
CALIFORNIA BUDGET REPORT

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The LAO's Review: Governor's May Revision to the Budget Envisions Rosy Scenario

Elizabeth Hill, the innocent looking Legislative Analyst, has just released her *Overview of the 2007-08 May Revision*. We think it is one of the toughest critiques we have read. You can find the full details at the following link:

http://www.lao.ca.gov/2007/may_revise/may_revise_051507.pdf

The LAO makes the following findings about the Governor's May revision:

- The revenues estimates are reasonable.
- The Governor's Reserve is overstated by \$1.7 billion. This is based on assumptions that may not come true, including the Legislature's approval of the Indian Gaming Compacts and the notion that gas tax funds allocated for mass transit can legally be shifted to other purposes. There are also some overly optimistic assumptions about local government property tax revenues. The LAO believes the reserve is closer to \$529 million.
- The Governor is proposing to spend \$3 billion more than projected revenue.
- The Governor's proposal to pre-pay \$1.6 billion of the 2003 deficit-financing bonds is unnecessary.

There is a particularly good chart (p. 4) showing the various approaches, assumptions and shifts proposed by the Governor that are the heart of the May Revision.

How May Revision Addresses \$2.3 Billion in Lower Revenues and Higher Costs

(In Millions)

Governor's January 10 Reserve	\$2,085
Items Worsening General Fund Condition	
Updated Proposition 98	
Higher 2006-07 minimum guarantee	-\$372
Higher 2007-08 minimum guarantee	-104
Lower property taxes and other changes	-333
Pension Obligation Bonds Deferred to 2008-09	-\$525
Lower Revenues	
Updated major tax revenues forecast	-\$243
Lower tribal gambling revenue forecast	-192
Lower tideland oil revenues	-86
Higher Program Costs	
Higher correctional officer arbitration costs	-\$200
Higher firefighting costs	-115
Implementation of AB 900 prison system changes	-97
All other (net)	-26
New Solutions Improving General Fund Condition	\$2,407
Sale of EdFund—the state's student loan guaranty agency	\$980
Accelerate tobacco securitization fund transfers	600
Higher tobacco securitization revenues	357
Expansion of Home-to-School Transportation proposal	200
Suspend SSI/SSP cost-of-living adjustment	185
Additional midyear reductions to departmental budgets	46
Eliminate Williamson Act subventions	39
May Revision Reserve	\$2,199

Another way the LAO looks at the May Revision is to describe the programmatic functions proposed by the Governor. Much is the same as the previous chart, but you get a slightly different flavor from this chart (p. 10):

Key General Fund Features of May Revision

K-14 Education

- Increases General Fund share of Proposition 98 by \$113 million for 2007-08 due primarily to an increase in the minimum guarantee.
- Uses additional ongoing funds to support higher cost-of-living adjustment (COLA) and a variety of new programs. Underfunds 2007-08 K-12 attendance-related costs by \$366 million due to technical error.

- Provides \$542 million in additional one-time funds for various K-14 purposes, including emergency facility repairs, equipment, deferred maintenance, and several new one-time initiatives.

Higher Education

- Proposes selling EdFund to a private buyer for an estimated \$1 billion.

Health and Social Services

- Suspends the statutory January 2008 Supplemental Security Income/State Supplementary Program (SSI/SSP) COLA, resulting in General Fund savings of \$185 million in 2007-08 (half year) and \$370 million in 2008-09 (full year).
- Retains proposals to suspend the July 2007 CalWORKs COLA, impose new time limits and sanctions on children whose parents cannot or will not comply with participation requirements, and shift certain CalWORKs child care costs to Proposition 98 funds.
- Provides \$107 million for Medi-Cal managed care plans to reflect implementation of a new rate-setting methodology.

Criminal Justice

- Increases reserve for new initiatives of the court-appointed Receiver from \$150 million to \$175 million, but does not take into account the Receiver's own May Revision proposal for an additional \$150 million for the corrections health budget.
- Does not include the new staffing and other resources needed to manage the major new prison-building program approved in recent state legislation (AB 900). The administration has created a team of experts to plan this work effort and intends to make a subsequent request for this purpose.

Transportation

- Proposes to use \$200 million in additional projected Public Transportation Account "spillover" funds (related to sales taxes on gasoline) to reimburse the General Fund for Home-to-School Transportation expenditures in the current year. This is in addition to the modified January proposal of reimbursing the General Fund for \$630 million in Home-to-School expenditures in the budget year.

General Government

- Proposes a long-term lease of the State Lottery to a private vendor (but makes no budgetary assumptions regarding the lease).
- Eliminates \$39 million in subventions to local governments with agricultural and open-space lands under Williamson Act contracts.

We also recommend you read the brief discussion by the LAO of the most controversial proposals made by the Governor:

- To sell EdFund, the state created nonprofit running the state's college student loan program (pp. 14-15)
- To privatize the state Lottery, by leasing operating rights to a private concessionary, perhaps for 40 years (pp. 16-17) and

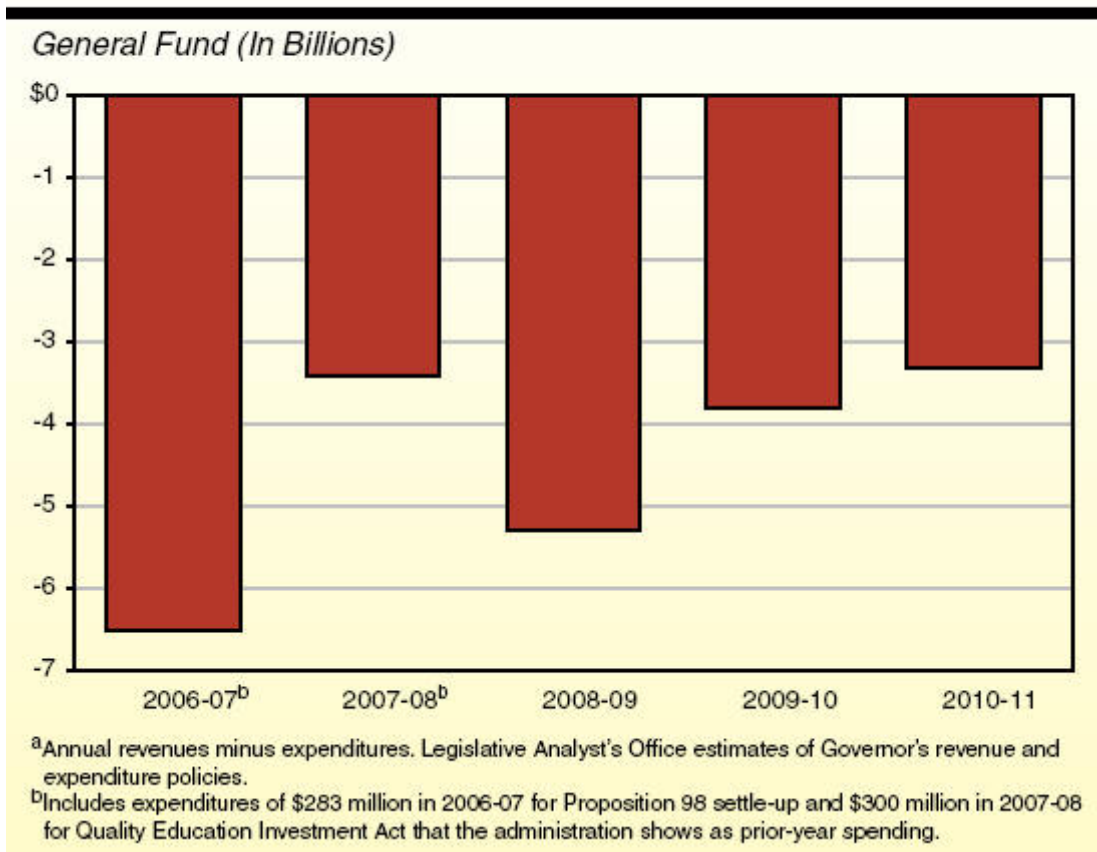
- To transfer higher gasoline and diesel sales tax revenue from the Public Transportation Account, which is used primarily for mass transit, and use the money for other programs supported by the General Fund, including home-to-school transportation (pp. 17-19). We think one LAO comment on this suggestion deserves your attention:

“In essence, the administration seeks to count the transportation funds simultaneously toward two separate (and mutually exclusive) legal spending requirements—under both the Proposition 98 guarantee and PTA.” (p. 19)

For those of you who like to watch the LAO pound nails into coffins, let us close with their final chart, which explains what the Governor’s current budget proposal does for the out years, from now to 2011 (p. 21):

Figure 12

Significant Operating Shortfalls^a Would Persist



What did Bill Clinton used to say? Something about a “bridge to the future”...?

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