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Initial Comments on the May Revision

☑ Revenue Changes

- Two-year revenue decline of $5.4 billion relative to January Budget ($1.6 billion for 1991-92, $3.8 billion for 1992-93).
- Forecast assumes continued economic weakness: beginning of recovery delayed until fourth quarter of '92.
- Revenue losses primarily attributable to dramatically lower estimates of non-wage income (interest, dividends, business income).
- Estimates indicate slow growth expected for 1993-94 as well.

☑ Major Expenditure Changes

- Current and budget year expenditures rise by $433 million relative to January Budget.
- Generally doesn't reflect policy changes. No new budget-balancing proposals.
- Budget doesn't include reductions in Proposition 98 spending to reflect revenue declines; however, minimum funding level drops by $2.3 billion over two years combined. Budget shows $150 million savings over two years due primarily to reduced ADA.
- H&W spending up $479 million. Changes primarily reflect delayed implementation of earlier proposals and backfilling for earlier proposals; caseloads relatively stable.
- Savings of $90 million due to declining correctional caseloads, lease-payment bond savings.
- Costs of deficit financing increasing — interest costs rise by $70 million.

☑ Major Uncertainties and Risks in the May Revise

- Revenue estimates — there is still considerable downside risk.

  Continuing risk of further job losses and weak consumer spending.

  Sales tax estimates anticipate strong recovery in housing and car sales; B&C estimate anticipates 1992 profits growth based on April receipts data.

  Trial Court Revenues considerably overstated.
- Economic impact of LA Riots.
- Ability to achieve levels of savings anticipated by budget proposals due to timing considerations (pay rollbacks, welfare grant reductions).
- Viability of some budget proposals (enterprise districts, SLIAG, federal waivers).
- No reserve to provide protection against these risks, deficiencies and potential additional natural disasters.

Legislative Analyst's Office

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50 years of service

May 20, 1992

Initial Comments on the May Revision — CONTD

☑ Implications of May Revise

- Budget solution requires additional major actions — minimum of $5.7 billion according to May Revise. Probably higher due to downside risks. Also, new solutions required to replace any rejected Governor's proposals.
- Significant portion of budget problem is attributable to the budget deficit; therefore, use of one-time solutions is appropriate.
- Legislature has only two options for making significant reductions in Proposition 98 funding level:
  - It can enact a "shift" in the current year, or
  - It must suspend Proposition 98 in 1992-93.
- Governor and Legislature need to begin considering many ideas that are not now "on the table".