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# *The* FISCAL REPORT an informational update

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## **Governor Acknowledges a \$21.3 Billion Budget Gap**

In a May 11, 2009, letter to legislative leaders, Governor Arnold Schwarzenegger acknowledged that the state faces a \$21.3 billion Budget gap for 2009-10 if the Budget-related measures on the special election ballot fail. This letter coincides with a statement the Governor made earlier in the day in southern California that his Administration would release two versions of the May Revision—one assuming that the special election measures pass and one assuming that they fail. These documents are scheduled to be released on May 14, the traditional date for the May Revision. (Recall that the Legislature authorized the release the May Revision as late as June 8 in order to provide the Administration with sufficient time to incorporate the results of the special election.)

In his letter, the Governor urged the Legislature to "begin work immediately" to avert a Budget shortfall and a cash crisis. He indicated that both the state and the nation are in the deepest recession since the Great Depression and that, for the first time since 1938, the state faces a decline in personal income.

The Governor estimates the revenue shortfall at \$15.4 billion through 2009-10, almost double the projection made by the Legislative Analyst's Office shortly after the 2009-10 Budget Act was enacted. To arrive at his \$21.3 billion Budget gap, the Governor adds \$5.8 billion at risk in the special election (\$5 billion to securitize the State Lottery and more than \$800 million to authorize the transfer of special fund revenues to the General Fund). Recent polling of likely voters shows these measures in jeopardy with the election fast approaching.

In less than three months, the 2009-10 State Budget, which the Governor and legislators hailed as closing a \$40 billion Budget gap and providing a \$2 billion reserve, is now projected to end with a \$19 billion deficit. Keep in mind that, while the weakened economy is largely to blame for this new shortfall, one-third of the problem can be traced to the questionable Budget-balancing solutions the Governor and Legislature have put before state voters in this special election.

***-Robert Miyashiro***

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