
CALIFORNIA BUDGET REPORT

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The Governor Releases Proposed Budget Is it Balanced???

Governor Arnold Schwarzenegger just released his proposed 2006-2007 budget. You can find the full details at <ftp://ftpgovbud.dof.ca.gov/pub/BudgetSummary/FullBudgetSummary.pdf>. You may have a little trouble getting onto the web site due to heavy user traffic, but keep trying.

We will do a more detailed analysis of the proposed budget later this week, and the Legislative Analyst will have her own short summary available in about one week. Until that happens here are some key points:

- The proposed General Fund revenue for 2006-2007 is \$91 billion. The projected General Fund spending is projected to be \$97 billion. Yes, the Governor is proposing to spend \$6 billion more next year than the state expects to receive in revenue!
- This is all possible because the Governor anticipates continued revenue growth. However, he is spending virtually all of the 2006-2007 reserve for ongoing spending. This leaves the state with a tiny reserve of approximately \$613 million in the budget year.
- The bulk of new spending includes the \$1.7 billion proposed to be “repaid” to K-12 education, funds needed to increase education spending (including \$428 million for full funding for the Governor’s own pre/post-school program, Proposition 49 of 2002), \$72 million to expand health coverage for kids, plus conservatively \$1 billion for bond debt service for his new infrastructure program.
- We expect that the Legislature will like the size of the Governor’s proposed bond package, but we expect them to reject many of his proposals to make users pay all or some of the cost of bond debt payments. If that happens, the budget is even further out of balance.
- The Governor conceded that spending more than you take in is a “problem”, but he called on the Legislature to help him work it out—whatever that means. Curiously, the Governor also conceded that his bond plan was not a major one, as Treasurer Phil Angelides charged yesterday.

We have attached some of the charts used in the Governor's budget. You can't really get the full picture from this, since the Administration is presenting it in the most favorable way possible. However, looking at some key charts, focusing on the areas of the budget that interest you the most, and waiting for the LAO to do her summary review will give you the information you need.

**2006-07 Governor's Budget
General Fund Budget Summary**
(Dollars in Millions)

	<u>2005-06</u>	<u>2006-07</u>
Prior Year Balance	\$9,634	\$7,031
Revenues and Transfers	<u>\$87,691</u>	<u>\$91,545</u> ^{1V}
Total Resources Available	\$97,325	\$98,576
Non-Proposition 98 Expenditures	\$53,983	\$57,446 ^{1V}
Proposition 98 Expenditures	<u>\$36,311</u>	<u>\$40,456</u>
Total Expenditures	\$90,294	\$97,902
Fund Balance	\$7,031	\$674
Reserve for Liquidation of Encumbrances	\$521	\$521
Special Fund for Economic Uncertainties	\$6,510	\$153
Budget Stabilization Account		\$460
Total Available Reserve	\$6,510	\$613

^{1V} A total of \$920 million will be transferred to the Budget Stabilization Account pursuant to Proposition 58. Half will remain in the Account for future purposes (displayed as a reduction in revenues). The other half will be further transferred for the purpose of early retirement of Economic Recovery Bonds (displayed as an increase in expenditures).

General Fund Expenditures by Agency

(Dollars in Millions)

	2005-06	2006-07	Change	%
Legislative, Judicial, Executive	\$3,147	\$3,382	\$235	7.5%
State and Consumer Services	578	540	-38	-8.6%
Business, Transportation & Housing	1,714	2,719	1,005	58.6%
Resources	1,388	1,530	142	10.2%
Environmental Protection	78	71	-7	-9.0%
Health and Human Services	27,280	28,473	1,213	4.4%
Corrections and Rehabilitation	7,658	8,081	423	5.5%
K-12 Education	36,058	39,881	3,823	10.6%
Higher Education	10,158	11,223	1,065	10.5%
Labor and Workforce Development	89	92	3	3.4%
General Government	2,188	1,910	-258	-11.8%
Total	\$90,294	\$97,902	\$7,608	8.4%

Note: Numbers may not add due to rounding.

2006-07 Total Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Fund	Bond Funds	Totals
Legislative, Judicial, Executive	\$3,382	\$1,920	\$212	\$5,514
State and Consumer Services	540	783	12	1,315
Business, Transportation & Housing	2,719	6,651	48	9,418
Resources	1,530	1,596	396	3,522
Environmental Protection	71	981	69	1,121
Health and Human Services	28,473	6,741	111	35,325
Corrections and Rehabilitation	8,081	3	0	8,084
K-12 Education	39,881	63	79	40,023
Higher Education	11,223	1,264	1,720	14,207
Labor and Workforce Development	92	299	0	391
General Government	1,910	4,742	31	6,683
Total	\$97,902	\$25,023	\$2,678	\$125,603

Note: Numbers may not add due to rounding.

The California Budget Report is produced by Phil Isenberg and Maureen O'Haren of ISENBERG/O'HAREN. Questions, comments and requests to be added to the mailing list should be directed to Phil at phil@isenberg-oharen.com or Maureen at maureen@isenberg-oharen.com

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