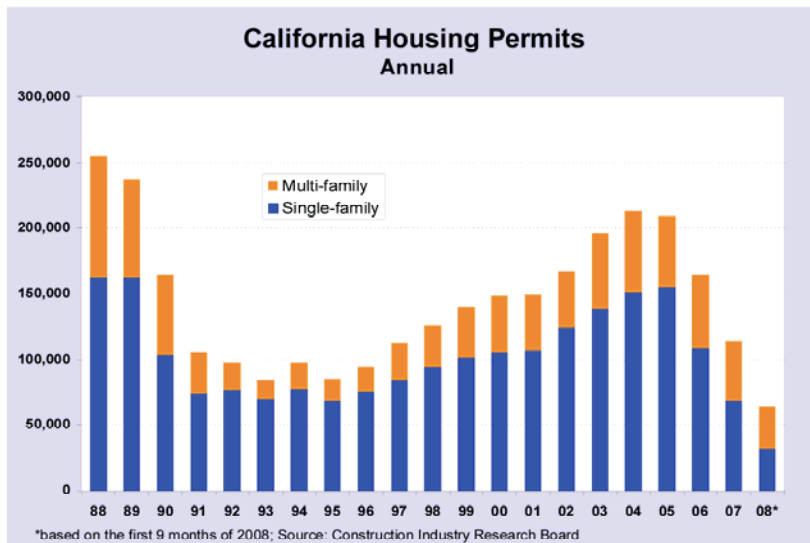




Department of Finance
Presentation

2009-10
Governor's General Fund Summary
January 16, 2009

Presented by
Thomas L. Sheehy
Chief Deputy Director of Finance



2009-10 Governor's Budget

General Fund Workload Revenue Forecast

Department of Finance
Financial Research Unit

3

General Fund Revenue Forecast

2009-10 Governor's Budget

Workload Budget

(Dollars in Billions)

	Budget Act	2009-10 Governor's Budget	Change
2007-08	103.027	102.574	-0.453
2008-09	101.992	87.476	-14.516
2009-10	102.609	86.295	-16.314
Three Year Change			-31.283

4

Personal Income Tax

Forecast Changes from the Budget Act:

- 2007-08: **-\$0.146 Billion**
- 2008-09: **-\$8.194 Billion**
- 2009-10: **-\$9.370 Billion**

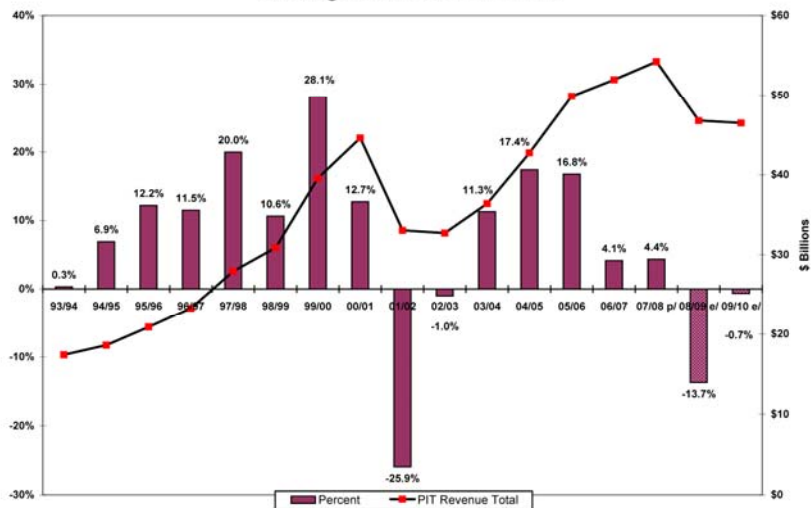
Reasons for Changes:

- Revisions to the forecast of capital gains realizations
 - From Budget Act to November Forecast
 - 2008 (-50%), 2009 (+10%)
- Reductions to the economic forecast for personal income
 - From Budget Act to December Forecast:

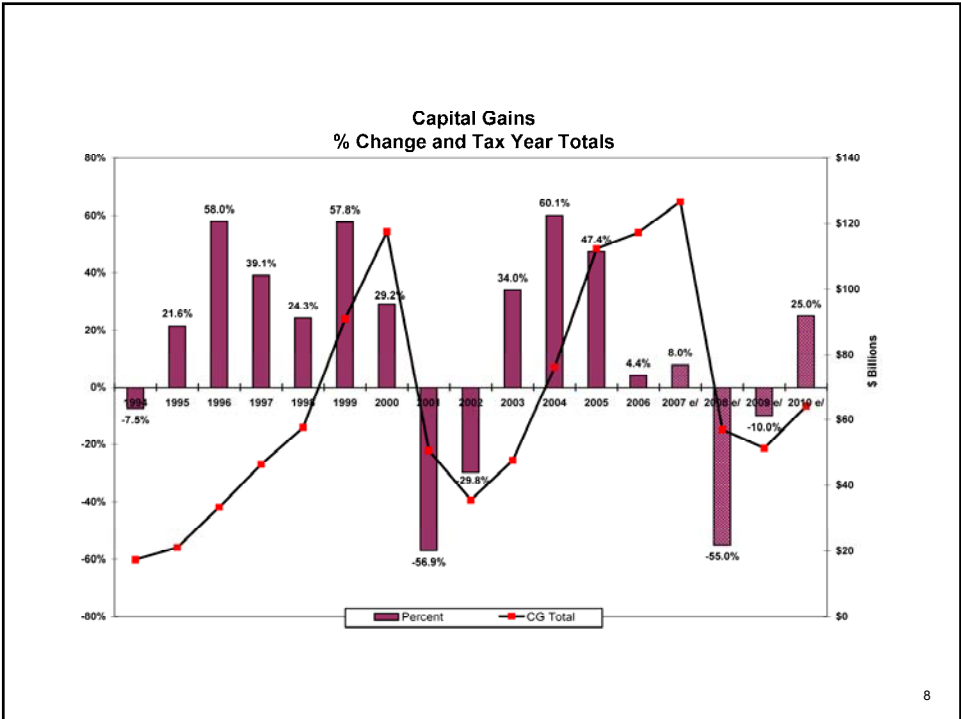
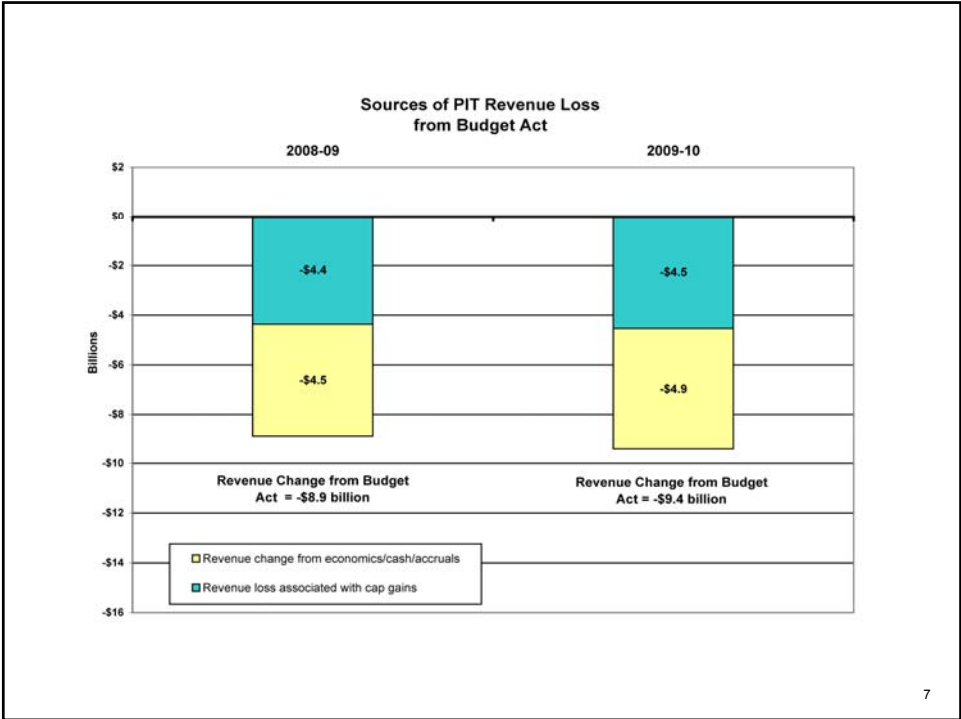
2008	2009	2010
-\$12.2 billion	-\$46.0 billion	-\$96.4 billion
- November withholding revenues were \$462 million below forecast
 - Of that, we estimate that \$220 million is due to lower than expected wages, and have reduced our forecast of subsequent taxable wages.

5

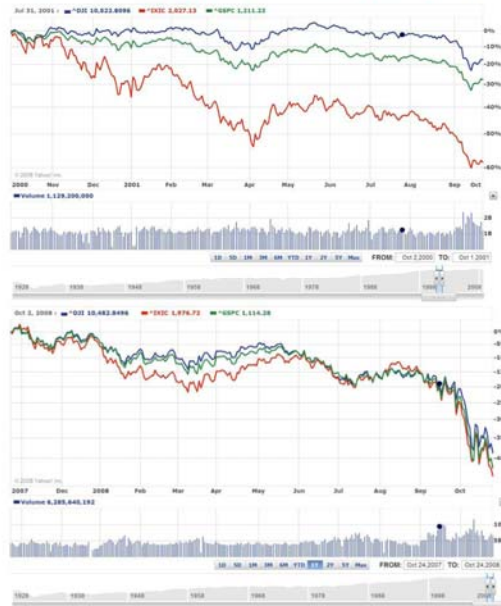
Personal Income Tax Revenue
% Change and Fiscal Year Totals



6



One Year Index Performance – (Top) through 10/01/2001, (Bottom) through 10/24/2008



9

Sales and Use Tax

Forecast Changes from the Budget Act:

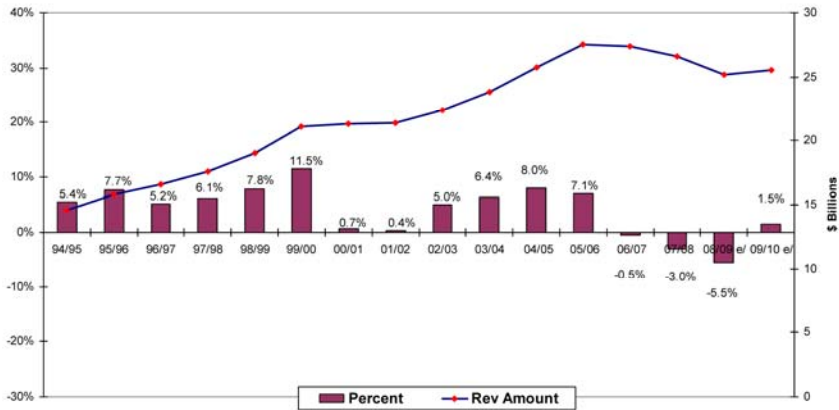
- 2007-08 -0.200 Billion
- 2008-09 -1.957 Billion
- 2009-10 -3.733 Billion

Key Economic Reasons for Changes from Budget Act Forecast:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
• Disposable Income (\$ in billions)	-\$8.3	-\$34.0	-\$75.6
• Housing permits	-7%	-41%	-38%
• Auto sales	-11%	-20%	-12%

10

Sales and Use Tax Revenue Fiscal Year Total and % Change



11

Corporation Franchise and Income Tax

Forecast Changes from the Budget Act:

- 2007-08 -0.077 Billion
- 2008-09 -2.876 Billion
- 2009-10 -1.541 Billion

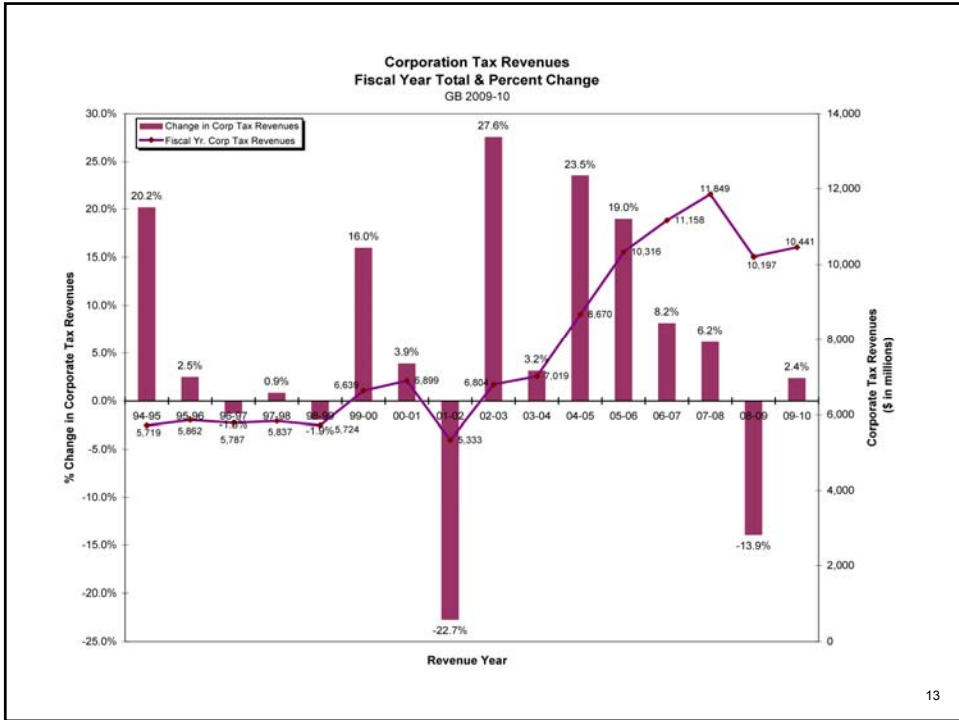
Reasons for Changes from Budget Act Forecast:

- US Corporate Profits

	<u>2008</u>	<u>2009</u>	<u>2010</u>
-3.5%	-3.5%	-9.0%	-4.0%
- Indicators that California profits have declined more than US average
- Change to:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
o Ratio of CA to US Personal Income	-0.8%	-1.4%	-1.7%
o Ratio of CA to US Unemployment	3.3%	1.3%	1.6%

12



Property Tax

Forecast Changes from the Budget Act:

- 2007-08 -\$0.289 Billion (Proposition 98 cost)
- 2008-09 -\$0.430 Billion
- 2009-10 -\$0.655 Billion

Based on a survey of assessors, growth rates will slow from 4.4% in 2008-09 to 0.3% in 2009-10 and go to -5.0% in 2010-11.

Assessed value (AV) lags prices since it is set in January preceding the fiscal year. 2008 median price is down 29.4% by October.

Key Economic Factors:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
• Housing permits	65,000	57,000	81,000
○ YOY % Change	-42.0%	-12.3%	+42.1%

**2009-10 Governor's Budget Estimate
GENERAL FUND WORKLOAD REVENUE FORECAST
SUMMARY TABLE
Reconciliation with 2008-09 Budget Act
(In millions)**

Source	Budget Act	December Forecast	Change Between Forecasts	
Fiscal 07-08				
Personal Income Tax	\$54,380	\$54,234	-\$146	-0.3%
Sales & Use Tax	\$26,813	26,613	-\$200	-0.7%
Corporation Tax	\$11,926	11,849	-\$77	-0.6%
Insurance Tax	\$2,171	2,173	\$2	0.1%
Other Revenues	\$6,525	6,468	-\$57	-0.9%
Transfers	\$1,212	1,237	\$25	2.1%
Total	\$103,027	\$102,574	-\$453	-0.4%
Fiscal 08-09				
Personal Income Tax	\$55,721	\$46,807	-\$8,914	-16.0%
Sales & Use Tax	\$27,111	25,154	-\$1,957	-7.2%
Corporation Tax	\$13,073	10,197	-\$2,876	-22.0%
Insurance Tax	\$2,029	1,831	-\$198	-9.8%
Other Revenues	\$3,242	2,666	-\$574	-17.7%
Transfers	\$816	819	\$3	0.4%
Total	\$101,992	\$87,476	-\$14,516	-14.2%
Change from Fiscal 07-08	-\$1,035	\$16,098		
% Change from Fiscal 07-08	-1.0%	-14.7%		
Fiscal 09-10				
Personal Income Tax	\$55,863	\$46,493	-\$9,370	-16.8%
Sales & Use Tax	\$25,248	25,515	-\$3,733	-12.8%
Corporation Tax	\$11,992	10,441	-\$1,541	-12.9%
Insurance Tax	\$2,135	1,798	-\$337	-15.8%
Other Revenues	\$3,366	2,015	-\$1,351	-40.1%
Transfers	\$15	33	\$18	120.0%
Total	\$102,609	\$86,295	-\$16,314	-15.9%
Change from Fiscal 08-09	\$617	-\$1,181		
% Change from Fiscal 08-09	0.6%	-1.4%		
Three-Year Total			-\$31,283	

15

Who Will and Who Won't Be Paid?

Will Pay

- Public Schools
- Debt Service, GO and Lease Revenue
- Repayments to Special Funds
- Payroll and Benefits
- Medi-Cal Claims
- RANs Repayment

Will Not Pay

- Tax Refunds
- Vendors
- Social Services Payments to Counties
- Healthy Families Program
- Developmental Services - Regional and Developmental Centers
- Mental Health Programs
- Cal Grants

16

Infrastructure Projects Will Stop

Over 5,700 infrastructure projects are at risk including

- 1,411 K-12, community college and university projects
- 203 transportation projects
- 481 flood control and water projects
- 671 housing projects

The value of all those projects exceeds \$22.5 billion

Shutting down these projects will result in closure costs and penalties that could be hundreds of millions of dollars

17

What Do We Propose To Do About It?

(Dollars in Billions)

	December 19 Special Session Proposals		Additional Special Session Proposals		Proposals to be Enacted By July 1		Total	
Expenditure Reductions	\$9,811	44%	\$4,049	87%	\$3,567	24%	\$17,427	42%
Revenues	12,505	56%	236	5%	1,545	10%	14,286	34%
Lottery	0	0%	0	0%	5,001	34%	5,001	12%
Borrowing	0	0%	358	8%	0	0%	358	1%
RAWs	0	0%	0	0%	4,673	32%	4,673	11%
Total	<u>\$22,316</u>	100%	<u>\$4,643</u>	100%	<u>\$14,786</u>	100%	<u>\$41,745</u>	100%

18

Do The Solutions Hold Up?

