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## **CALIFORNIA'S BUDGET OUTLOOK**

### **Fiscal Year 2007-08 & Beyond**

California's fiscal outlook is tepid at best, given the uncertainties about the economy, the housing slump and rising gasoline prices. Signals are mixed regarding ongoing revenues. For example, the Department of Finance reports that General Fund revenue for the month of August was \$169 million above the 2007-08 Budget Act projection of \$6.314 billion. That figure is somewhat illusory, however, since year-to-date revenues are only \$25 million above the \$11.706 billion that was anticipated. August revenues notwithstanding, September is a much more important month from a revenue perspective because estimated payments for personal income tax filers and calendar-year corporations were due mid-month. The September revenues are not yet available.

As for the remainder of the current fiscal year and next fiscal year, the word volatile comes mind, due in no small part to the slumping housing and mortgage lending industries. Indeed, one need only look at the housing situation in the larger Southern California counties, where overall September home sales in Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties fell 48.5% from a year earlier, according to figures released today by the real estate information service DataQuick.

The total number of homes and condominium units sold – 12,455 – was the lowest since DataQuick began compiling sales statistics in 1988.

The median Southern California sales price of \$462,000 was down 7.6% from August and down \$5 from last September.

### **The Revenue Picture**

The Legislative Analyst released a briefing paper ("State Budget Update) earlier this month that highlights the volatile nature of the state's General Fund revenue picture. The paper points to the following as major issues regarding the status of the General Fund:

- The transportation lawsuit
- Sale of the EdFund (the state's student loan program)
- Uncertainties regarding tribal gaming revenues
- Court-ordered payment regarding the CalSTRS lawsuit (\$500 million)

In addition, the report raises concerns about the structural nature of the 2007-08 budget. Specifically, the use of one-time funds for ongoing costs could mean a large operating shortfall for 2008-09.

### **The Bottom Line**

When the Governor signed the 2007-08 state budget pundits in and around the Capitol envisioned a deficit of approximately \$6.1 billion for fiscal year 2008-09. That projection may be changing rapidly as finance officials say revenues are slipping below original estimates. August's General Fund receipts notwithstanding, it appears likely that the 2008-09 problem will be worse than anticipated.

How much worse? Well, the state could face an \$8.6 billion operating deficit – or even more – if the state's less than robust economy and soft housing market continue at their current pace. Even Finance Director Mike Genest has acknowledged that "It's likely the \$6.1 billion will be higher."

Again, the problem is revenues. So, if the state's receipts continue to fall below estimates for the remainder of the current year, California could end up \$2.5 billion below initial projections based on averaging the tax receipts from the last five months available.

*This Update was written by SWCA Associate, Michael Corbett*