
CALIFORNIA BUDGET REPORT

Volume 3, Number 8

May 16, 2005

LEGISLATIVE ANALYST: HIGH MARKS FOR GOVERNOR'S MAY REVISION

The Legislative Analyst, Elizabeth Hill, has given generally good marks to the Governor's May Revision to the proposed budget. We are attaching a copy of her 20-page summary, but here are some highlights:

- The budget shortfall is down to \$6 billion, from a January 2005 high of \$9.1 billion.
- Using most of the "new" revenue for one-time expenditures is a prudent approach. These one-time expenditures are for highways, plus reduction of prior state debt.
- The LAO is slightly more pessimistic than the Governor, saying projected revenues are overstated by about \$600 million.
- Oops! The LAO defines a big political problem:

"We would note that the value of savings from holding school funding at the *2004-2005 Budget Act* level has increased from \$2.3 billion to \$3.1 billion."
(See page 9.)

This means that the \$2 billion "taken" from K-12 schools, which has been the subject of bitter debate and television commercials, is now \$1 billion higher! All that because of the growth in anticipated revenue. You can expect the education community to begin to amend their demand that money be returned and ask for the full \$3.1 billion!

- The LAO cautions that about \$1.3 billion worth of assumed savings are not likely to be realized. These include shifting state retirement costs to local school districts (\$469 million), cuts in state employee compensation (\$408 million) and use of a pension bond to raise \$525 million.

- Assuming the Legislature agrees to do everything the Governor recommends in the May Revision—or things that are similar in financial impact—the state will start the 2006-2007 budget year about \$5 billion in the hole! That was the Governor’s dream, but the Democrats have signaled that his dream isn’t likely to come true.

We don’t know about you, but we’re not making any summer vacation plans—not this year, not next year!

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