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Agenda

November 27, 2007
Room 4203, 10 a.m.

I. California's Fiscal Outlook, LAO Projections, November 2007

Informational Presentation by:

Ms. Elizabeth G. Hill, Legislative Analyst
The Legislative Analyst's Office

Also Available for Questions and Comments:

Mr. Vince Brown, Chief Deputy Director
The Department of Finance

II. Public Comment

I. California's Fiscal Outlook, LAO Projections, November 2007

The purpose of this hearing is to have the Legislative Analyst present her findings to the Senate Budget and Fiscal Review Committee for consideration as the Budget Process moves forward.

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Budget Act of 2007 (Background)

On August 21, the Legislature passed SB 77 and 78 (Chapters 171 and 172, Statutes of 2007) – the Budget Act of 2007. The 2007 Budget was passed with an expected General Fund reserve of \$3.4 billion. However, the Governor vetoed, under his constitutional authority, an additional \$700 million in General Fund. This increased the final available 2007-08 General Fund reserve to over \$4.1 billion.

In total, the Budget signed into law contained \$105.6 billion in available General Fund (GF) resources, \$102.3 billion in GF expenditures, and a total available reserve of \$4.1 billion (split between the Budget Stabilization Account - \$1.5 billion and the Special Fund for Economic Uncertainties - \$2.6 billion). According to the Department of Finance, GF spending growth in the 2007 Budget was predicted to be generally flat, or less than 1 percent.

As with any Budget, difficult choices and tradeoffs had to be made. For example, some programs such as CalWorks and SSI/SSP programs received no cost-of-living adjustments (COLA) or implementation of a COLA was significantly delayed. While other programs needed funding to be restored – such as Williamson Act subvention funding and academic preparation programs. However, some minor increases did occur - for Fish and Game Warden overtime, gang prevention, and foster care rates.

The 2007 Budget was predicated on many assumptions regarding the anticipated source and level of revenue – for example revenue from the sale of the EdFund, the big three tax sources (personal income, sales, and corporation), as well as Tribal Gaming revenues. In addition, unexpected expenditures occurred, such as increased firefighting costs and the conclusion of the State Teachers’ Retirement lawsuit.

In her report, *California’s Fiscal Outlook, LAO Projections, November 2007*, the Legislative Analyst anticipates the 2007 fiscal year to conclude with an approximate deficit of \$1.9 billion, and when carried-forward and combined with expected revenues and anticipated expenditures for 2008-09, the budget deficit could rise to approximately \$10 billion.

The Department of Finance, on behalf of the Governor, is in the process of developing its 2008-09 budget proposal. The State Constitution requires the Governor to present to the Legislature its version of a balanced budget by January 10, 2008.

(Also attached for Committee Members is a copy of the Legislative Analyst’s - *California’s Fiscal Outlook, LAO Projections, November 2007*. The LAO Report can be found on her website: www.lao.ca.gov)

II. Public Comment