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# The FISCAL REPORT an informational update

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## Legislative Analyst Releases Overview of the May Revision

On Thursday afternoon, May 19, 2011, the Legislative Analyst's Office (LAO) released its Overview of the Governor's May Revision. The LAO generally finds the Governor's revenue estimates to be reasonable. In fact, LAO's projection is about \$59 million more than the Governor's for the current and budget year. However, the LAO's out-year projections show a combined deficit of \$7.5 billion for the three subsequent years. The LAO forecasts much of the revenue gains in 2010-11 and 2011-12 as resulting from net capital gains, while the Administration assumes a much smaller amount. As a result, the Administration and LAO are spot-on for the current and budget year revenues, but differ greatly in the out-years.

Legislative Analyst Mac Taylor, in releasing the Overview, states that the Governor is wise in using \$2.8 billion of the additional Proposition 98 funds to reduce the amount of the deferrals that the state currently uses for its cash flow needs—eliminating the \$2.1 billion deferral authorized in March and reducing previously authorized deferrals by roughly \$400 million. The report notes the elimination of the deferrals will improve districts' fiscal health by reducing the amount of borrowing a district may need to meet its obligations.

In addition, the report notes that school districts' budget outlooks are significantly improved by the May Revision, with the threat of a significant reduction to Proposition 98 much less likely. That said, there still is some uncertainty as it relates to the extension of the temporary taxes. The LAO report comments that this risk could lead districts to make some level of programmatic or staffing reductions. As such, the report recommends deferring an election until the end of the fiscal year to allow districts some stability and predictability for the revenues in 2011-12.

Full Report: [http://lao.ca.gov/reports/2011/bud/may\\_revise/may\\_revise\\_051911.aspx](http://lao.ca.gov/reports/2011/bud/may_revise/may_revise_051911.aspx)

Presentation: [http://lao.ca.gov/webcasts/2011/may\\_revise/may\\_revise\\_051911.aspx](http://lao.ca.gov/webcasts/2011/may_revise/may_revise_051911.aspx)

—Dave Heckler

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