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# The FISCAL REPORT an informational update

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Volume 29

For Publication Date: October 30, 2009

No. 22

## Many Uncertainties Place 2009-10 State Budget in Peril

The result of several judicial actions may end up unraveling billions of dollars in cuts approved by the Legislature and Governor in the 2009-10 State Budget, leaving great uncertainty over how the holes will be plugged, especially in light of the state's continuing dismal revenue forecast.

Adding to the previously reported judicial actions that struck down some state worker furloughs and prison population reductions that state lawmakers were counting on as state savings in the 2009-10 State Budget agreement, on Monday, October 19, 2009, a federal judge imposed a preliminary injunction against the \$82 million cut to caregiver services for the elderly and disabled. This comes one day before a suit was filed against the state by redevelopment agencies to block the state from redirecting more than \$2 billion in funds—of which \$1.7 billion was used to fund education programs in the 2009-10 Budget deal. Adding to the uncertainty is the suit filed by Insurance Commissioner Steve Poizner to block the sale of the state's Workers' Compensation program, which, if successful, would create another \$1 billion hole in the 2009-10 adopted State Budget.

On Thursday, October 22, the Governor lashed out at the courts noting, "They are going absolutely crazy," and need to consider the state's fiscal straits when issuing their opinions. Meanwhile, his chief fiscal advisor reports that the key September state revenue collections were short of projection by \$810 million, with the biggest deficit in the personal income tax. Coupling the 2008-09 year-end deficit with the 2009-10 year-to-date shortfall of \$948 million, General Fund revenues are off almost \$1.9 billion from the budgeted level (see "[September Revenues Fall Short \\$810 Million](#)," in the current issue of the *Fiscal Report*).

In a recent report published by the Legislative Analyst's Office (LAO) ([http://lao.ca.gov/handouts/education/2009/Education\\_Next\\_Round\\_10\\_14\\_09.pdf](http://lao.ca.gov/handouts/education/2009/Education_Next_Round_10_14_09.pdf)), an overall state deficit of \$7.5 billion in 2010-11 is projected, with projected deficits of more than \$15 billion in each of the following two years. The LAO also reports that the estimated "Education Credit Card"—the Proposition 98-funded obligation—has risen to \$15 billion. This number includes deferrals, mandates, and K-12 revenue limit deficits.

Typically in October, the Legislature would be adjourned until the first of the year; however, these are not typical times. There are three special legislative sessions underway to address the state's tax structure, education provisions to ensure competitiveness for the federal Race to the Top (RTTT) funds, and state water issues. The focus this week has been on a water deal, which, at any given moment, is either in flux or imminent.

Additionally, the Legislature held an informational hearing on October 22, bringing together former veteran legislators, including State Treasurer Bill Lockyer and former Assembly Republican Floor Leader Bob Naylor, along with various respected policy analysts, to discuss ways to strengthen the integrity of the legislative and State Budget process to make it more efficient, effective, and timely, especially in the current legislative term-limited environment. Several recommendations, including establishing a two-year Budget cycle, reforming the legislative committee membership process, modifying term limits, and changing the State Budget vote requirement from two-thirds to a majority vote were mentioned.

While it is too early to predict changes, we are encouraged that long-term funding and policy issues are at least being discussed. More to follow.

—Nancy LaCasse

posted 10/22/2009

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