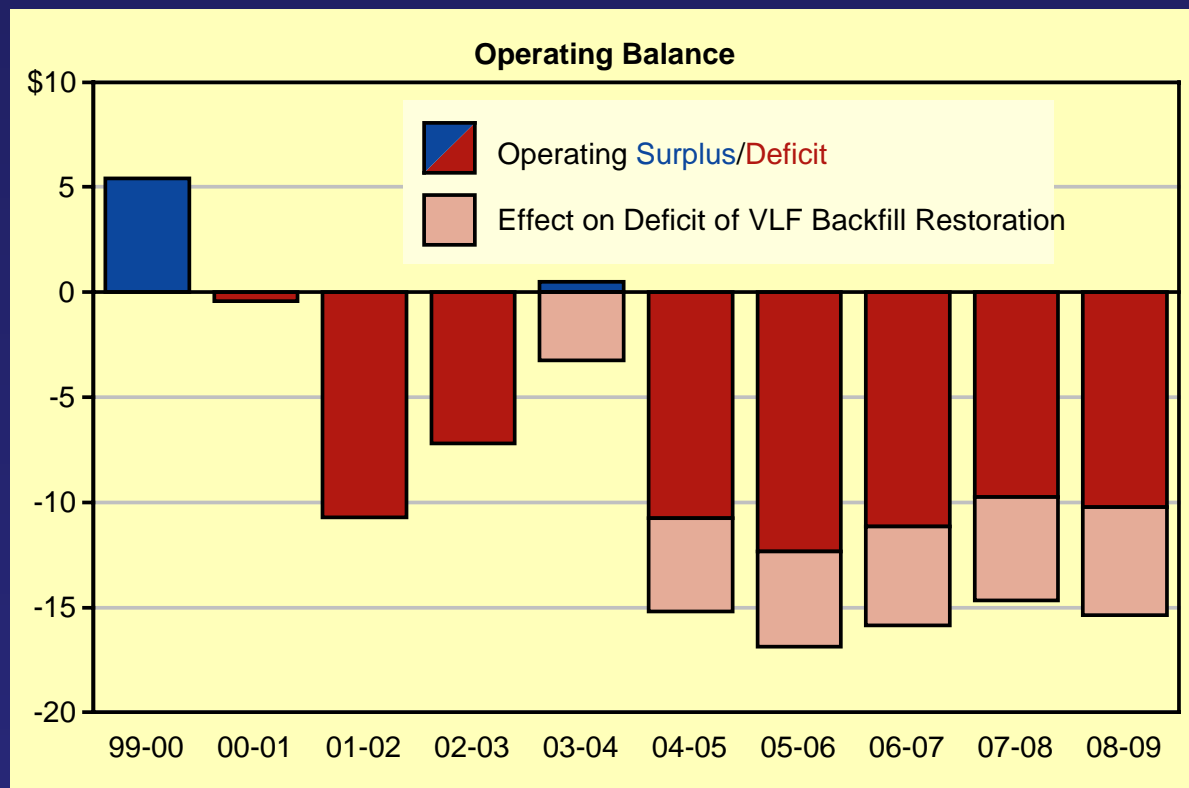
# Current-Law Operating Deficits To Persist

General Fund (In Billions)



# Current-Law Operating Deficits To Persist (continued)

## General Fund (In Billions)



# Key Points for Policymakers

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- Improving economy will not fix mismatch between expenditures and revenues.
- Actions must be taken to bring spending and revenues into line.
- Rollback of VLF increases scope of problem.
- Be cautious about additional borrowing to cover the projected 2004-05 operating shortfall.