



2011 CSBA Forecast Webcast
January 13, 2011
10:00 a.m. - Noon

“A Tough Budget for Tough Times”

Current year shortfall: \$8.2 billion

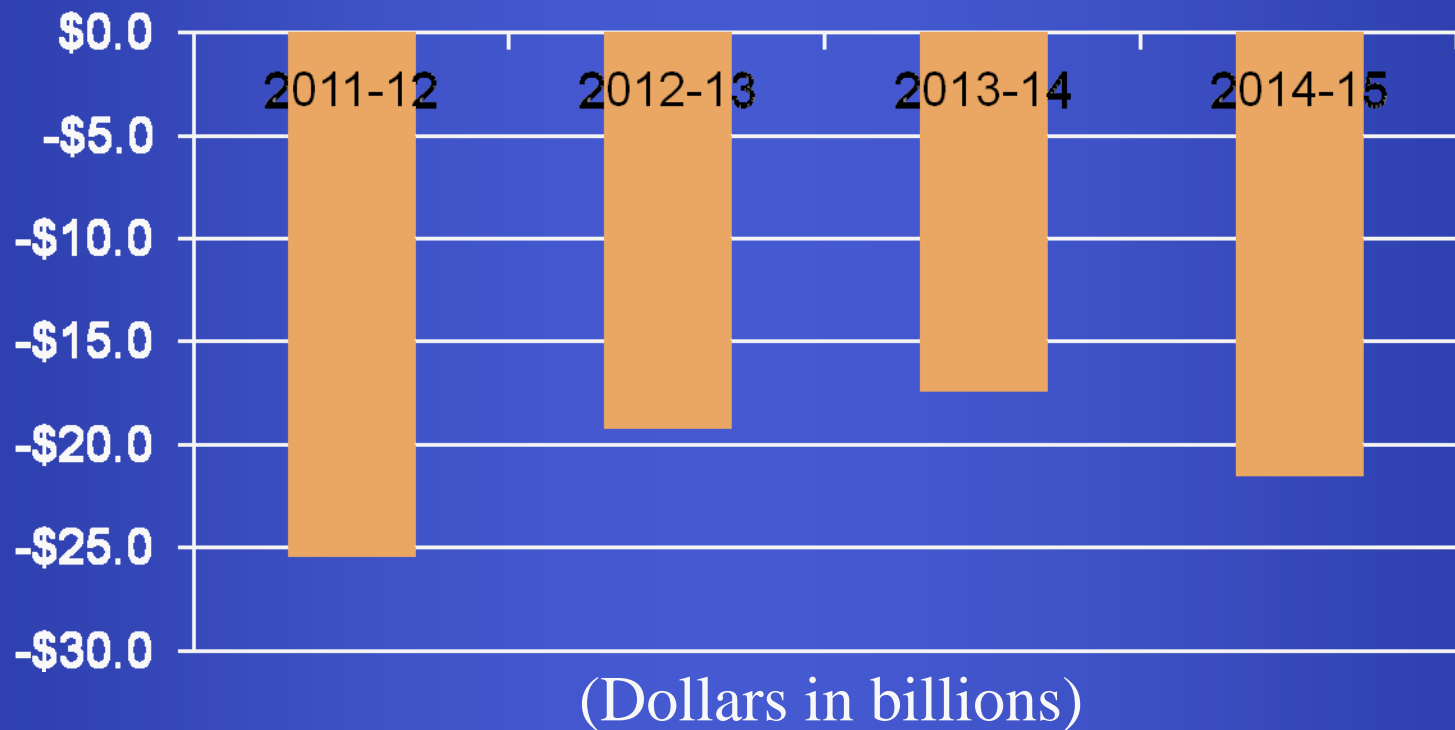
Budget year shortfall: \$17.2 billion

Total shortfall: \$25.4 billion

Economic Assumptions

- **Continued modest recovery**
- **Continued high unemployment (10%+)**
- **Weak housing markets**
- **Depressed home building**

Deficits without Corrective Actions



Source: California Department of Finance

Past “Solutions” Have not Worked

<u>Year</u>	<u>Solutions (Billions)</u>	<u>Short-term or not Realized</u>
2008-09	\$24.3	75%
2009-10	\$60.0	84%
2010-11	\$19.3	85%

Source: California Department of Finance

California's Credit Rating

Moody's	A1
S&P	A-
Fitch	A-

Source: California State Treasurer's Office

Total Debt Has Grown

**\$51 billion in 2004 to
\$91 billion in 2011**

\$40 billion (78%) increase

Source: California State Treasurer's Office

Debt Service Has Grown

2.5% of GF revenue in 2004

To

5.7% of GF revenue in 2010

Source: California State Treasurer's Office

Rating Agency Comments

“Reliance on one-time solutions”

“Large and persistent structural imbalance”

“A partisan policy-making environment”

“Unwillingness to tackle difficulties”

Source: California State Treasurer's Office

Proposed Solutions (Dollars in Millions)

	2010-11	2011-12	Total	Percent Of Total
Spending Cuts	\$422	\$12,075	\$12,497	47%
Revenues	\$3,163	\$8,864	\$12,027	46%
Other	\$506	\$1,379	\$1,885	7%
Total	\$4,091	\$22,318	\$26,409	100%

Source: California Department of Finance

Major Spending Cuts (Dollars in Millions)

Program	Dollar Change	Percent Change
Health and Human Services	-\$5,786	-21.5%
Higher Education	-\$1,837	-15.8%
Legislative, Judicial, Executive	-\$660	-20.8%

Source: California Department of Finance

Revenue Proposals: General Fund

- **0.25 % PIT surcharge**
- **PIT dependent exemption**
- **Sales and use tax (1%)**
- **VLF (1.15%)**
- **Single sales factor**
- **Enterprise zone tax credit repeal**
- **Amnesty**
- **Compliance**

Impact of Tax Extension

Total GF increase = \$4.8 billion

Prop 98 increase = \$2.0 billion

Net non-Prop 98 increase = \$2.8
billion

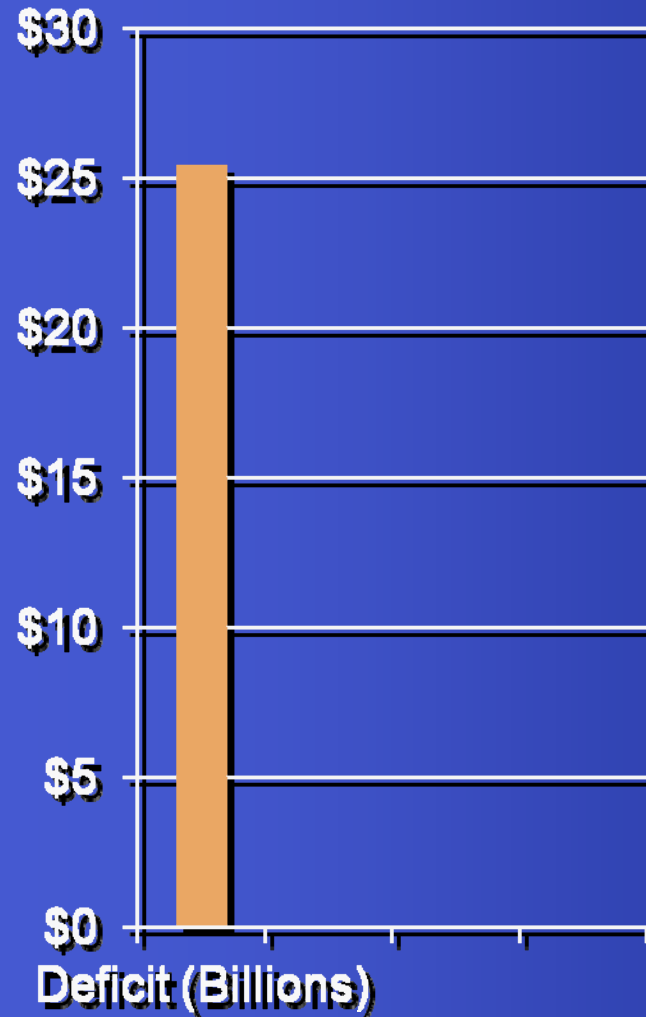
Source: California Department of Finance

Higher Education

Corrections

**Legislative,
Judicial,
Executive**

Natural Resources

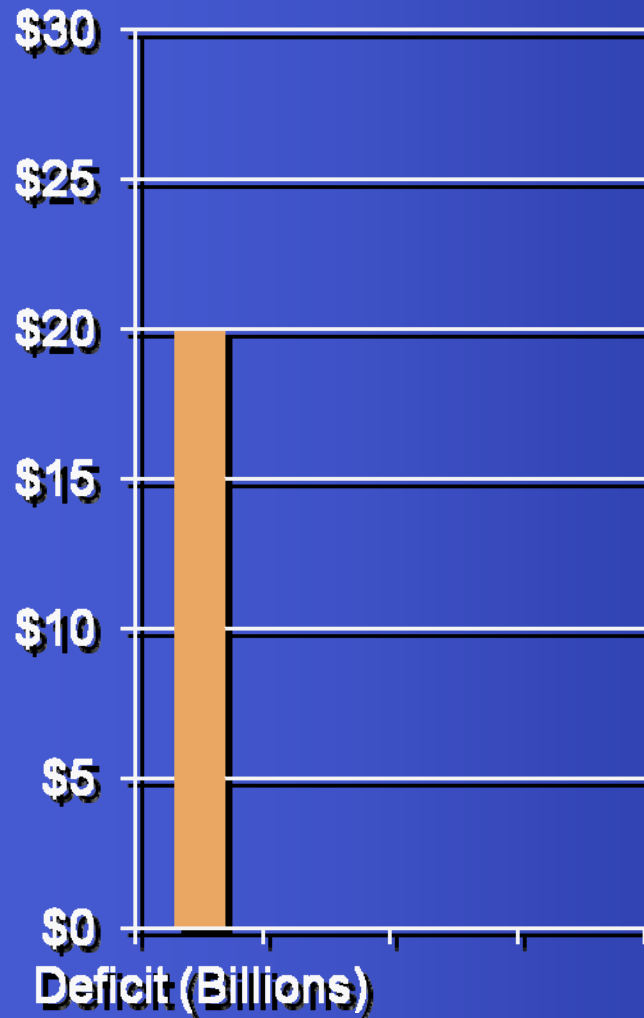


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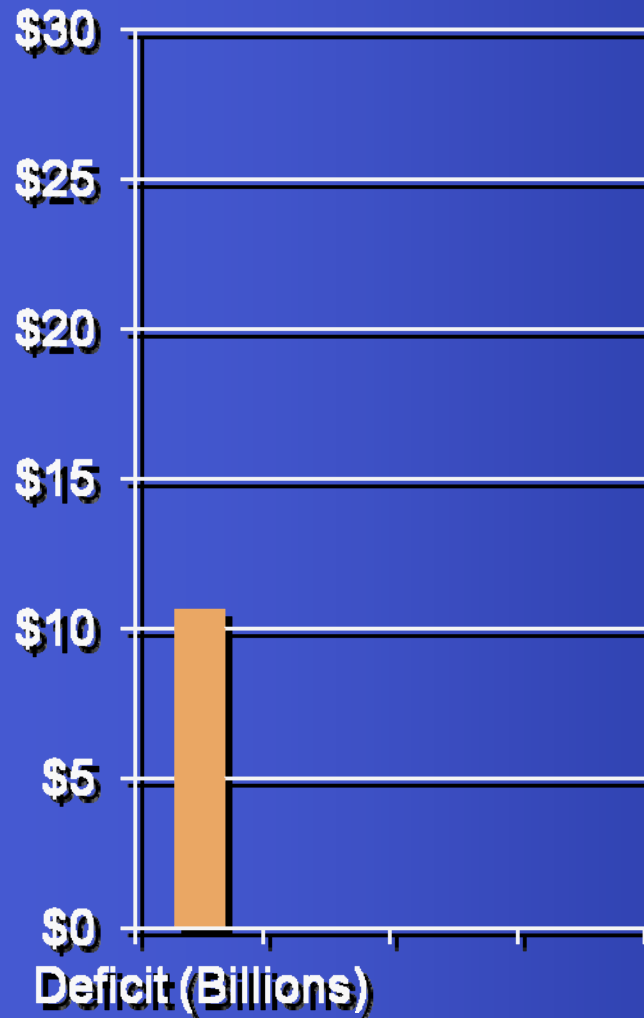


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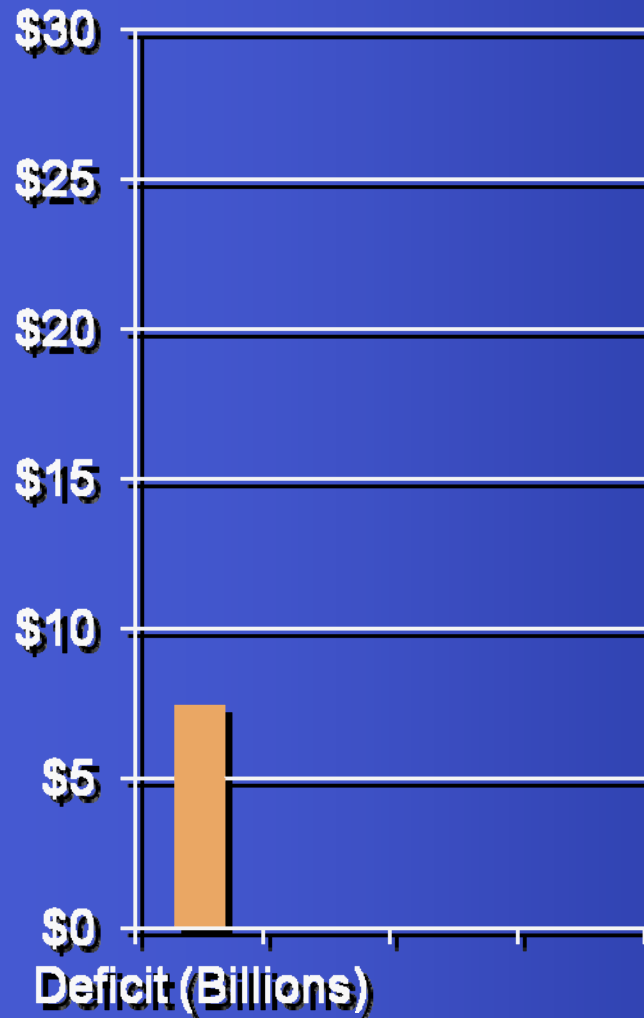


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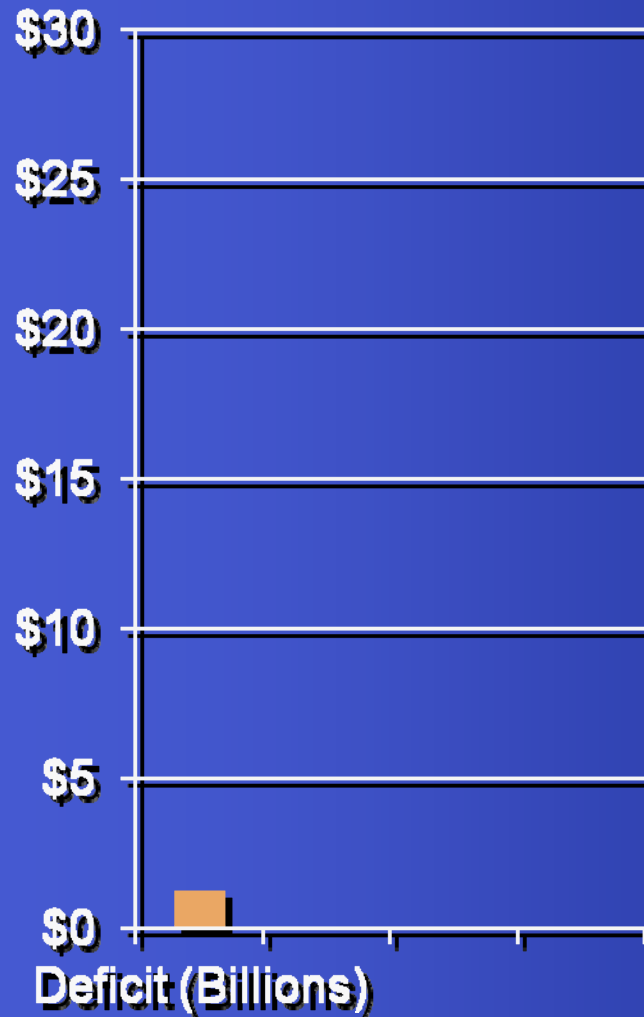


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Eliminate HHS

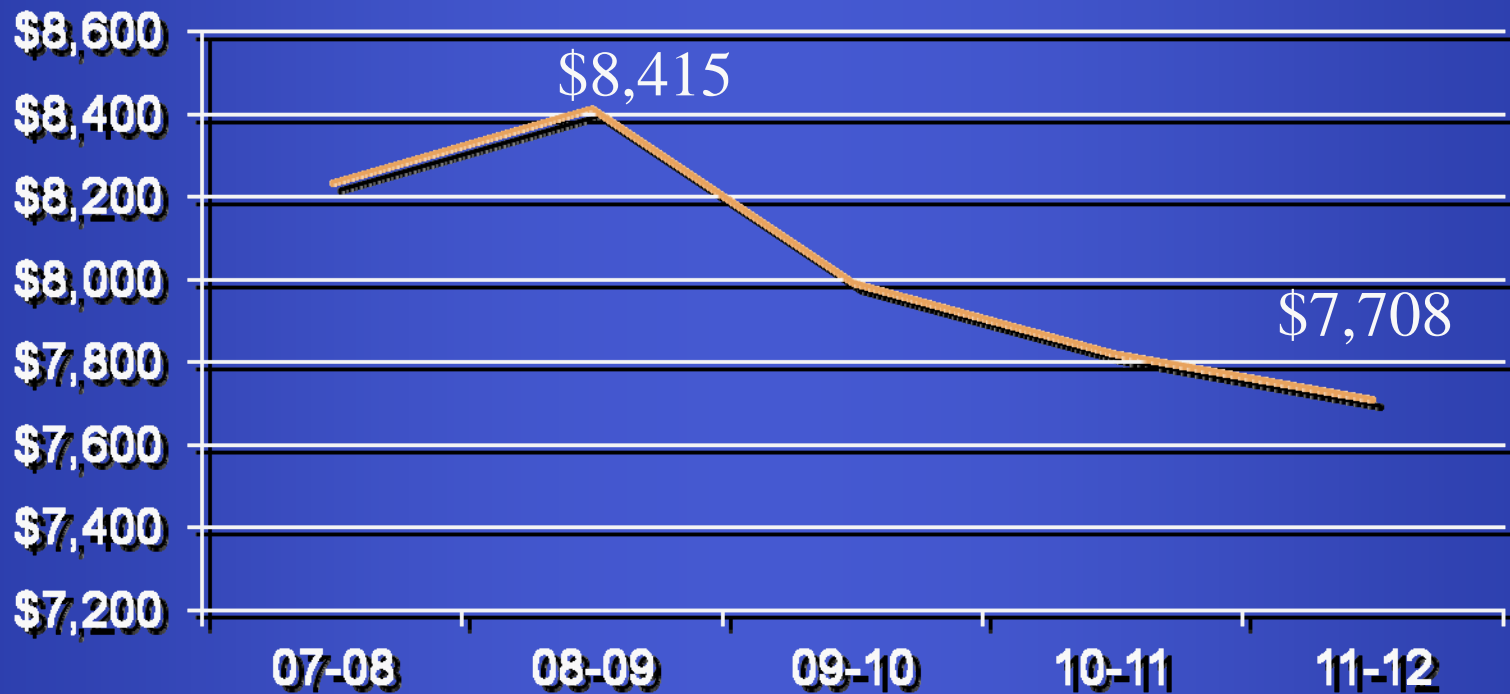
- **\$27.0 billion savings**
- **Eliminates deficit, leaves \$1.6 billion surplus**

- **BUT loses \$56.5 billion in federal funding**

Proposition 98 Proposal

- **No suspension**
- **Slight decline (\$11 million)**
- **Minimum level dependent on tax extension (\$2 billion)**
- **New cross-year deferral (\$2 billion for K-12)**

“Programmatic” Funding per Pupil



Source: Legislative Analyst's Office

Flexibility Extended Two Years

- **Categorical flexibility**
- **Routine maintenance**
- **Deferred maintenance**
- **Instructional materials**
- **K-3 CSR**
- **AB 1200 reserve**

Child Care

- **Reduce eligibility ceiling to 60% of SMI**
- **Exclude 11 and 12 year olds**
- **Across-the-board 35% rate reduction**
- **Saves \$750 million Prop 98**

LAO Comments

“Estimate seems reasonable”

“Would improve budget situation considerably”

“Some bold ideas”

Key Considerations

- **March 15 RIF deadline**
- **Managing new deferrals**
- **GOP price for approving ballot measure**
- **Risk of voters rejecting tax extension**