

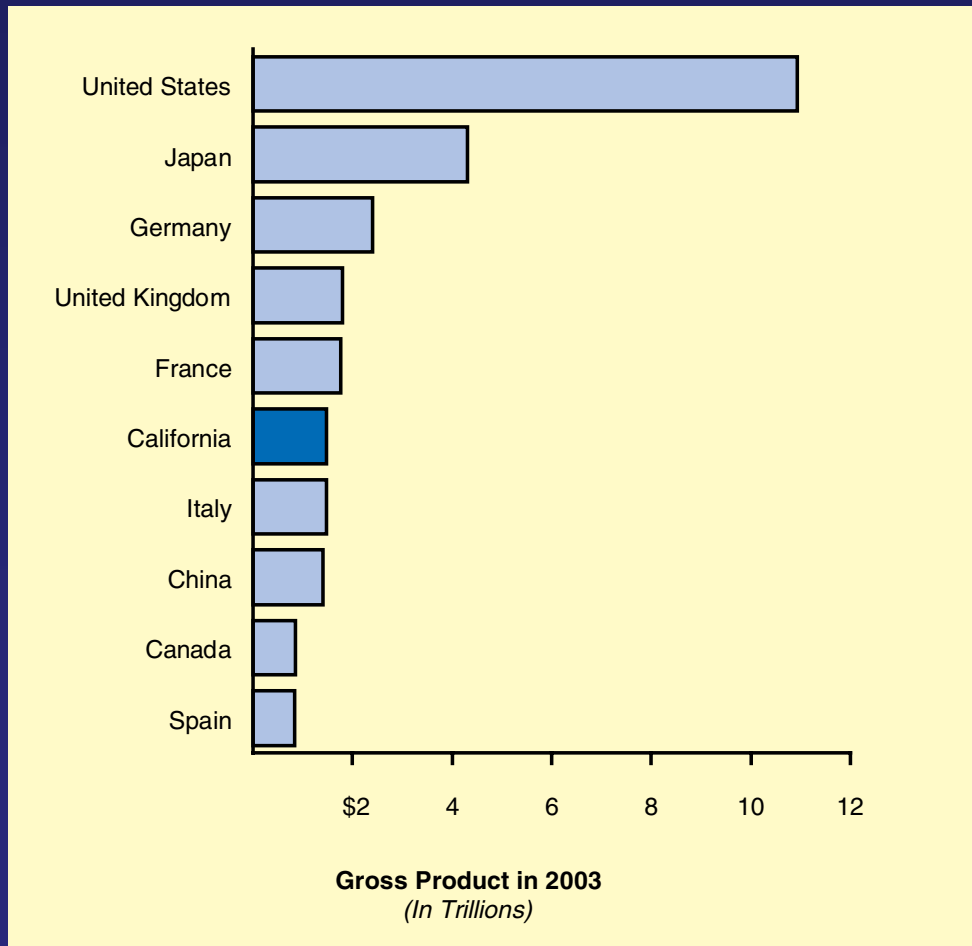
California's Economic and Budget Outlook



Legislative Analyst's Office

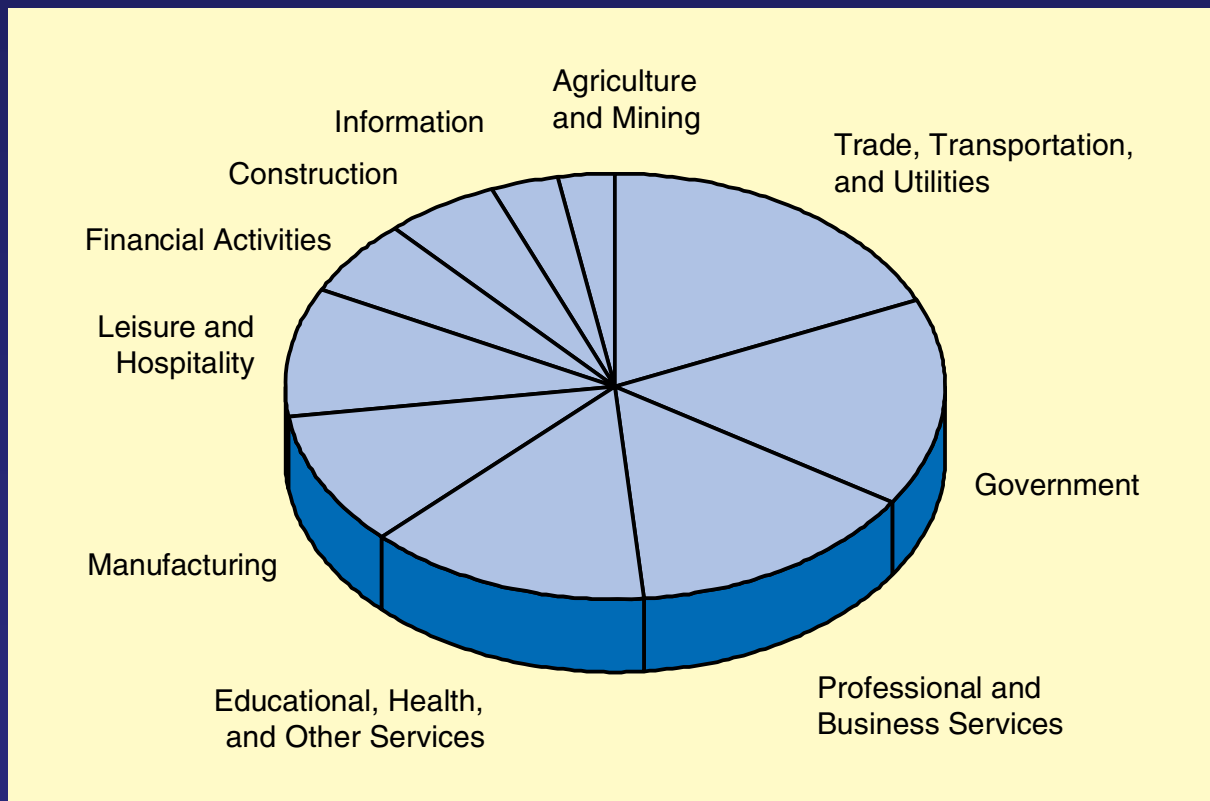
September 14, 2006

Some Basic Features About California: ...Its Economy Is Among the Largest in the World

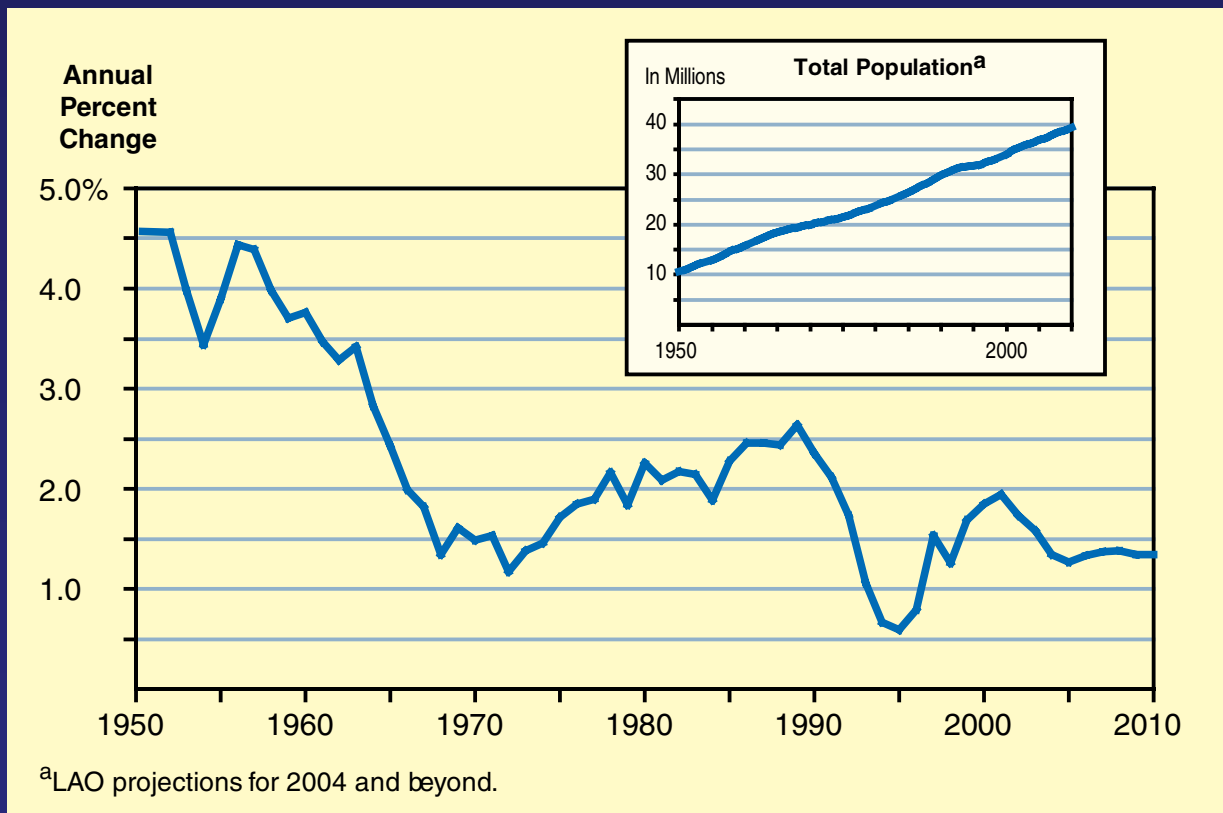


...Its Economy Is Highly Diverse

Share of California Employment in 2005

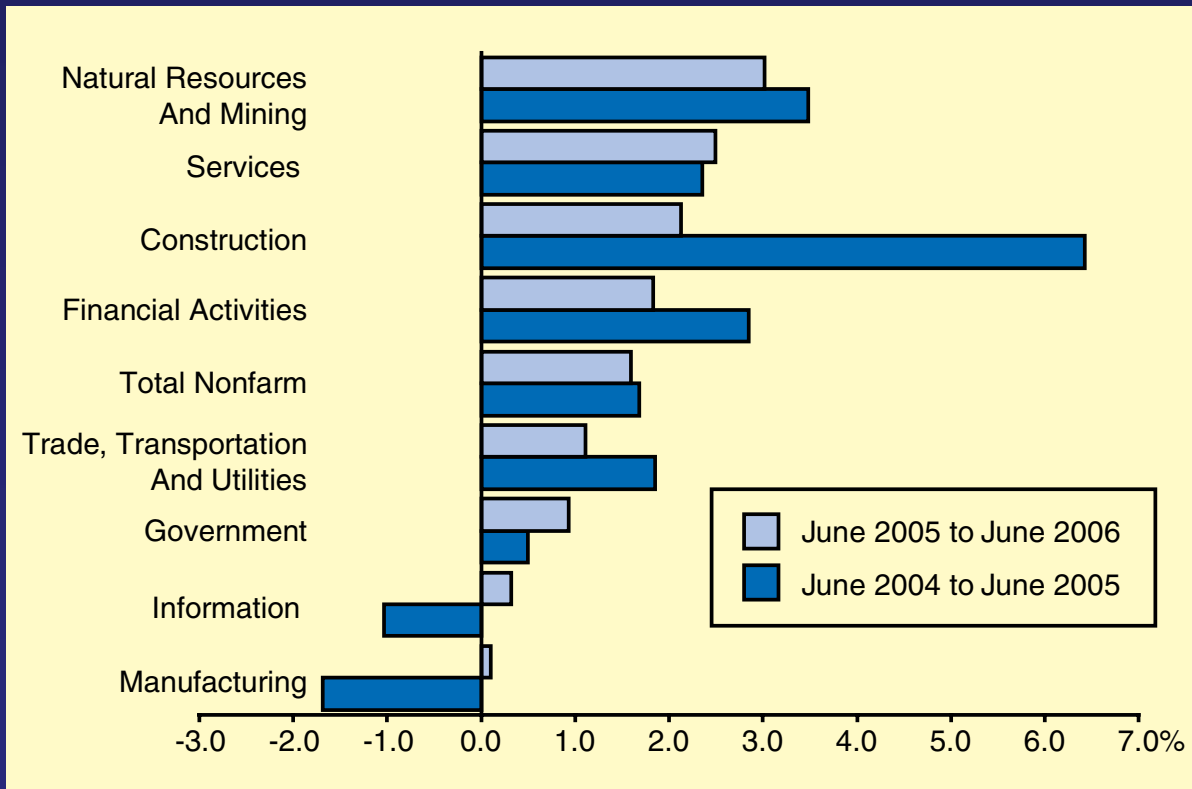


...And Its Population Is Expanding, Though More Slowly Than in the Past



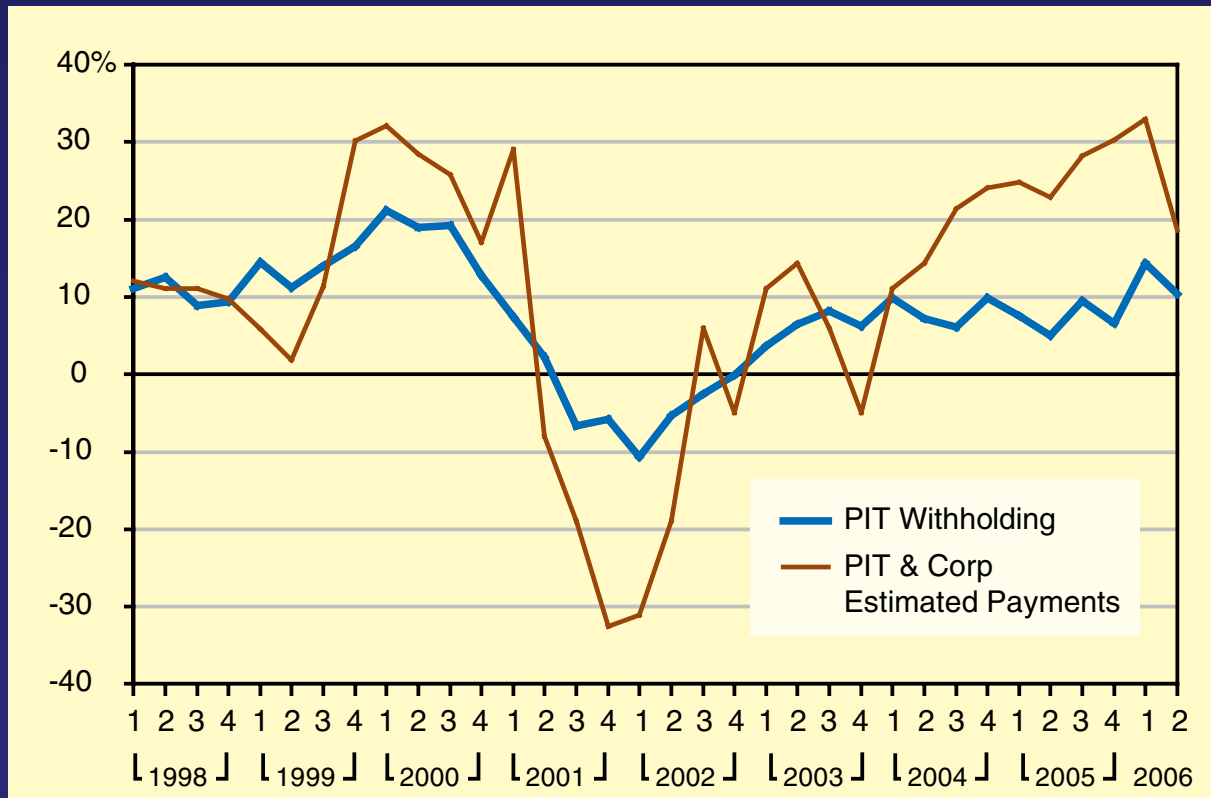
Recently: ...Jobs Have Been Growing Modestly

Percent Change in Jobs by Industry Sector



...And Economic-Related Tax Measures Are Still Increasing

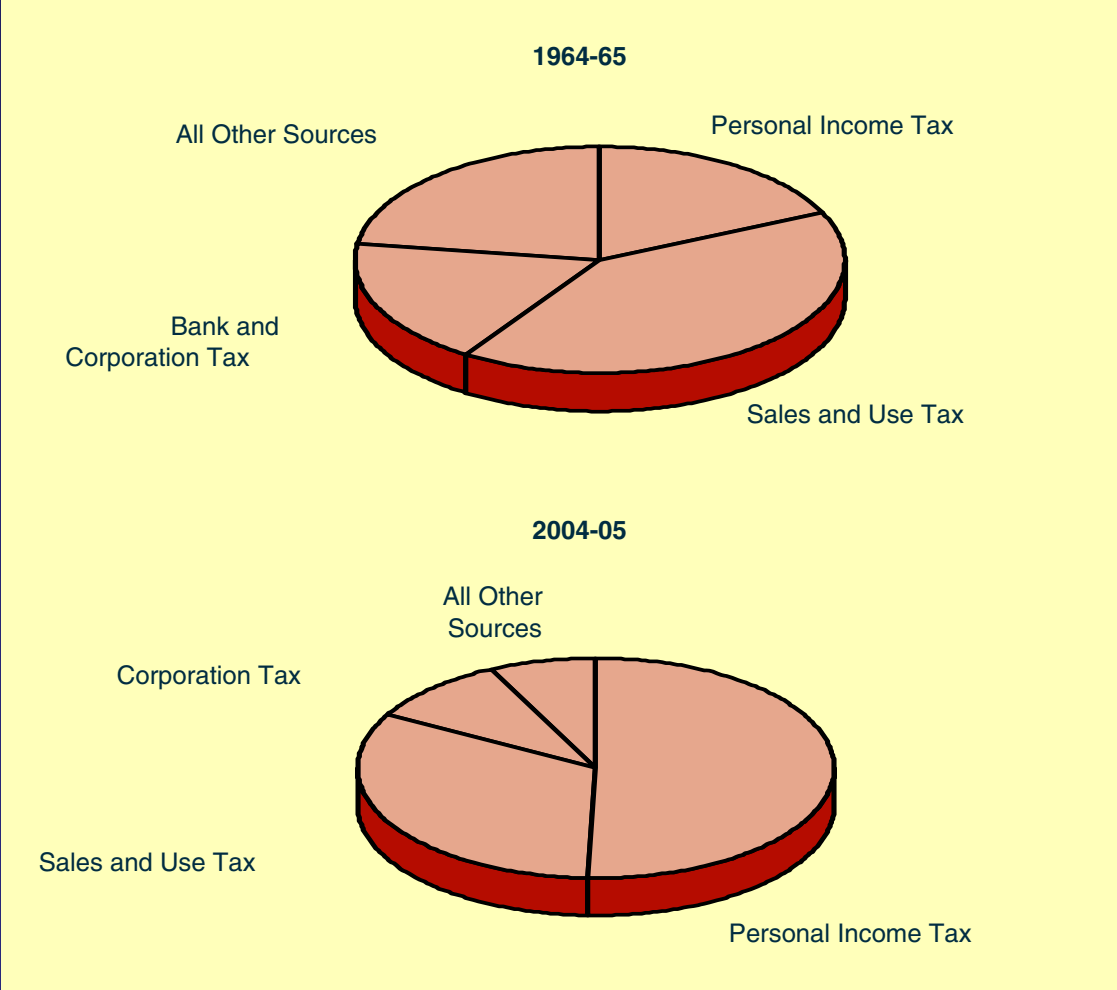
Year-to-Year Percent Change, by Quarter



Near-Term Economic Outlook: Continued Moderate Growth

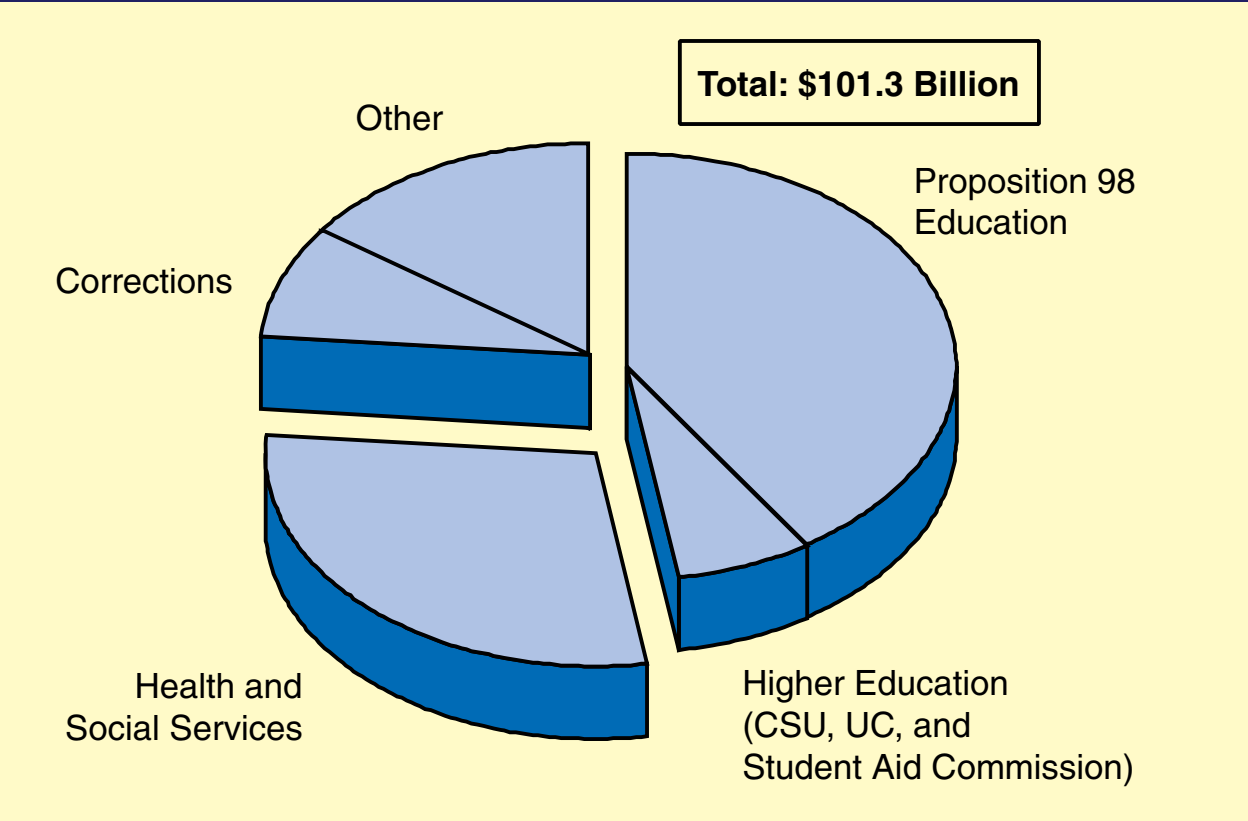
- **Over the Next 12 Months:**
 - Jobs up about 1.5 percent.
 - Unemployment stable at about 5 percent.
 - Personal income up about 5.5 percent.
- **Key Assumptions/Risks**
 - Decline in housing market remains “orderly.”
 - Energy costs do not derail economy.

Basics of California's Budget: General Fund Revenues



Basics of California's Budget: General Fund Expenditures

2006-07

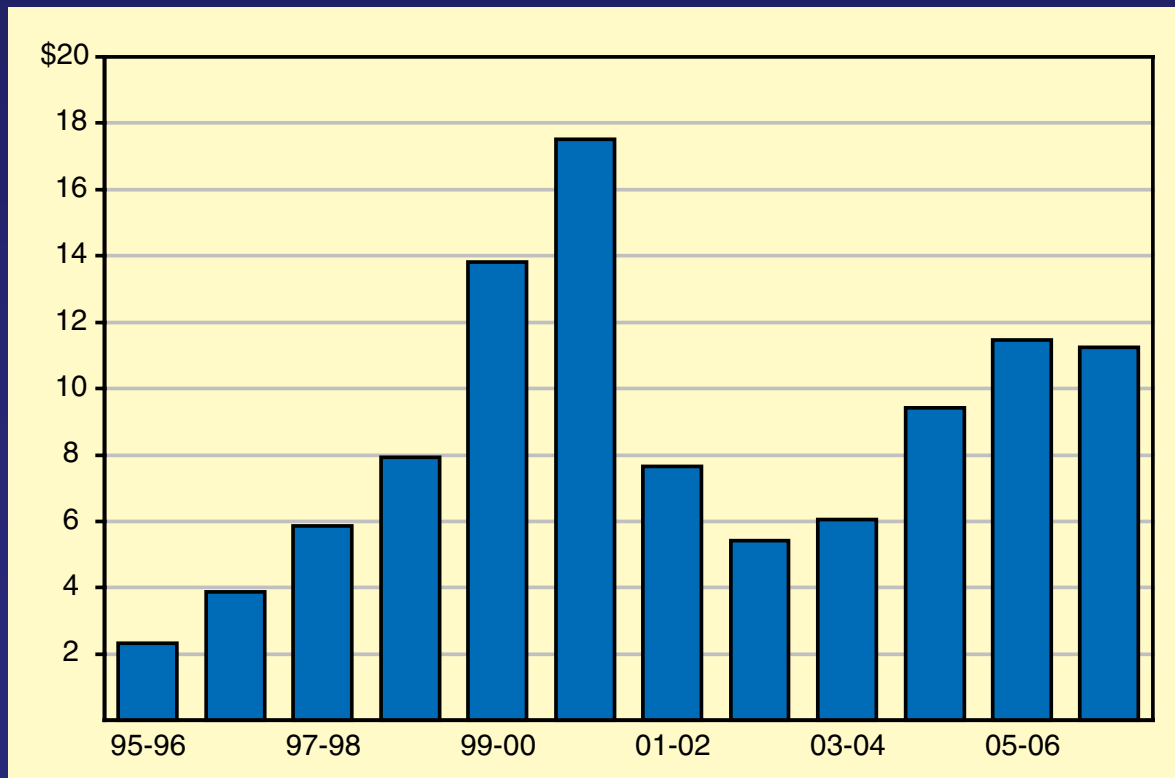


Key Challenges for California State Government Budgeting

- **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**

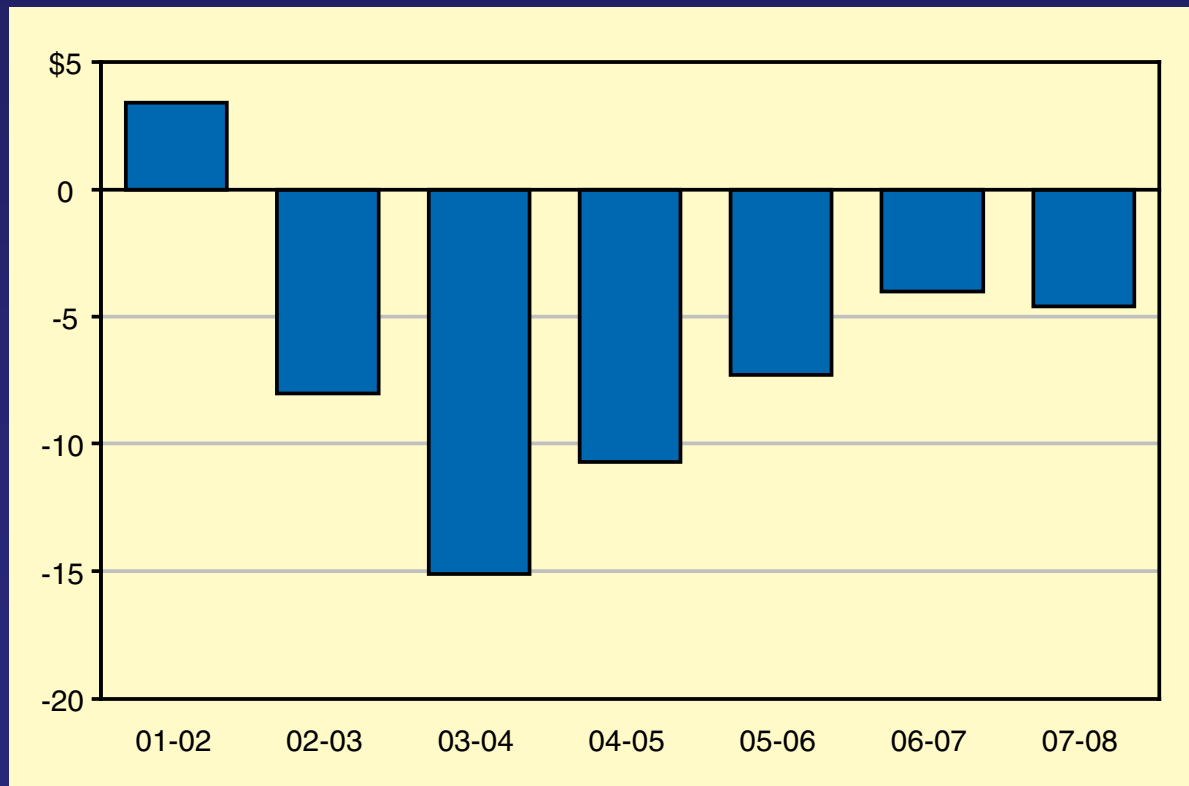
State Has Been Buffeted by Major Swings in Revenues

Personal Income Taxes From Options and Gains
(In Billions)

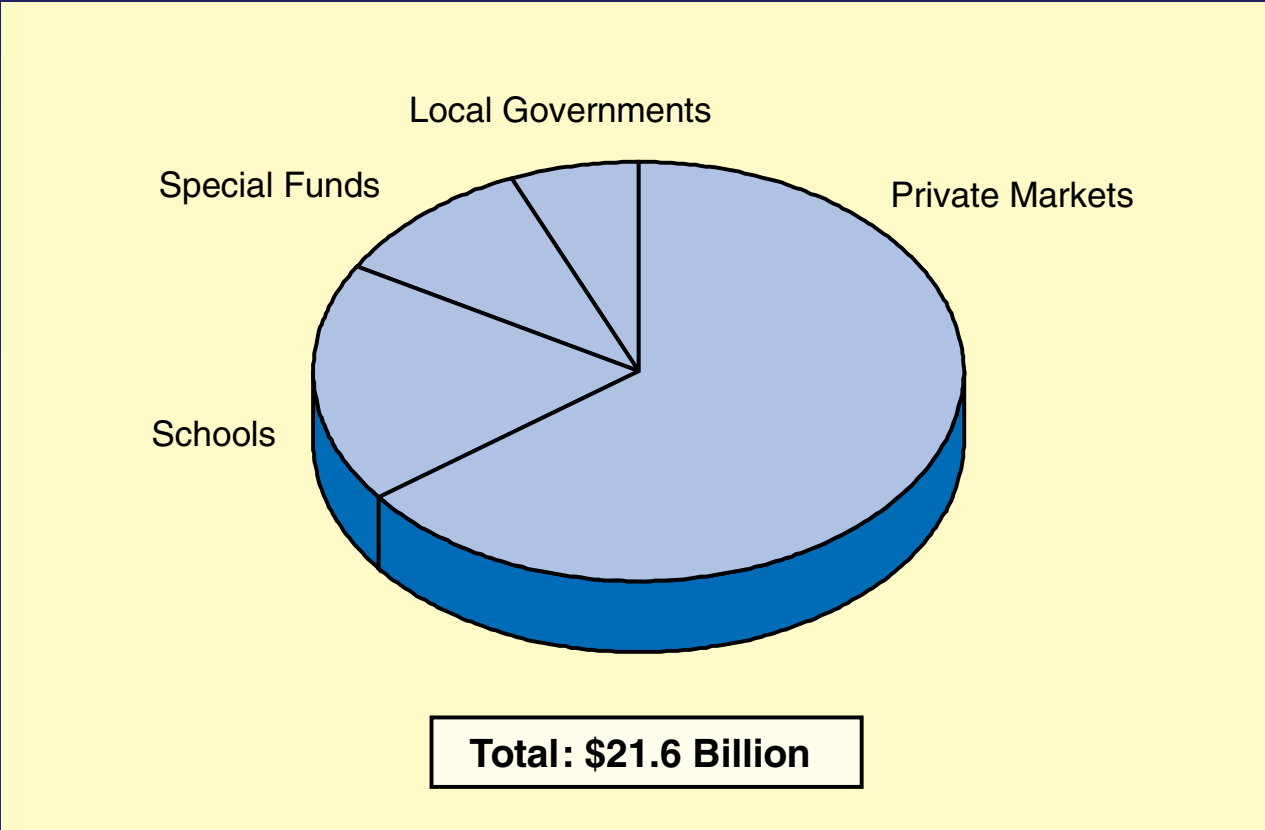


The 2001 Revenue Decline Led to Massive Budget Shortfalls

Projected Operating Surplus/Deficit at Beginning of Each Budget Cycle *(In Billions)*

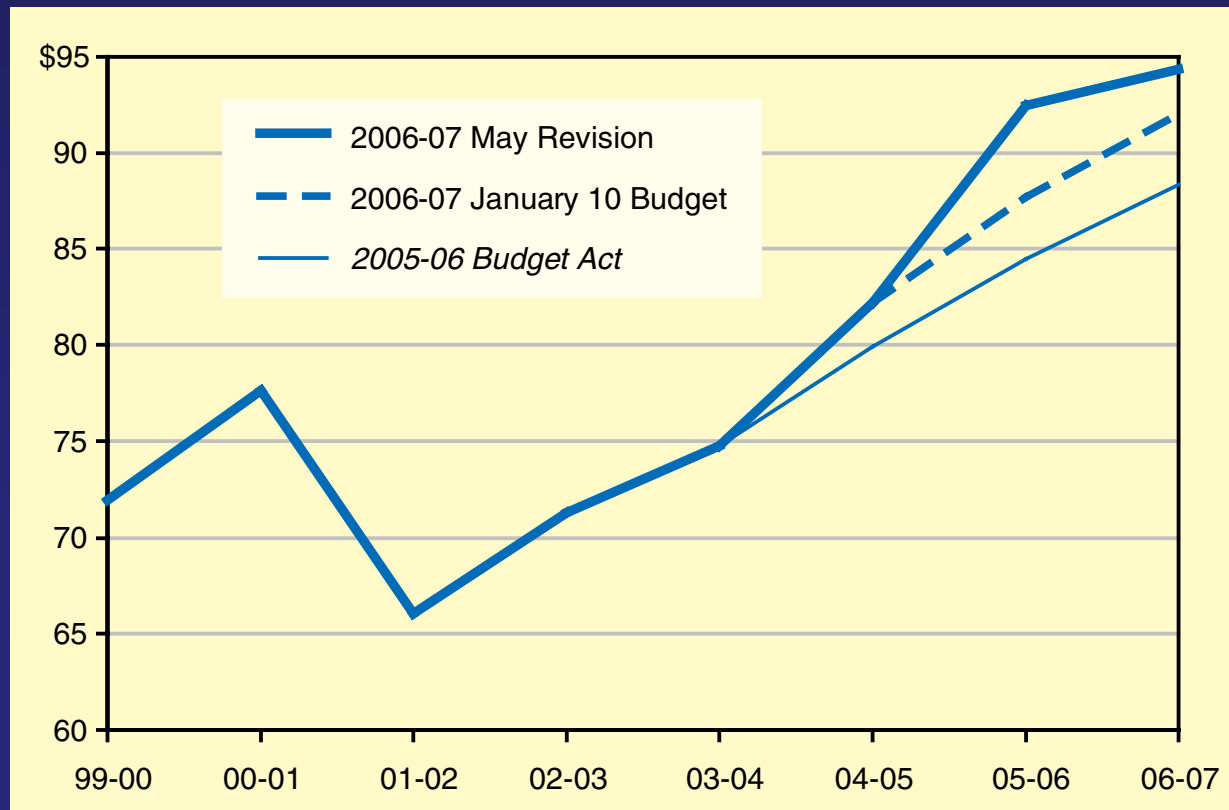


Much of These Shortfalls Covered With Borrowing



California Has Recently Benefited From Booming Revenue Growth

Total General Fund Revenues (In Billions)

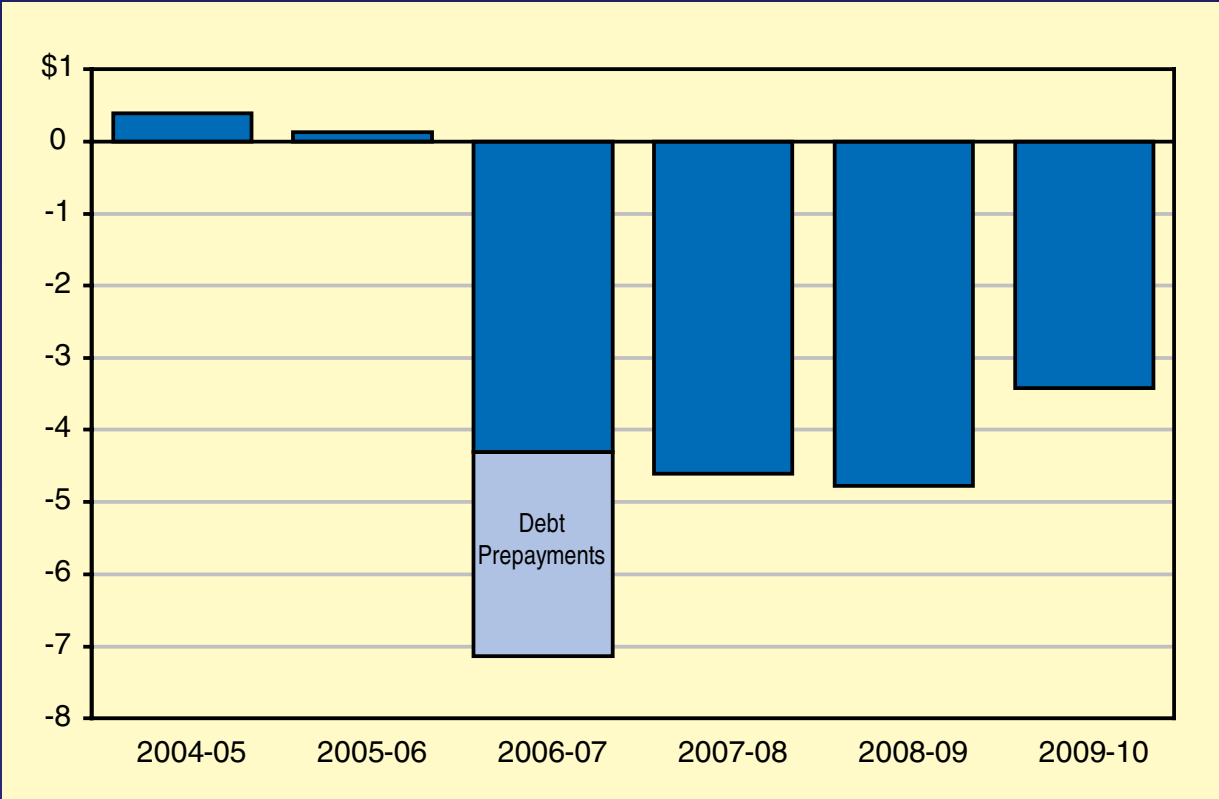


Combination of Past Borrowing and Healthy Revenue Growth Enabled California To Enact a 2006-07 Budget Which...

- **Provides Increased Funding for Education**
- **Fully Funds Most Other Programs**
- **Prepays Budgetary Debt**
- **Contains a Roughly \$2 Billion Reserve**
- **Includes Long-Term Plan to Start Addressing Vast Infrastructure Needs**

However, We Are Not Out of the Woods

General Fund Operating Balances (In Billions)



Related Budget Issues/Challenges

- **Corrections—New Capacity and Health Care**
- **Unfunded State/Local Retiree Health Care Costs**
- **Potential Federal Reductions**