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Agenda

January 17, 2008

Room 4203

10 a.m. or Upon Adjournment of Session

Overview Hearing of Special Session and Budget Year Proposals

Presentation by:

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

Also Available for Questions and Comments:

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

On January 10, the Governor released his proposed budget for the 2008-09 fiscal year. In addition, the Governor declared a “fiscal emergency” and called a Special Session of the Legislature, consistent with Proposition 58, to address a projected General Fund current year shortfall.

Definition of the Overall Problem

The Department of Finance (DOF) projects a General Fund (GF) shortfall of approximately \$14.5 billion (\$3.3 billion in 2007-08 and \$11.2 billion in 2008-09) for the two-year period ending June 30, 2009.

Proposed Overall Solutions - \$17.3 billion

As defined by the DOF, the size of the overall budget shortfall is approximately \$14.5 billion over the two-year period. In addition, in order to end 2008-09 with a positive General Fund reserve of approximately \$2.8 billion, a total of \$17.3 billion in GF solutions over the two-year period is required. The overall solutions include:

• Sale of the remaining Economic Recovery Bonds (ERBs)	\$3.3 billion
• 10 percent reductions (current year)	\$0.2 billion
• 10 percent reductions (budget year)	\$9.1 billion
• No additional ERB payment	\$1.5 billion
• Proposition 98 current year adjustment	\$0.4 billion
• Additional tax collections	\$0.4 billion
• Other special session reductions	\$0.3 billion
• Accrual shift of 2009 tax payments	<u>\$2.0 billion</u>
	\$17.3 billion

Governor’s Calls a Special Session on Current Year Budget

To recap, when the 2007-08 Budget was passed on August 21, 2007, it was predicated on total available resources of \$105.6 billion and total expenditures of \$102.3 billion, with an anticipated General Fund reserve of \$4.1 billion. However, for various reasons, the receipt of GF revenues have not materialized as projected and additional expenditures have occurred and, according to the Administration, the current-year budget is anticipated to incur a budget shortfall of \$3.3 billion.

On January 10, the Governor proclaimed a fiscal emergency utilizing the authority provided within the State Constitution (Proposition 58).

Broadly, the Governor is proposing 10 percent across-the-board reductions in most, but not all, areas of the current budget. When pro-rated over the remainder of the current year, these reductions provide \$217 million toward the current year solution. Below is a

table that indicates the broad areas, over the two-year period, where reductions are proposed.

**Allocation of 10 Percent Across-the-Board Reductions
(in millions)**

Major Program Area	2007-08	2008-09	Total
Education (K-12)	\$ 0.0	\$4,357.3	\$4,357.3
Health and Human Services	181.1	2,661.2	2,842.3
Higher Education	0.0	1,132.9	1,132.9
Business, Transportation and Housing	.2	2.0	2.2
Legislative, Judicial, Executive	6.6	362.8	369.4
General Government	3.8	131.9	135.7
Corrections and Rehabilitation	17.9	378.9	396.8
Resources	4.2	89.3	93.5
Environmental Protection	1.6	8.3	9.9
State and Consumer Services	1.2	5.3	6.5
Labor and Workforce Development	.2	2.1	2.3
<i>Total</i>	\$216.6	\$9,132.1	\$9,348.7

PROPOSED 2008-09 BUDGET

The proposed 2008-09 Budget is predicated on the passage of the Governor's current year budget reductions. Therefore, changes to the Special Session proposals will ripple through the proposed 2008 Budget.

2008-09 General Fund Summary

- **Revenues:** The Governor's budget estimates General Fund revenues and transfers to be \$102.9 billion, an increase of \$1.7 billion or 1.7 percent, above the revised 2007-08 estimate of \$101.2 billion. Total resources available, in 2008-09, from all sources (including a carry forward balance of \$1.8 billion from 20067-08) are estimated at \$104.7 billion.
- **Expenditures:** The budget proposes General Fund expenditures of approximately \$101 billion in 2008-09. This is a decrease of \$2.4 billion, or 2.3 percent, below the revised 2007-08 figure of \$103.4 billion.

**2008-09
General Fund Summary
(in millions)**

	Revised Proposed <u>2007-08</u>	Proposed <u>2008-09</u>
PRIOR YEAR BALANCE	\$3,900	\$1,757
Revenues and transfers	101,230	102,904
TOTAL RESOURCES AVAILABLE	\$105,130	\$104,661
Non-Proposition 98 Expenditures	\$61,666	\$61,405
Proposition 98 Expenditures	<u>41,707</u>	<u>39,593</u>
TOTAL EXPENDITURES	\$103,373	\$100,998
 FUND BALANCE	 \$1,757	 \$3,663
Encumbrances	\$885	\$885
Special Fund for Economic Uncertainties	\$872	\$2,778
 BUDGET STABILIZATION ACCOUNT (BSA)¹	 --	 --
 TOTAL AVAILABLE RESERVE	 \$872	 \$2,778

¹ In 2007-08, includes transfer of \$1.5 billion from the BSA back to the GF under Control Section 35.50. In 2008-09, reflects the suspension of Proposition 58 transfer to the BSA.