Analysis of the 2008-09 Budget Bill

Legislative Analyst’s Office
February 2008
Key LAO Findings

- Lower Revenues
- Larger Budget Problem
- Structural Shortfall After 2008-09
- Failure to Set Priorities
Taxable Sales Growth to Trail Personal Income

Annual Percentage Change

![Graph showing annual percentage change for taxable sales and personal income from 1998 to 2010. The graph indicates a significant increase in taxable sales growth in 2000, followed by a decline in the years that follow.]
Weakness in California Corporate Profits Expected

Annual Percentage Change

[Bar chart showing annual percentage change from 2001 to 2010, with a forecast for 2008-2010]
Operating Shortfalls Return After 2008-09 Under Governor’s Budget

General Fund (In Billions)
LAO Alternative

- Targeted Approach to Spending
- Balanced Approach Includes Revenues
- Balanced Budget Through 2012-13
Targeted Program Reductions

- Core Services at Current Levels
- Eliminate/Modify Ineffective Programs
- Use Other Funding Sources for Services
- Local Administrative Flexibility
Better Proposition 98 Approach
Add Revenues in a Reasonable Manner

- Reduce Dependent Credit
- Limit R&D Credit
- Limit NOL Carryforwards
- No Broad-Based Tax Rate Increases
LAO Alternative: Other Key Elements

- Rethink State Responsibilities
- No Additional Borrowing or Debt
Budgetary Reform Alternative

- Build Upon Proposition 58 Reserve Framework
- Rethink State’s Budgetary Formulas
LAO Alternative: A Starting Point

- Tough Decisions Ahead
- Legislative Priorities Will Set Framework