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Ask SSC . . . Has the State's Budget Problem Finally Been Solved?

Q. We've heard rumors that the Budget that the Legislature passed on Friday, July 24, 2009, may already be out of balance because of weak revenues and poor Budget assumptions. The Legislature may even be called back into special session to deal with this problem. Can you help us understand what might happen?

A. Thanks for your question. There are several parts that we should be aware of. First, the current and near-term outlook for California's Budget continues to be of concern. State revenue for the month of June 2009 underperformed the revised forecast for the personal income tax (off 18%) and the sales tax (off 9%), suggesting that the economy is still weak. State employment trends continue to be negative, with losses in payroll jobs exceeding 60,000 for each of the last three months. Forecasters anticipate that the state's unemployment rate will continue to rise from its current rate of 11.6%, which is among the highest in the nation.

This continued weakness in the state economy means that General Fund revenues will underperform the level assumed in the recently passed State Budget. The next formal assessment of state revenues is scheduled for November 2009 when the Legislative Analyst's Office will release its five-year forecast of the state's economy and Budget outlook. However, many anticipate an assessment of the state's Budget situation before November, if revenues continue to underperform the forecast.

Second, apart from the revenue risks, the state's revised 2009 Budget Act also presents significant expenditure risks. The Budget contains numerous assumptions regarding the sale of state assets, the receipt of federal funds to offset state cuts, expenditure reductions in the state's corrections system and other state programs, and the diversion of revenues from local governments that all must be realized in order for the Budget to remain in balance. If any of these assumptions should prove false, then Budget deficits would soon emerge.

Finally, the 2009-10 Budget contains numerous one-time solutions that will put pressure on future Budgets even if the state economy turns around and revenue growth resumes. The loss of these one-time solutions (i.e., limited term tax increases, accounting shifts, deferred state payroll payment, and others) will present challenges for the Legislature and the Governor for several years to come.

Whether the Legislature is called back to deal with these problems sooner rather than later is in the Governor's hands, because he has the authority to declare a fiscal emergency under Proposition 58. We may see another round of Budget adjustments in January 2010, or maybe sooner. Of one thing we are confident: school agencies need to plan conservatively, the state's fiscal crisis is nowhere near over.

-Robert Miyashiro

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