


California's Fiscal Outlook



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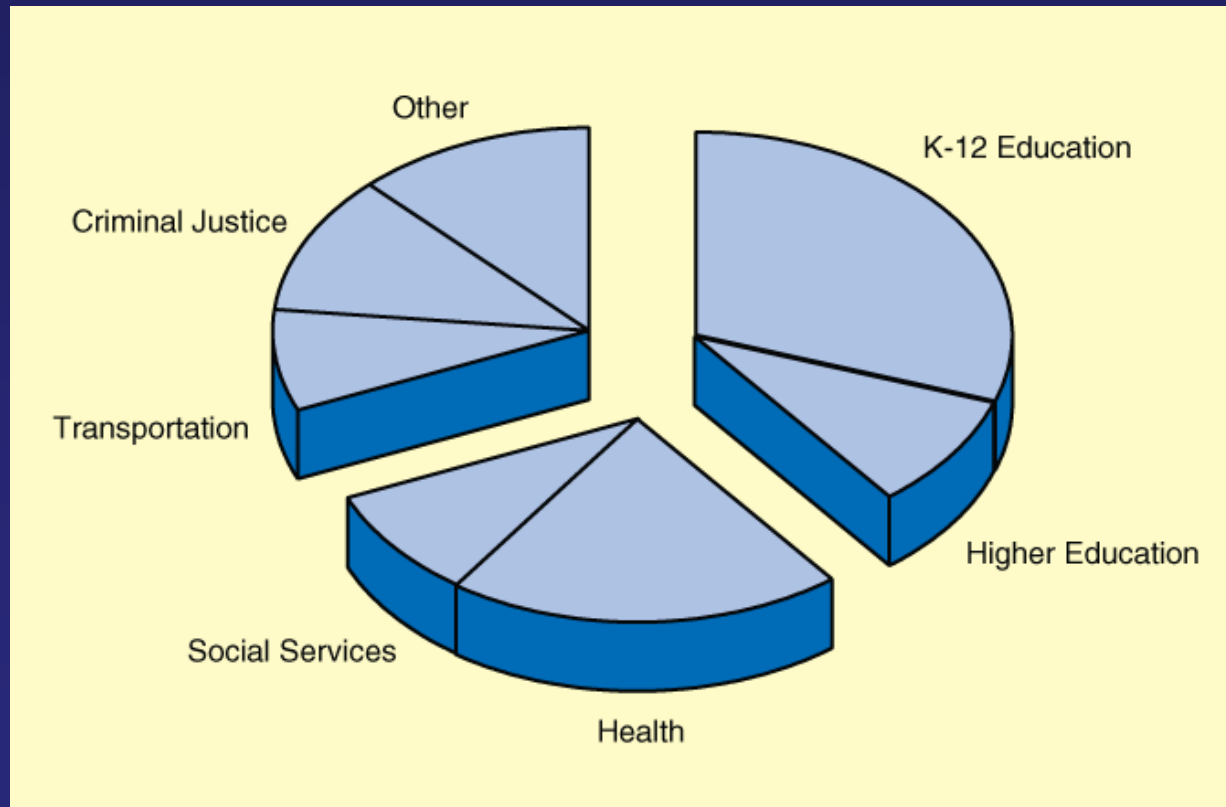
Estimated State Revenues in 2007-08

In Billions

General Fund Revenues	Total State Revenues \$127.8 Billion	Special Funds Revenues
Personal Income Tax \$55.6		Motor Vehicle-Related Revenues \$9.1
Sales and Use Tax 29.3		Sales and Use Tax 5.5
Corporation Tax 10.8		Personal Income Tax 1.7
Insurance Gross Premiums Tax 2.4		Tobacco-Related Taxes 1.0
All Other 4.1		All Other 8.3
Total \$102.3		Total \$25.5

Proposed State Spending in 2007-08

2007-08



Key LAO Budget Findings

- **2007-08 Ends With \$726 Million Deficit**
- **Structural Shortfall Continues**
- **State Faces Major Risks and Pressures**

Lower LAO Revenues

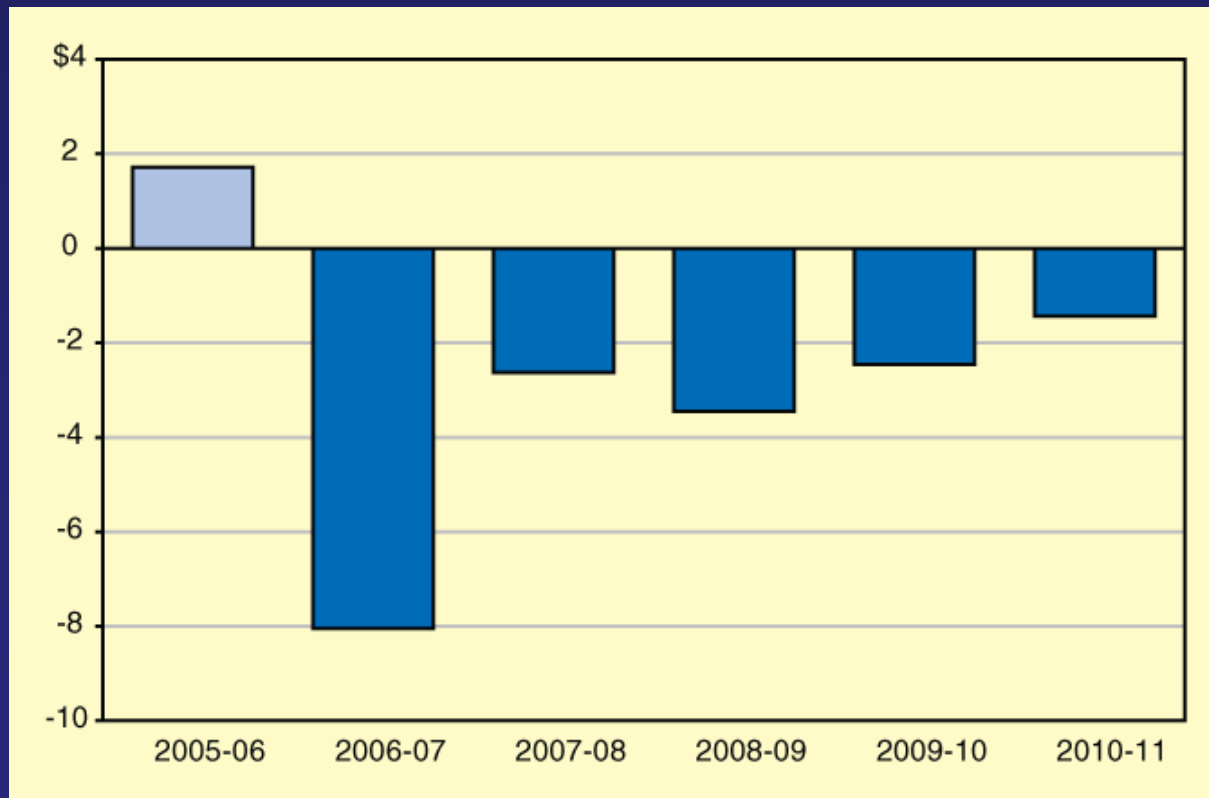
- **2006-07—Down \$939 Million**
- **2007-08—Down \$1 Billion**
- **Reduction in Revenues Related to Personal Income Taxes, Tribal Gambling, and Pension Obligation Bonds**

LAO Spending—Up \$825 Million

- **Proposition 98**
 - Higher Guarantee
 - Lower Property Taxes
- **Pension Obligation Bonds**

Significant Operating Shortfalls Remain

General Fund (In Billions)



Major Risks in Governor's Budget

- **Home-to-School/Public Transportation Account Proposal**
- **State Lawsuits Involving:**
 - COLA for CalWORK Grants
 - Application of Limited Liability Company Fee
- **Federal Lawsuits Related to State's Correctional Health Care System**

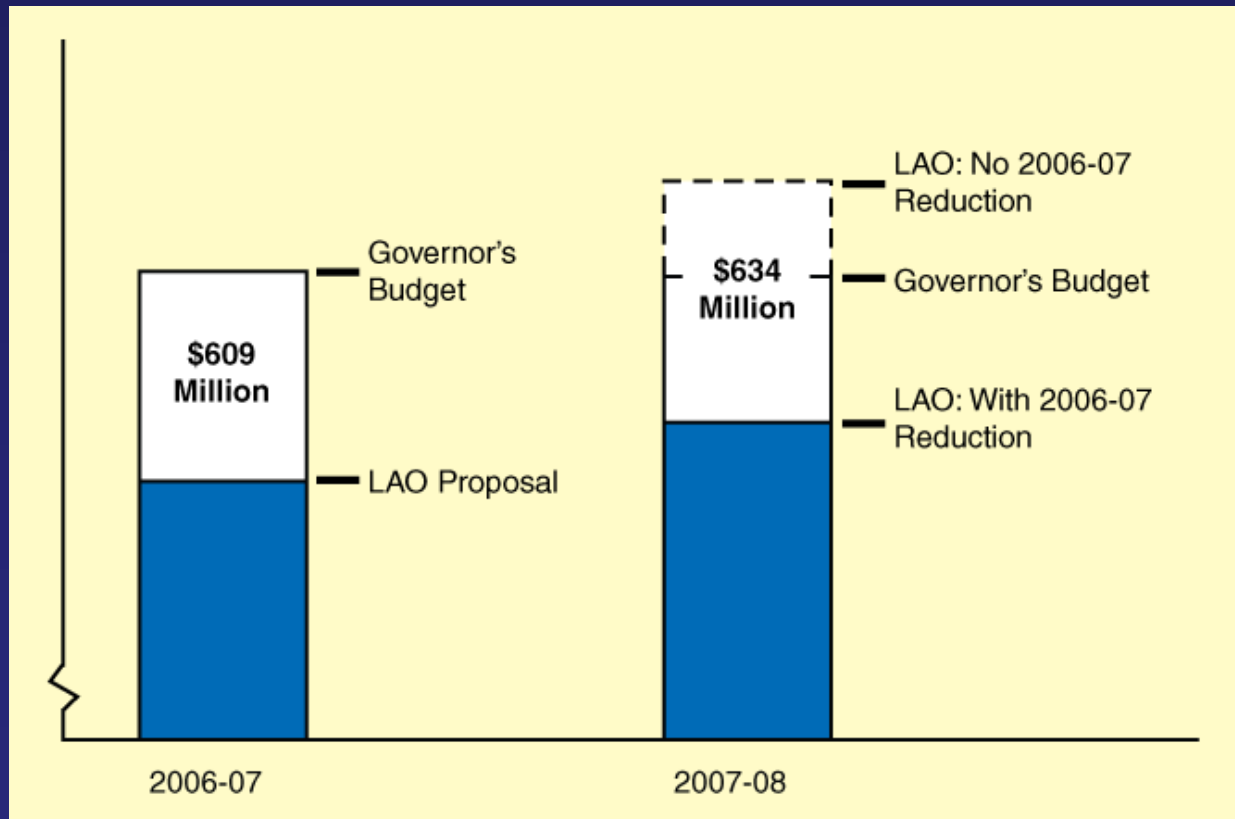
Major Cost Pressures Related to Retiree Health Care Costs

- **State Faces Estimated Unfunded Liability of Between \$40 Billion and \$70 Billion**
- **Local Governments Face Large Unfunded Liabilities**

Action Steps

- **Increase Resources**
- **Reduce Spending**
- **Reduce Supplemental Payments**

Proposition 98: Taking Action in 2006-07 Achieves Major Budgetary Savings



Supplemental Debt Repayments

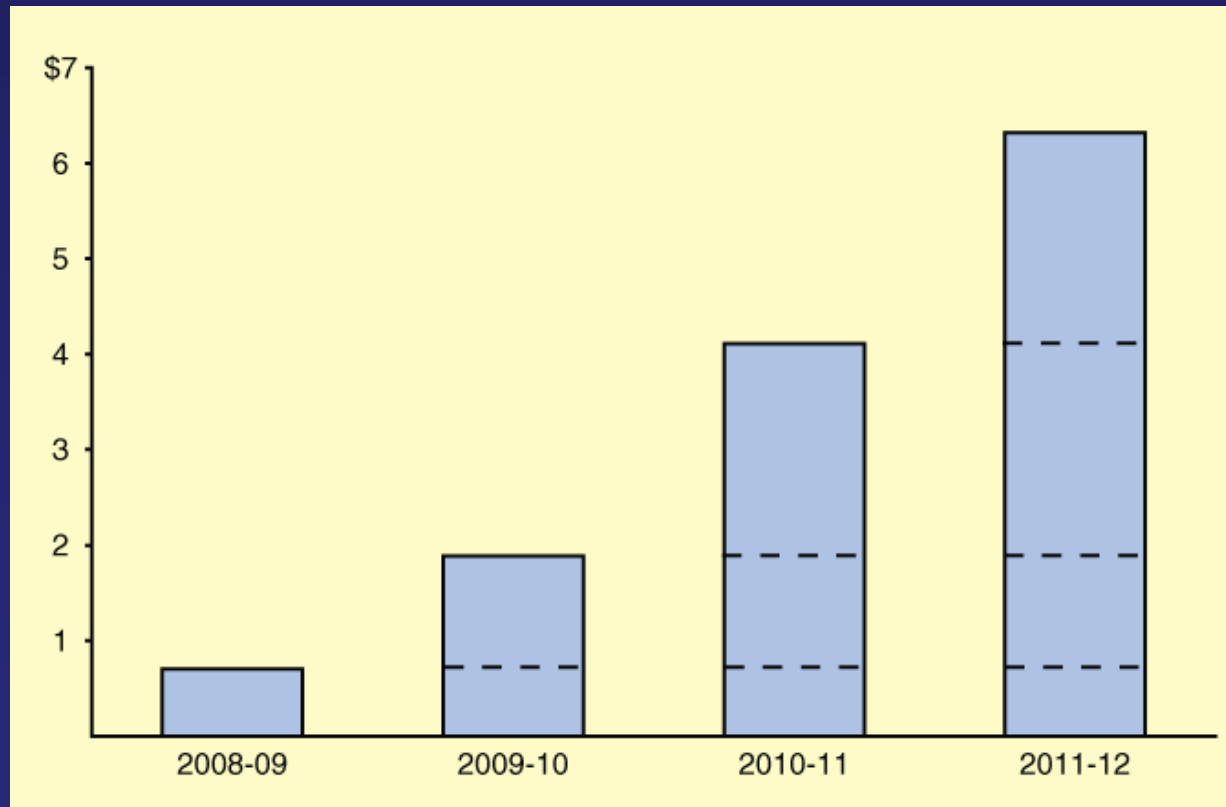
- **Proposition 58 and the Budget Stabilization Account:**
 - \$1 Billion Supports General Fund Expenditures
 - \$1 Billion for Supplemental Debt Repayments
- **Accelerated Repayments**
 - \$595 Million

March Economic Update

- Through February, Cumulative Tax Revenues Down \$847 Million
- Through March, Cumulative Tax Revenues Down \$1.1 Billion
- Housing Market and Energy Prices Remain Factors to Watch

Proposition 98: Substantial Increases on Horizon

In Billions



Link New Monies With Reform Plan

- **New Monies Offer Opportunity to Buy Reform**
- **New Monies Used in Same Ways Might Result in No Improvement**
- **Without Assessment and Accountability Reforms, State Will Not Be Able to Measure Effect of New Monies**

Benefits of a Reform Plan

- **Identifies Long-term Priorities**
- **Ensures Ways to Measure Progress**
- **Couples New Monies With Reforms**
- **Provides Local Agencies Time to Develop and Implement Reforms**
- **Strengthens Legislature's Role in Budget Process**

Performance-Based Approach to Building K-12 Reform Plan

- **Identify Performance Challenges**
- **Invest in Services Designed to Address Those Challenges**
- **Ensure Accurate, Reliable, Reasonable Ways to Measure Performance**

LAO Suggested K-12 Roadmap

- **Preschool for All Low-Income Children**
- **Additional Resources for Special Education, Low-Income, and English Learner Students**
- **Fiscal Solvency Block Grants**

Systemic Approach to Building K-12 Reform Plan

- **Focus on Building Blocks of K-12 System:**
 - Governance
 - Finance
 - Assessment
 - Accountability
- **Make Holistic Reforms to Underlying Structures**