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# CALIFORNIA BUDGET REPORT

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## **This Just In:** **LAO's California Spending Plan: 2007-08**

There is great new for all you budget wonks out there! The Legislative Analyst has just released her summary of the just-adopted California Spending Plan. You can find all the details at [http://www.lao.ca.gov/2007/spend\\_plan/spending\\_plan\\_07-08.aspx](http://www.lao.ca.gov/2007/spend_plan/spending_plan_07-08.aspx), or at [http://www.lao.ca.gov/2007/spend\\_plan/spending\\_plan\\_07-08.pdf](http://www.lao.ca.gov/2007/spend_plan/spending_plan_07-08.pdf), if you prefer a different format.

We start with the LAO summary.

### ***Total State Spending***

The state spending plan for 2007–08 includes total budget expenditures of \$131.5 billion. This includes \$102.3 billion from the General Fund and \$29.2 billion from special funds. As Figure 1 shows, this is an increase of 4.3 percent from 2006–07, primarily due to increases in special fund spending. The state also expects to spend \$14 billion in bond funds for infrastructure during the fiscal year. This is an increase of almost \$5 billion (51 percent) from the previous year—which reflects the beginning rollout of spending from \$42.7 billion in general obligation bonds approved by voters in November 2006.

Figure 1

#### **2007-08 Budget Package Total State Expenditures**

(Dollars in Millions)

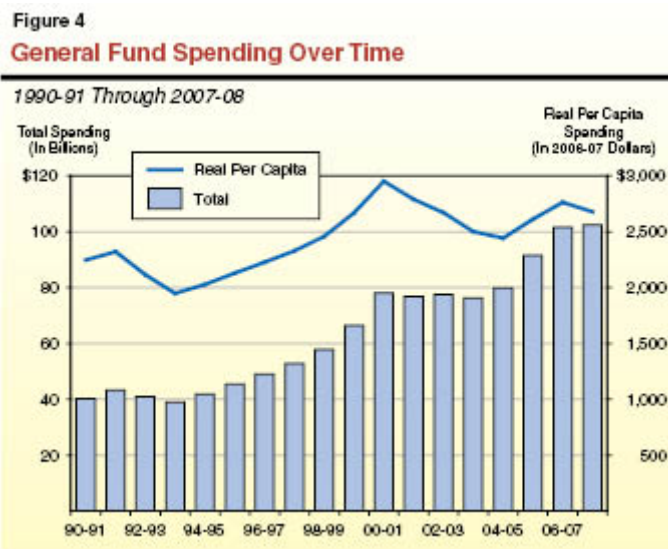
Fund Type	Actual	Estimated	Enacted	Change From 2006-07	
	2005-06	2006-07	2007-08	Amount	Percent
General Fund	\$91,592	\$101,656	\$102,258	\$602	0.6%
Special funds	22,716	24,403	29,213	4,810	19.7
Budget Totals	<b>\$114,308</b>	<b>\$126,059</b>	<b>\$131,471</b>	<b>\$5,412</b>	<b>4.3%</b>
Selected bond funds	5,304	9,293	14,072	4,779	51.4
Totals	<b>\$119,612</b>	<b>\$135,352</b>	<b>\$145,543</b>	<b>\$10,191</b>	<b>7.5%</b>

Of course, if you have been paying attention to our five-year effort to nag the Department of Finance about the budget, you know that the Total State Spending Plan (not just state-own money, but federal and other funds too) is no longer reported. If you want to know just how much money of all sizes, sources and sorts passes through state hands, just take the \$131.5 billion figure above, and increase it by 100 to 125 percent. As best we can figure out, the state actually doles out over \$300 million, even if most of it is earmarked for special programs.

And what would an LAO report be if it did not include cautions about out-year problems? Here is what the Analyst said in this report:

### ***Out-Year Impacts of the 2007–08 Budget***

As described above, many of the budget solutions are of a one-time nature. Based on the 2007–08 budget plan’s policies, therefore, the state would once again face operating shortfalls of more than \$5 billion in both 2008–09 and 2009–10. In addition, the CalSTRS payment has already reduced the reserve by \$500 million. Other optimistic assumptions and legal risks threaten to reduce the reserve even further. A lower reserve will reduce the carryover funds available to help solve these future budget problems. We will be updating our fiscal projections for 2007–08 and future years in November 2007, when we release our annual publication *California’s Fiscal Outlook*.



Late next month, the LAO will issue the Fiscal Outlook, as mentioned above. That is the time the Legislative Analyst opines on the extent of the operating shortfall for the next budget year. We will send you that report as soon as it is available.

Finally, this report also gives you the official list of the budget-related bills (aka, ‘trailer bills’) that we spend so much time worrying about.

**Figure 8**  
**2007-08 Budget and Budget-Related Legislation**

Bill Number	Chapter	Author	Subject
<b>Budget Package</b>			
SB 77	171	Ducheny	Budget bill (conference report)
SB 78	172	Ducheny	Budget bill revisions
SB 79	173	Committee on Budget and Fiscal Review	Transportation
SB 80	174	Committee on Budget and Fiscal Review	Education
SB 81	175	Committee on Budget and Fiscal Review	Corrections
SB 82	176	Committee on Budget and Fiscal Review	Justice
SB 84	177	Committee on Budget and Fiscal Review	Human services
SB 85	178	Committee on Budget and Fiscal Review	Resources
SB 86	179	Committee on Budget and Fiscal Review	General government
SB 87	180	Committee on Budget and Fiscal Review	Taxation
SB 88	181	Committee on Budget and Fiscal Review	Proposition 1B
SB 89	182	Committee on Budget and Fiscal Review	EdFund
SB 90	183	Committee on Budget and Fiscal Review	Information technology
SB 91	184	Committee on Budget and Fiscal Review	EdFund
SB 97	185	Dutton	California Environmental Quality Act
AB 199	186	Budget Committee	General government revisions
AB 201	187	Budget Committee	Proposition 1B revisions
AB 203	188	Budget Committee	Health
<b>Post-Budget Legislation</b>			
AB 191	Pending	Budget Committee	Corrections cleanup
AB 192	Pending	Budget Committee	General government cleanup
AB 193	Pending	Budget Committee	Transportation spillover
AB 194	Pending	Budget Committee	Governor's vetoes modified
AB 195	Pending	Budget Committee	Health clinic services
AB 196	Pending	Budget Committee	Proposition 1B—local streets

### *And the bad news*

No loyal and attentive reader of the *California Budget Report* should be surprised that the just-passed budget is out of balance and the gap is getting bigger. On October 10, 2007, Mike Genest, the bright and bearded Director of the Department of Finance, announced, “**It’s fair to say the revenue situation is not going to be as good as we had hoped. It’s likely the \$6.1 billion (projected operating deficit) will be higher.**” (*Sacramento Bee*, October 10, 2007).

How much worse is it going to be? Well, current estimates from those smarties at DOF estimate the operating deficit could be as much as \$8.6 billion for next year. We bet the continuing downturn in the housing market leads to an even larger operating shortfall, perhaps beyond \$10 billion!

There have also been faint glimmers of rational debate in the political furor over health care reform and water policy; both the subjects of Special Sessions of the Legislature. Although it appears clear that no water agreement will be reached in time for placement on the February 2008 ballot, the conversations continue. We see some signs of a more rational policy debate, at least in fiscal terms, because the Governor actually has fought hard to find ways to pay for his proposed health care

expansion. He started with “fees” on physicians and hospitals; he then moved to hospital fees, but proposed a sales tax increase to pick up the difference (and avoid any charge to doctors).....and late last week, decided to substitute a long-term lease of the state Lottery instead.

We are not very fond of the lottery idea, although many other states are considering a similar approach. It appears, however, as if policymakers are acting as if they have to pay for any new health care expansion, which is a big change!

Likewise, with regard to the construction of dams and water facilities, a political deadlock is obvious, but the debate has been over the question of who pays. It is at least a refreshing change over the “borrow and borrow” mantra.

More later.

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