

States with highest Mid-year FY2009 budget gaps



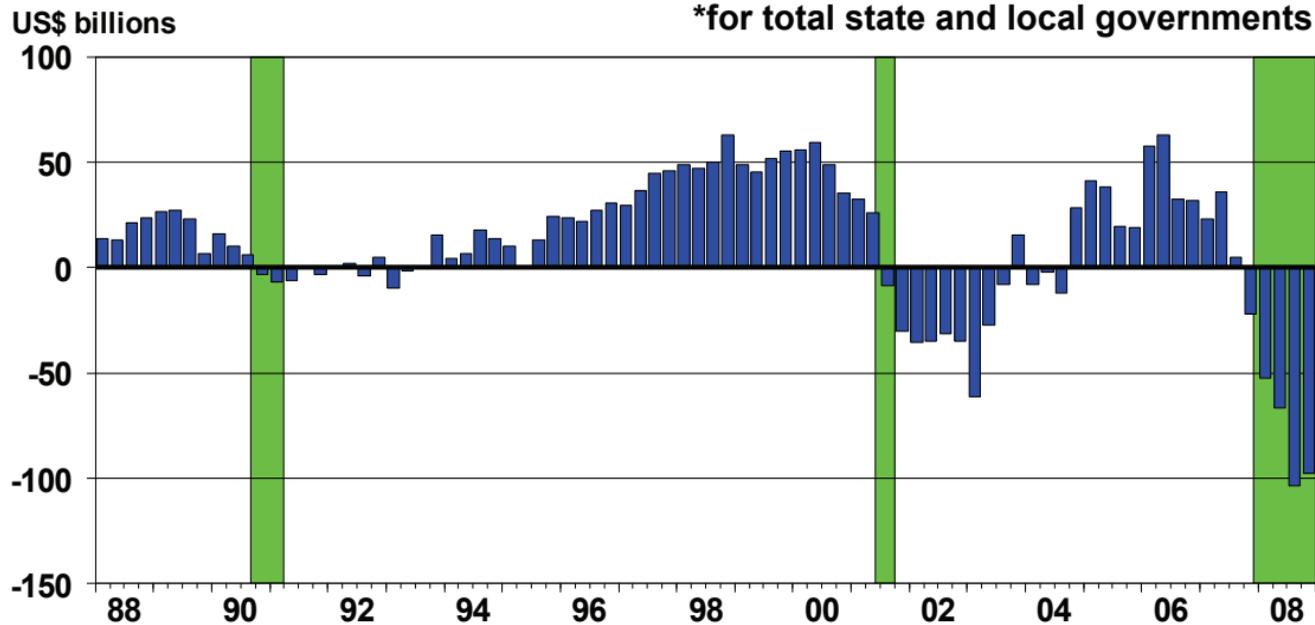
MILKEN INSTITUTE

	Size of gap US\$ billions	% of FY 2009 General Fund
Arizona	\$1.60	15.9%
Illinois	\$4.30	15.1%
California	\$13.70	13.6%
South Carolina	\$0.87	12.7%
Alabama	\$1.10	12.7%
Rhode Island	\$0.37	11.4%
New Jersey	\$3.60	11.1%
Utah	\$0.62	10.4%
Georgia	\$2.20	10.3%
Connecticut	\$1.70	10.1%
North Carolina	\$2.00	9.3%
Florida	\$2.30	9.0%
Massachusetts	\$2.40	8.4%
Pennsylvania	\$2.30	8.1%

Source: Center on Budget and Policy Priorities

State and local budget* shortfalls worsen

State and local govt. expenditures less tax revenues



Source: BEA.

California's budget gap projected to grow to \$40 billion

Legislative Analyst's Office



MILKEN INSTITUTE

- In November, the administration projected a \$24 billion drop in revenues from the estimates in place a few months earlier when the 2008–09 Budget Act was adopted.
- Now, due to the worsening economy, the administration projects an additional \$7 billion decline in revenues.
- Combined with the state's chronic operating shortfall and rising expenses, the administration projects that the state would end 2009–10 with a deficit of \$40 billion absent corrective action.

How the February 2009 budget package closes the \$40 billion CA shortfall, *US\$ millions*

	2008 - 09	2009 - 10	Two-year total
Tax increases	\$1,534	\$10,980	\$12,514
Spending-related savings	\$6,765	\$8,594	\$15,360
Borrowing	\$234	\$5,095	\$5,329
Federal stimulus funds	\$2,825	\$5,701	\$8,527
Total solutions	\$11,358	\$30,371	\$41,730

California budget overview

Legislative Analyst's Office



MILKEN INSTITUTE

- The budget package of \$42 billion in solutions adopted by the Legislature and the Governor in February was an impressive step in addressing the state's monumental budget shortfall.
- The budget uses both sides of the ledger—revenue increases and spending reductions—to attack the state's dire fiscal situation.
- Unfortunately, the state's economic and revenue outlook continues to deteriorate.
- Without corrective actions, the state's huge operating shortfalls will reappear in future years—growing from \$12.6 billion in 2010–11 to \$26 billion in 2013–14.

Closing California's \$40 billion shortfall

Major solutions, Legislative Analyst's Office



MILKEN INSTITUTE

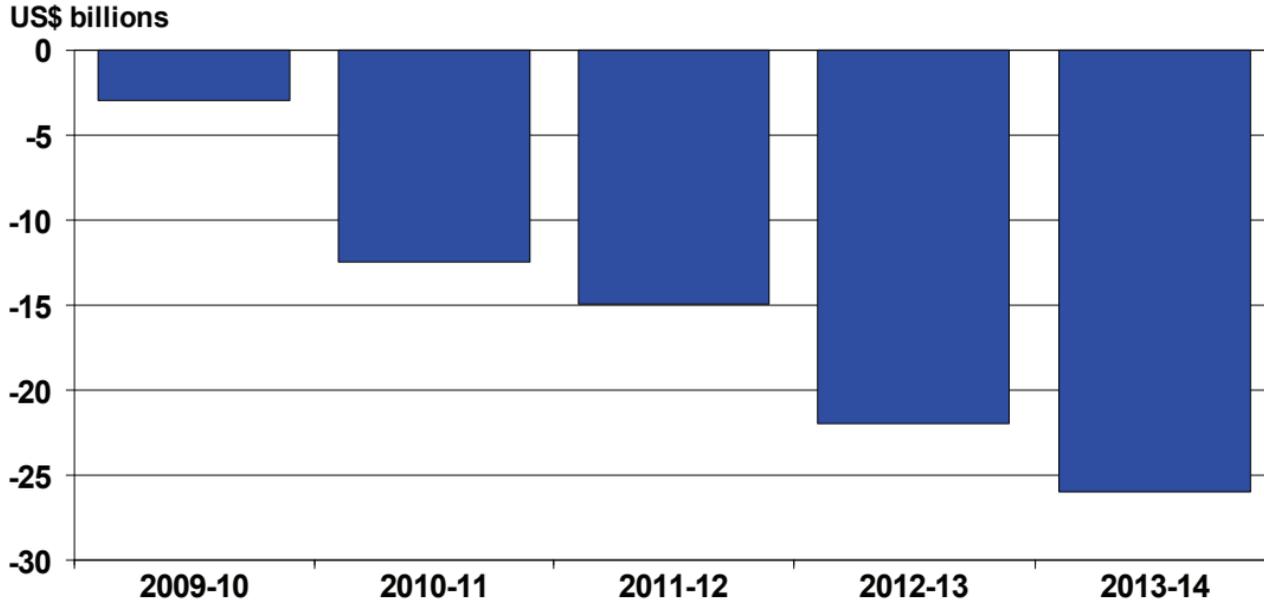
- **Spending Reductions** - The package includes more than \$15 billion in spending-related reductions.
- **Tax Increases** -The package includes about \$12.5 billion in temporary tax increases.
- **Borrowing** -The package counts on \$5 billion from the borrowing of future lottery profits, which requires the passage of Proposition 1C at the May special election.
- **Federal Funds** - The package also assumes receipt of \$8.5 billion in federal funds from the recent economic stimulus law to help balance the budget.

14 states have enacted various revenue raising measures



- In California,**
- temporary 1 percent increase in the sales tax rate
 - significant increase in Vehicle License Fee
 - reduction in the size of the dependent credit

State operating shortfall projected to grow dramatically through forecast period – general fund



Source: LAO.

The American Recovery and Reinvestment Act of 2009

Category	US\$ B
Tax credits and Incentives	\$281
Temporary increase in Medicaid matching rate	\$88
State fiscal relief	\$79
Increased unemployment benefits and job training	\$40
Local school districts	\$40
COBRA	\$39
Transform energy systems	\$30
Modernize federal and other public infrastructure	\$30
Highway construction	\$30
Healthcare IT	\$20
Cleanwater, flood control and environmental restoration	\$19
Pell grants	\$15
Food stamps	\$15
Public housing and energy efficiency	\$15
Science facilities, research and instruments	\$10
Transit and rail	\$10
Higher education modernization	\$6
Weatherize modest-income	\$6
Broadband internet access	\$6
Preventive care	\$4
Law enforcement	\$4

Government spending
breakdown



Total = \$787 B

Recovery Act spending in California



MILKEN INSTITUTE

US\$ billions

	Total spending package	California amount
Health & Human Services	178.3	15.3
Education	113.5	11.8
Labor	-----	8.4
Transportation	48.1	4.0
Science & Technology	30.1	1.9
Energy	43.1	1.3
Housing	13.1	0.9
Water & Environment	16.4	0.7
Public Safety	6.8	0.3
Tax Relief	264.2	35.4

Sources: www.recovery.ca.gov

California to receive over \$31 billion in state aid



MILKEN INSTITUTE

US\$ millions, by federal fiscal year

Program area	2008-09	2009-10	2010-11	Totals
Health	\$3,986	\$4,026	\$1,024	\$9,036
Education	—	7,973	—	7,973
Labor and workforce dev.	3,498	2,420	79	5,997
Social services	1,500	1,441	577	3,518
Transportation	1,302	1,302	—	2,604
General purpose fiscal stabilization	—	1,100	—	1,100
Resources/environmental	597	—	—	597
Housing programs	381	—	—	381
Criminal justice	264	—	—	264
Other	27	—	—	27
Totals	\$11,555	\$18,262	\$1,680	\$31,497

Sources: LAO.

Note: Does not include significant additional federal funds the state is likely to receive from competitive grants.

Pell grants

American Recovery and Reinvestment Act

- The federal Pell Grant program provides grants to low-income undergraduate students to help them with the costs of attending college.
- The ARRA increases the maximum Pell Grant from \$4,731 in 2008–09 to \$5,350 in 2009–10, and expands eligibility for the program.
- It is anticipated that students at California public colleges and universities, including community colleges, will receive about \$500 million in additional Pell Grant funds in 2009–10.

Transportation component of the American Recovery and Reinvestment Act, *US\$ millions*

Program	Nationwide total	California's share
<i>Formula-Based Funding</i>		
Highways and roads	\$27,500	\$2,570
Transit	7,550	1,068
<i>Discretionary Funding</i>		
High-speed and intercity rail	\$8,000	—
Supplemental discretionary grants	1,500	—
Aviation infrastructure	1,300	—
Other transit grants	850	—
Totals	\$46,700	\$3,638

Source: LAO.



Other Major Health-Related Provisions in Federal Economic Stimulus Package

American Recovery and Reinvestment Act

Provision	Fiscal Effects	
	Nationwide	California
Additional federal grants for Early Start program	\$500 million for the federal Individuals with Disabilities Education Act Part C grants.	About \$50 million for the Early Start Program.
Prevention and Wellness Fund	\$1 billion for various prevention and wellness programs.	\$34 million for vaccinations. Unknown for other programs.
Safe Drinking Water State Revolving Fund	\$2 billion.	\$160 million to the state for drinking water projects that can begin construction before February 17, 2010.



Stimulus Funding for California Resources and Environmental Protection Programs

Major components, US\$ millions

Program	Funding	Description
Clean Water State Revolving Fund	\$283	Existing program, largely for wastewater treatment upgrades.
State Energy Programs	239	Focus on energy efficiency and renewable energy programs.
Energy Efficiency and Conservation	56	Block grants to be used to reduce total energy usage, improve overall energy efficiency, and reduce fossil
Subtotal	\$578	



Taxable bond option for government (Build America Bonds)

- **35% credit to bondholders for 2009 and 2010**
- **35% refundable credit to issuers for bonds issued in 2009 and 2010 (for obligations issued after date of enactment)**
- **Allows the State or local government to elect to receive a direct payment from the Federal government equal to the subsidy that would have otherwise been delivered through the Federal tax credit for bonds.**



Economic package includes following benefits to help revitalize state's infrastructure:

- **\$160.2 million through the Drinking Water State Revolving Fund**
- **\$284.6 million through the Clean Water State Revolving Fund**
- **\$2.6 billion in Highway Funding**
- **\$1.1 billion in Transit Formula Funding**
- **\$118.6 million through the Public Housing Capital Fund**
- **\$324.2 million in HOME Funding**
- **\$190 million through the Homelessness Prevention Fund**



Mortgage interest deduction – under Obama plan

- **Provision would reduce the rate at which high-income taxpayers - those whose family income is \$250,000 (\$200,000 for singles) or more - would benefit from itemized deductions.**
- **Currently, taxpayers in the 33% and 35% income brackets are able to reduce their taxes through deductions for mortgage interest payments, charitable contributions, local taxes and other expenses by 33 and 35 cents, respectively, on the dollar.**
- **Under the Administration's proposal, these individuals would only be able to reduce their tax bill by only 28 cents on the dollar. The Administration estimates that the change would raise \$318 billion over the next 10 years, and has targeted the funds for planned health care reforms.**

Summary of budget-related propositions

Proposition Topic	Effect on State General Fund Budgets	
	2009 - 10	Next Few Years
1A "Rainy day" reserve fund	Not significant	Higher tax revenues through 2012 - 13. Unknown net effect from other provisions.
1B Supplemental payments for education	Potential savings in the billions of dollars	Potential savings in the billions of dollars in 2010 - 11, with potentially higher costs of billions of dollars annually thereafter.
1C State Lottery	\$5 billion in benefit from borrowing from future lottery	Net increased costs of hundreds of millions of dollars annually.
1D Early childhood development program funds	Up to \$608 million in savings	\$268 million annually in savings from 2010 - 11 through 2013 - 14.
1E Mental health program funds	About \$230 million in savings	About \$230 million in savings in 2010 - 11.
1F State elected officials' salary increases	Potential minor reduction in costs	Potential minor reduction in costs in some years.

Sources: LAO.



Elements of stimulus package....

Immediate relief for families (will cost \$260 billion over 10 years)

- **Cut taxes by \$400 for individuals and \$800 for families**
- **A payment of \$250 to recipients of Social Security, veterans pension and SSI benefits**
- **\$70 billion to continue the AMT tax shelter**
- **Greater access to child tax credit for working poor**
- **Expand earned-income tax credit to families with three children**
- **A \$2,500 college tuition tax credit**
- **\$8,000 tax credit for first-time homebuyers in 2009**
- **Deduction of sales tax on new car purchases**
- **Extension of unemployment benefits and suspension of taxes on those benefits through 2009**

Sources: AP, Stimulus Package on Track for Final Votes, February 12, 2009; Bloomberg, Lawmakers Drop Broadband Tax Credit, February 13, 2009; WSJ, How It Adds Up, February 15, 2009, About.com.



Elements of stimulus package....

Modernize federal infrastructure

- \$46 billion for transportation and mass transit projects
- \$31 billion to modernize federal buildings
- \$6 billion in water projects

Increase alternative energy production

- \$17 billion in renewable energy tax cuts
- \$5 billion to weatherize homes



Elements of stimulus package....

Expand health care

- **\$24 billion to subsidize COBRA benefits for laid off workers**
- **\$87 billion to help states with Medicaid**
- **\$10 billion to National Institute for Health**
- **\$17 billion to modernize health information technology systems**

Improve education

- **\$54 billion to school districts and states.**
- **\$21 billion for school modernization.**
- **\$17 billion to boost Pell Grants.**
- **\$13 billion for Head Start.**
- **\$12 billion for special ed programs.**



Elements of stimulus package....

Invest in science research and technology

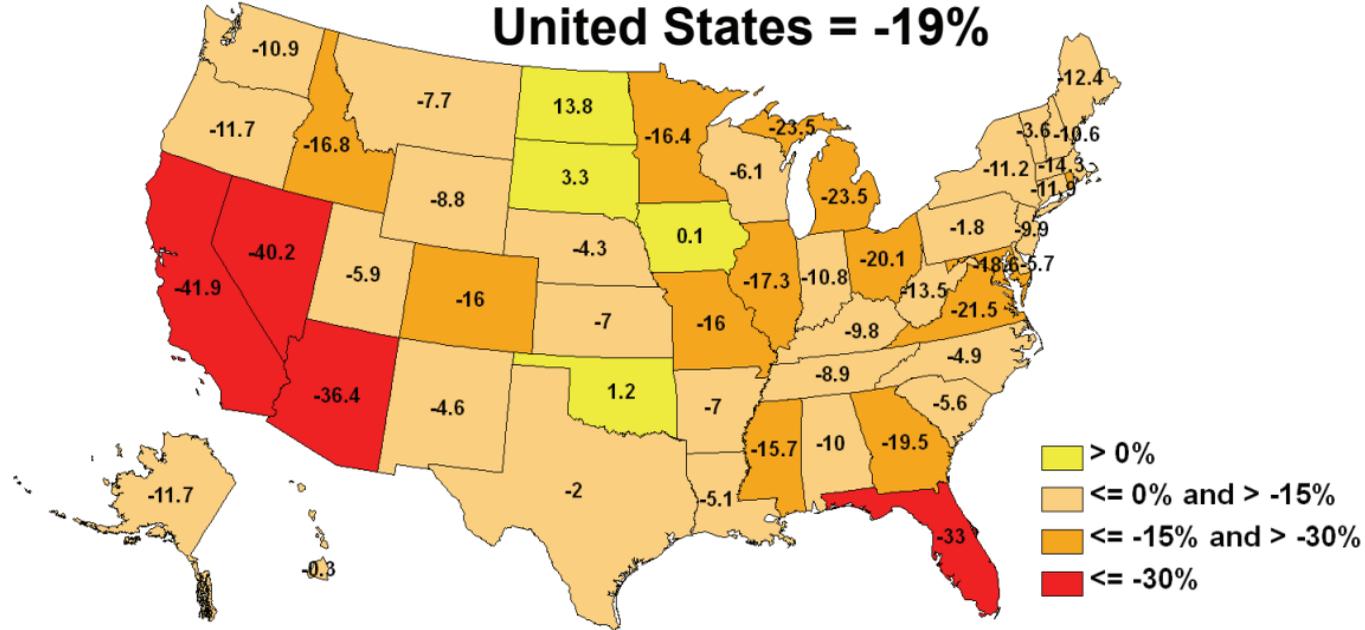
- \$10 billion for science facilities
- \$4 billion to increase broadband infrastructure
- \$4 billion for physics and science research

Help small businesses

- \$54 billion to help small businesses through a variety of tax incentives and write-offs

Forty-seven states had home price declines

From 4Q 2006 to 4Q 2008

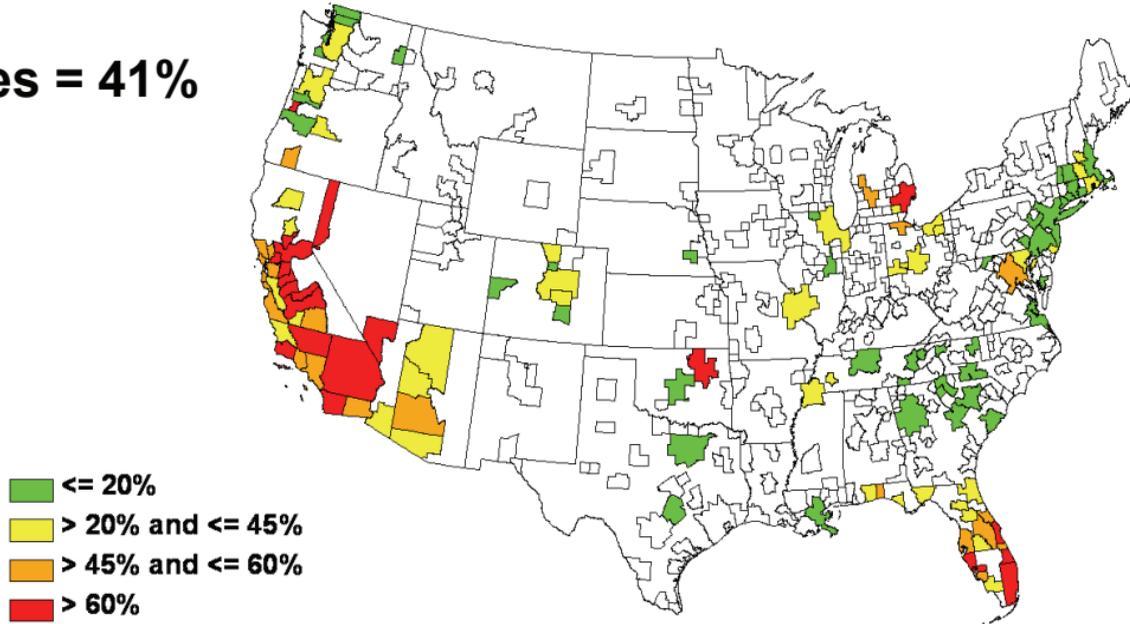


Sources: Moody's Economy.com, Milken Institute.



Percentage of homes purchased between 2004 and 2008 that now have negative equity

United States = 41%

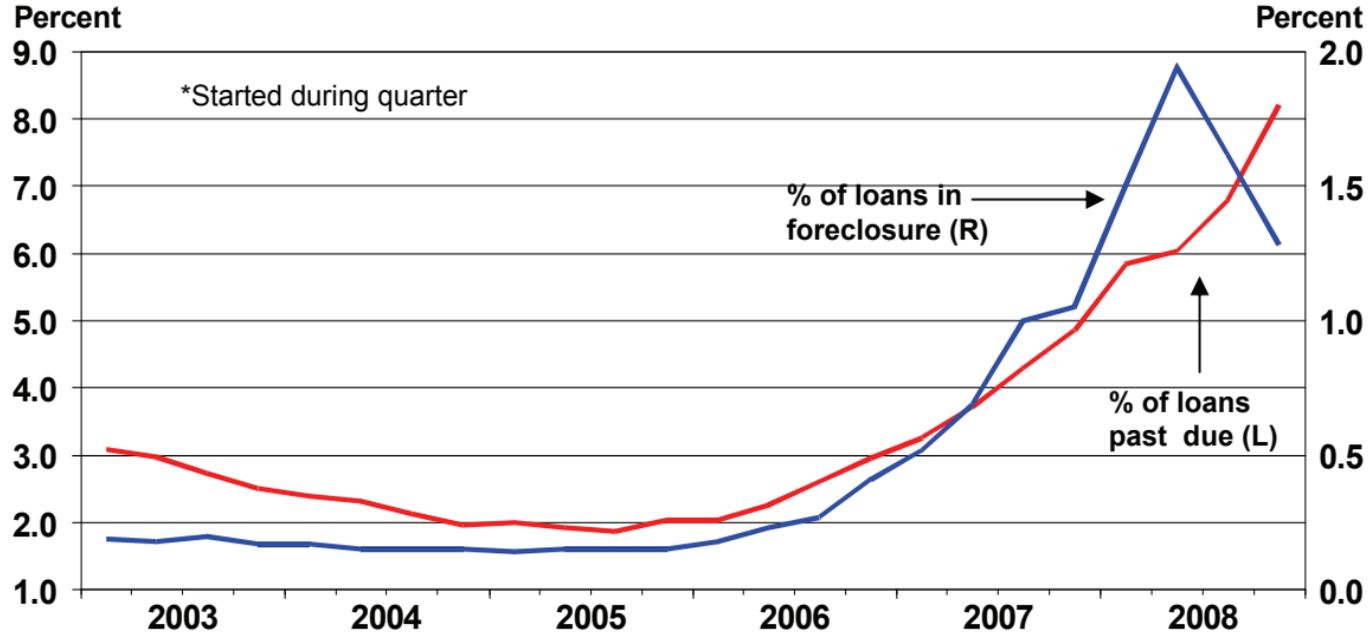


Percent of all loans delinquent vs. in foreclosure*

California



MILKEN INSTITUTE



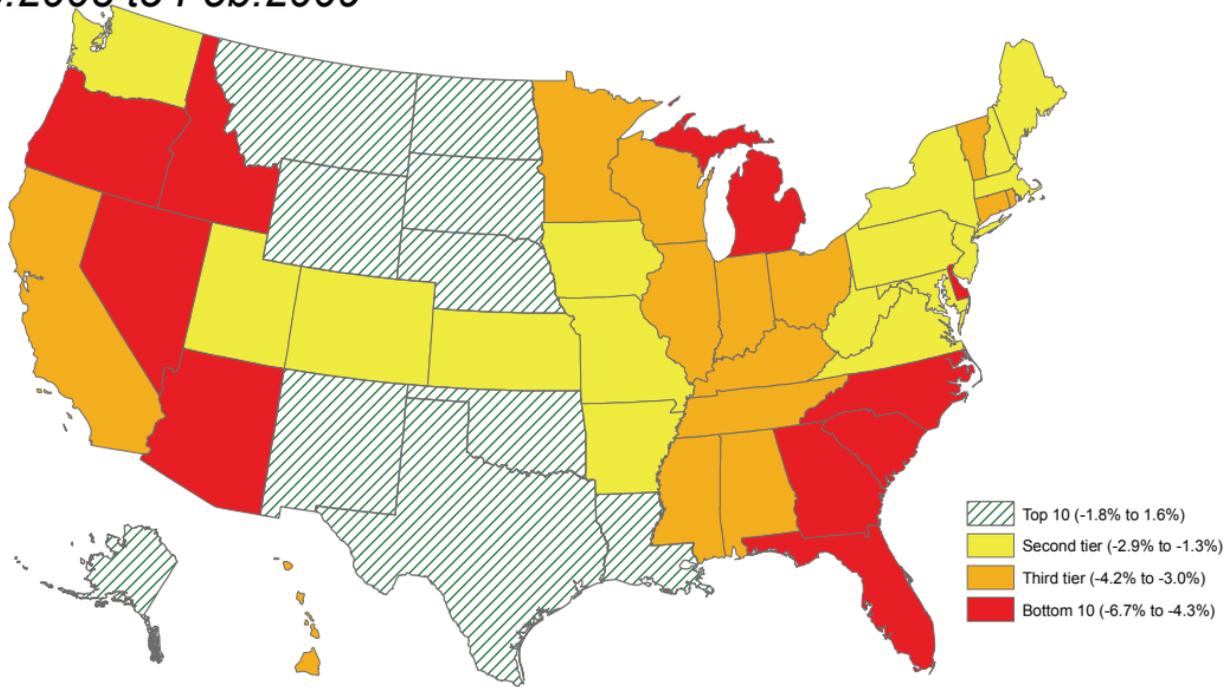
Sources: Mortgage Bankers Association, Moody's Economy.com.

Percent change in total employment

From Feb. 2008 to Feb. 2009



MILKEN INSTITUTE



Sources: NAR, Moody's Economy.com, Milken Institute.