

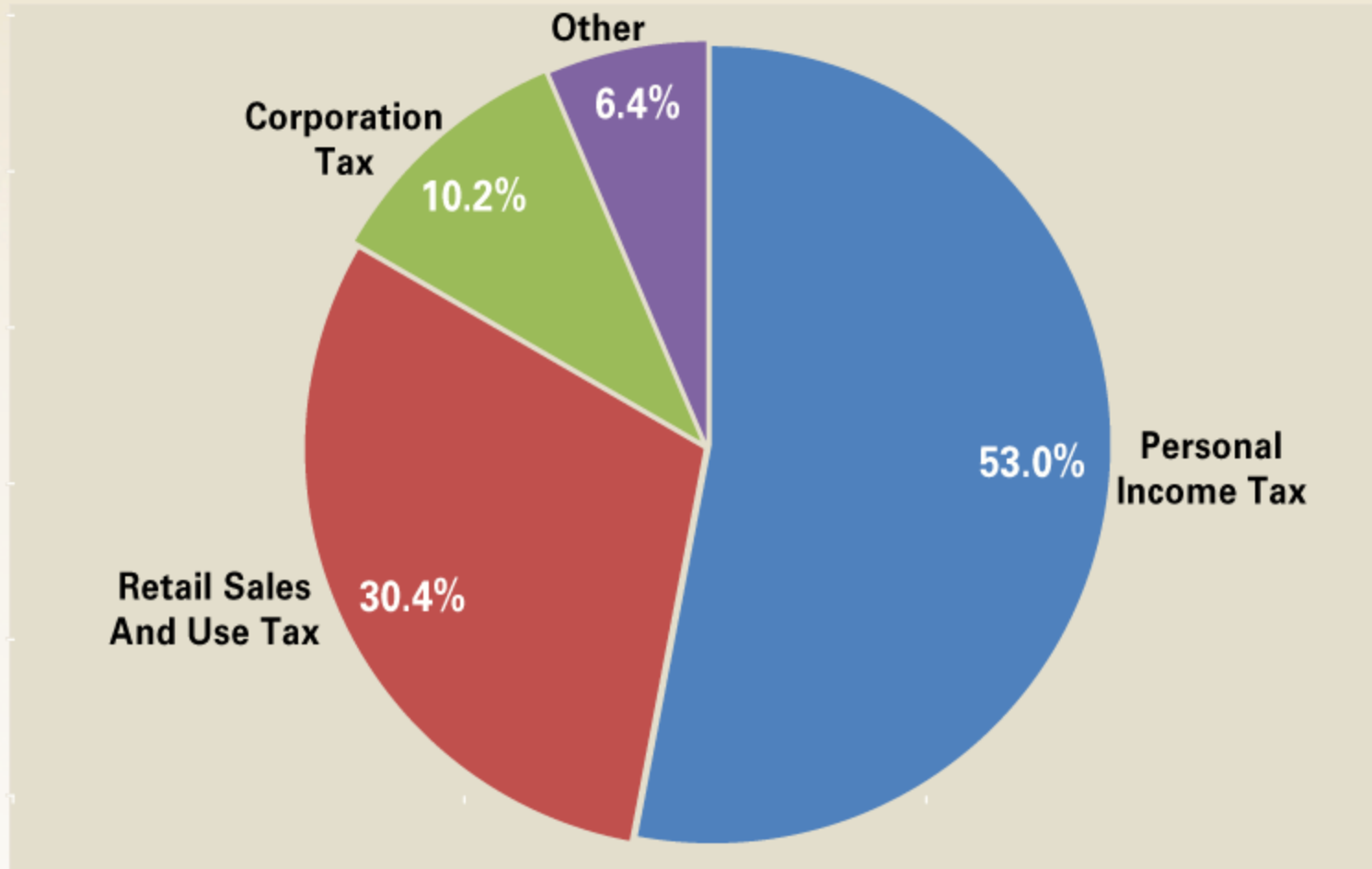


Budget Discussion

Governor-Elect Edmund G. Brown Jr.

December 14, 2010

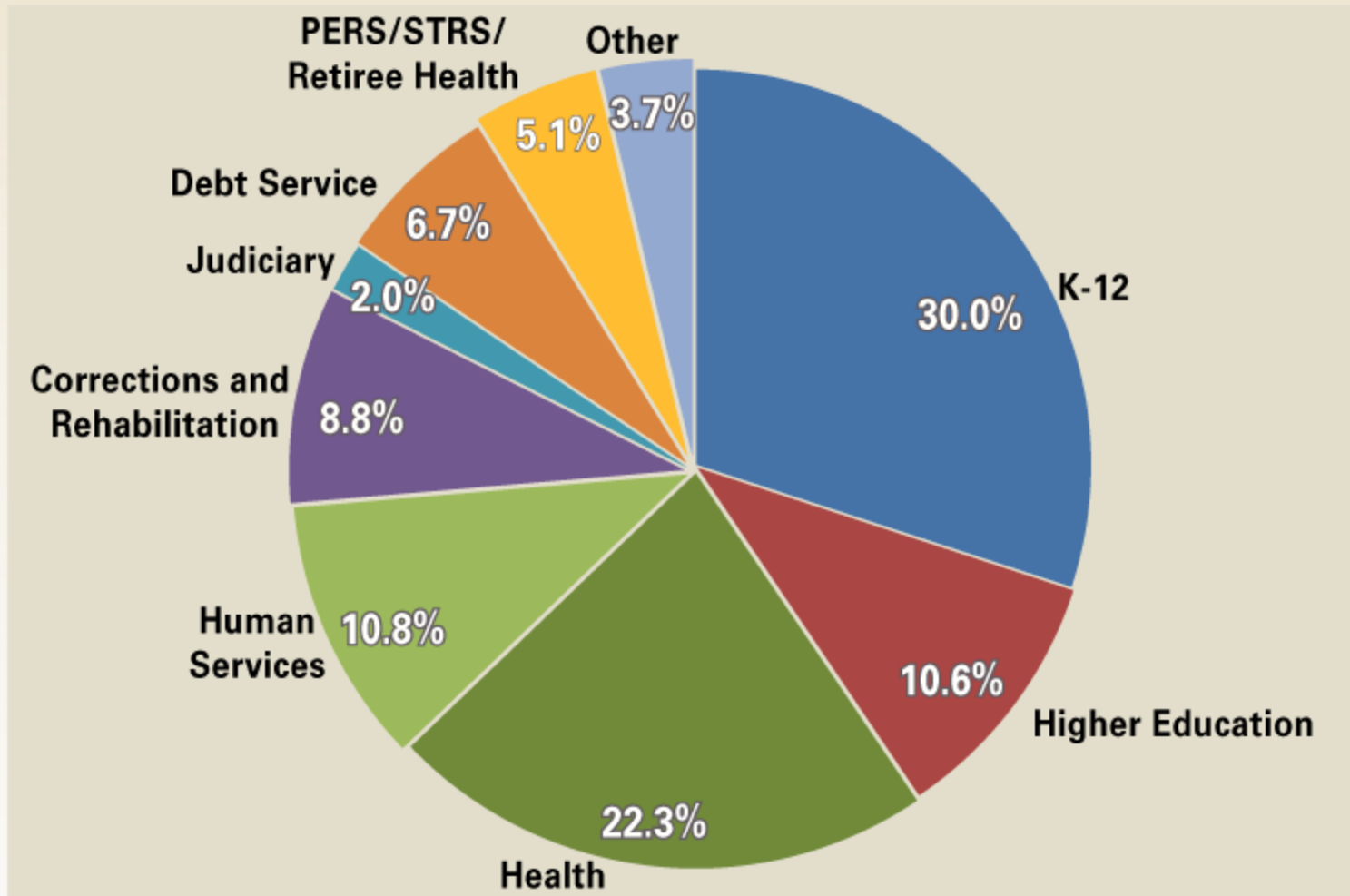
Where Do State General Fund Revenues Come From?



Source: Legislative Analyst's Office — 2011-12

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Where Do State General Fund Dollars Go?

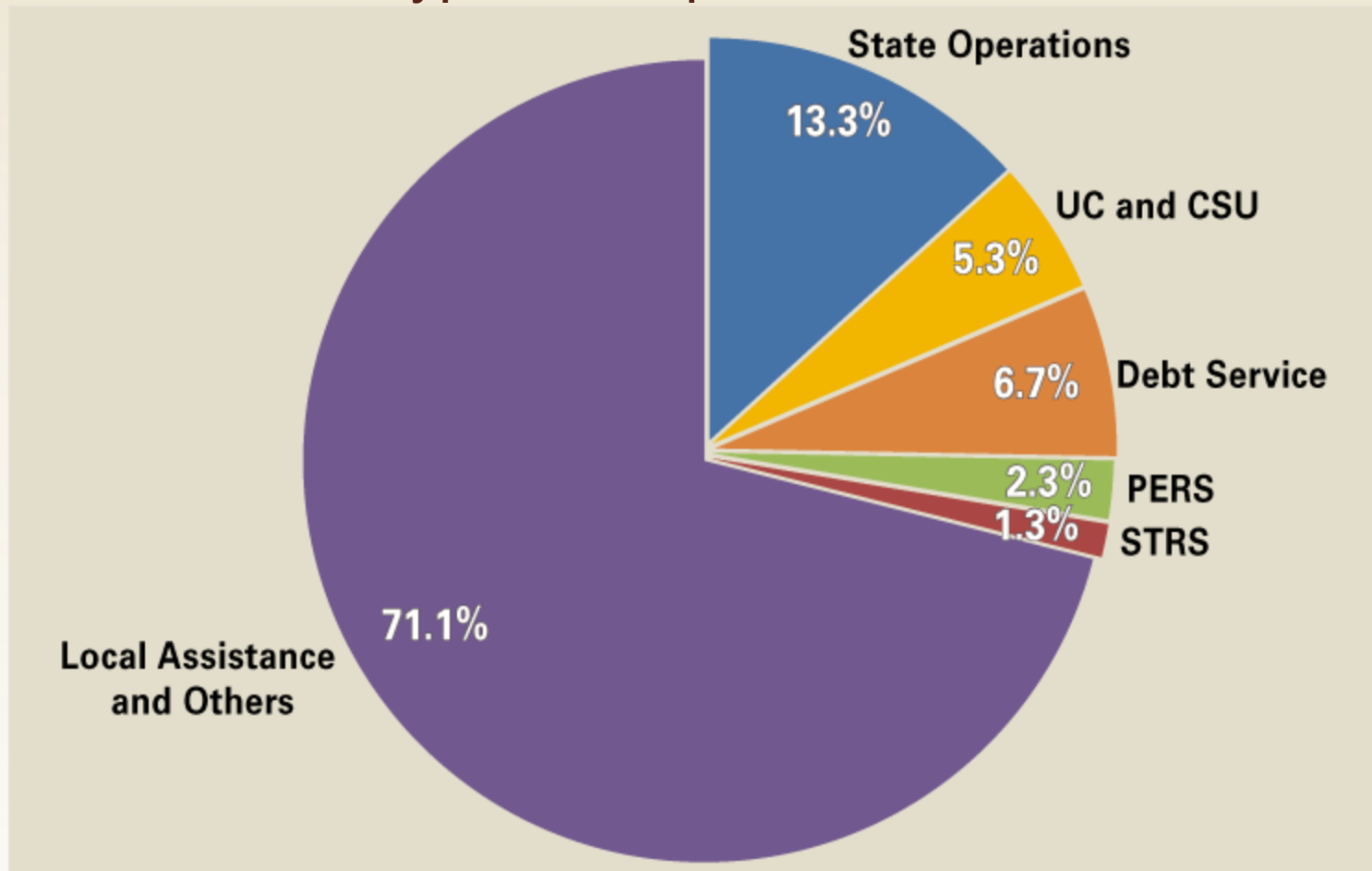


Source: Legislative Analyst's Office — 2011-12

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Understanding the Make-Up of General Fund Expenditures

Types of Expenditures



Source: Department of Finance — 2011-12

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Examples of General Fund Expenditures

- Medi-Cal: \$17.6 billion.
- All state prisons: \$9 billion.
- All funding for UC and CSU: \$5.4 billion.
- Services to the developmentally disabled: \$3.1 billion.
- CalWORKs : \$3 billion.
- State mental health hospitals: \$1.2 billion.
- In-Home Supportive Services: \$1.7 billion.
- State Employee Payroll: \$9.2 billion
(67% in Corrections)

Source: Legislative Analyst's Office, except State Employee Payroll (Department of Finance)

2011-12 Budget Problem Up to \$28 Billion

LAO Projected Budget Gap \$25.4 billion

Possible Estate Tax Revenue Loss \$2.7 billion

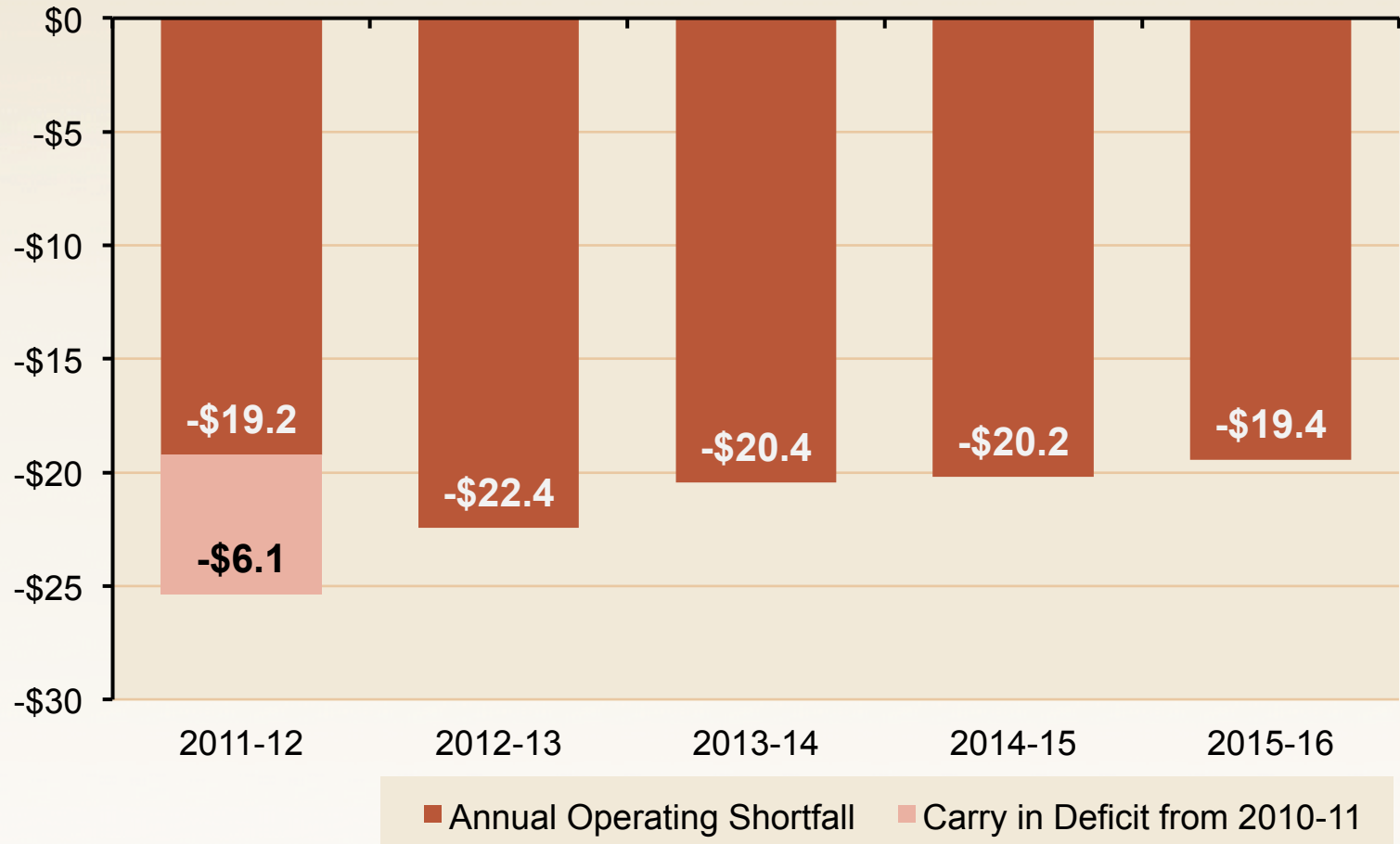
Total \$28.1 billion

Worse Next Year Than This Year

- Revenues Temporarily High This Year
 - Last year of temporary tax increases (\$8.3 billion).
 - One-time revenues (sale of state buildings)
- Federal stimulus funds used up

Absent Permanent Solutions, Deficits Will Persist for Years

General Fund (In Billions)



Source: Legislative Analyst's Office

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Billions in Threats and Future Pressures

- Pension Liabilities —
\$100.0 Billion To \$500.0 Billion
- Unemployment Insurance Fund Deficit —
\$10.3 Billion
- Outstanding Budgetary Borrowing —
\$15.3 Billion
- Health Care Reform —
\$3.5 Billion

Source: Department of Finance

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California Relied Mostly On Short-Term Solutions

	Solutions (In Billions)	Short-Term / Did Not Materialize as a Percent of Total
2008-09	\$24.3	75%
2009-10	60.0	84%
2010-11	19.3	85%

Source: Department of Finance

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Some Things We' ve Done to Balance the Budget in the Last Decade

(Dollars in Billions)

Temporary Solutions

1	Federal Stimulus Funds	2008-09 to 2010-11	\$17.4
2	Expiring Tax Measures (2010-11 Value)	2009-10	8.3
		SUBTOTAL	\$25.7

Solutions That Can' t Be Repeated

1	Accelerate Collection of Personal Income Tax and Corporate Taxes	2008-09 and 2009-10	\$6.5
2	One-Time Shift of Property Taxes from Redevelopment Agencies	2009-10 and 2010-11	2.1
3	Medi-Cal Program Budget Costs on a "Cash Basis"	2005-06	0.9
4	Shift State Employee Payroll from June 30th to July 1 st	2009-10	0.8
		SUBTOTAL	\$10.3

Solutions That Made the Future Deficit Worse

1	Economic Recovery Bonds	Various	\$14.6
2	Sale of Future Tobacco Lawsuit Funds	Various	7.6
3	Loans from Special Funds	Various	3.5
4	Borrowing from Local Government	2009-10	2.0
5	Sale of State Buildings	2010-11	1.2
6	Deferral of State Mandates	Various	1.2
		SUBTOTAL	\$30.1

GRAND TOTAL \$66.1

Source: Department of Finance, except for Expiring Tax Measures (Legislative Analyst' s Office)

California Ranks 15th in Taxes and Fees Compared to the Other States

Revenues Per \$100 of Personal Income

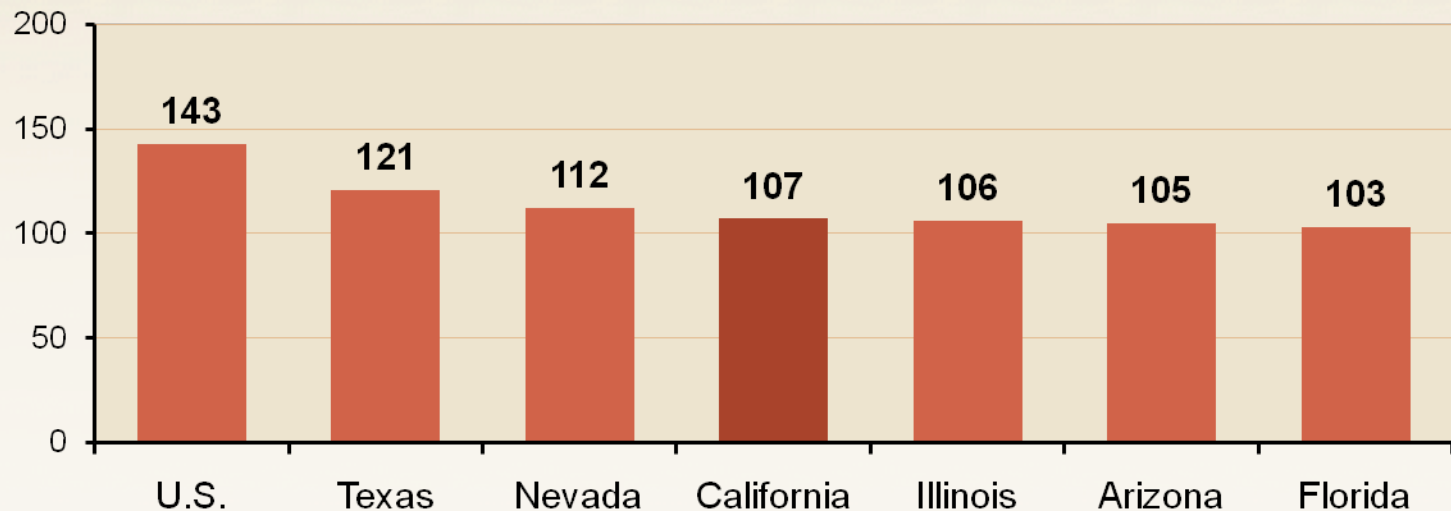
Alaska	56.55	Michigan	16.93
Wyoming	24.97	Ohio	16.91
North Dakota	20.40	Kansas	16.82
New Mexico	20.15	Wisconsin	16.78
New York	20.09	Indiana	16.65
Delaware	18.89	Minnesota	16.41
West Virginia	18.76	Alabama	16.06
District of Columbia	18.69	New Jersey	16.01
Hawaii	17.85	Oregon	15.96
Utah	17.77	Washington	15.91
Maine	17.42	Pennsylvania	15.72
Louisiana	17.40	Florida	15.66
Vermont	17.33	Nevada	15.19
Mississippi	17.25	Texas	14.85
California	17.22	Illinois	14.65

Source: Department of Finance

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Government Employees in California Compared to Other States

- Ratio of state employees per 10,000 residents in 2009, California ranked the 4th lowest.



- Ratio of state and local government employees per 10,000 residents in 2009, California ranked the 6th lowest.

Source: The Center for Continuing Study of the California Economy

California's Pupil-Staff Ratios are Among the Highest in the Nation

	Students per Teacher	Rank	Students per Counselor	Rank	Students per Librarian	Rank	Students per School Administrator	Rank
California	20.8	49	809.2	49	5,038.5	50	433.1	47
Florida	15.8	37	433.3	30	912	36	333.3	37
New York	13.1	9	463.1	37	876.8	32	294.6	28
Texas	14.5	26	249.7	29	922.8	37	231.7	9
All other states	15.1		440.0		782.8		312.3	

Source: National Center for Education Statistics, Common Core Data, 2007-08

Note: Rankings based on all 50 states. The "all other states" category includes all states except California, Florida, New York, and Texas. The District of Columbia is excluded.

2008-09 K-12 Per Student Expenditures

Based on Fall Enrollment

1	District of Columbia	\$17,638	26	Kansas	\$9,979
2	Rhode Island	\$17,289	27	Georgia	\$9,952
3	New Jersey	\$16,253	28	Indiana	\$9,780
4	New York	\$15,997	29	Washington	\$9,633
5	Wyoming	\$14,732	30	Colorado	\$9,574
6	Vermont	\$14,679	31	South Dakota	\$9,466
7	Massachusetts	\$13,901	32	Ohio	\$9,358
8	Connecticut	\$13,864	33	Montana	\$9,339
9	Maine	\$13,309	34	South Carolina	\$9,286
10	Delaware	\$13,039	35	Kentucky	\$9,259
11	Hawaii	\$12,520	36	Nebraska	\$9,250
12	New Hampshire	\$12,344	37	Iowa	\$9,203
13	Pennsylvania	\$12,032	38	Texas	\$9,036
14	Maryland	\$11,743	39	Alabama	\$8,911
15	Michigan	\$11,197	40	Missouri	\$8,862
16	Virginia	\$11,114	41	Florida	\$8,761
17	Wisconsin	\$11,021	42	North Carolina	\$8,743
18	Minnesota	\$10,996	43	California	\$8,322
19	Alaska	\$10,904	44	Tennessee	\$8,261
20	West Virginia	\$10,747	45	North Dakota	\$8,222
21	Illinois	\$10,714	46	Oklahoma	\$8,006
22	Arkansas	\$10,345	47	Idaho	\$7,730
	<i>National Average</i>	<i>\$10,190</i>	48	Nevada	\$7,615
23	Louisiana	\$10,160	49	Mississippi	\$7,484
24	Oregon	\$10,129	50	Arizona	\$5,932
25	New Mexico	\$10,099	51	Utah	\$5,912

Source: National Education Association Research, December 2009

2008-09 Average Salaries of Public School Teachers

1	New York	\$69,118	26	Iowa	\$48,638
2	California	\$68,093	27	Louisiana	\$48,627
3	Massachusetts	\$66,712	28	Colorado	\$48,487
4	Connecticut	\$63,152	29	Virginia	\$48,365
5	New Jersey	\$63,111	30	Vermont	\$47,884
6	Maryland	\$62,849	31	Kentucky	\$47,875
7	District of Columbia	\$62,557	32	Arkansas	\$47,472
8	Illinois	\$61,344	33	South Carolina	\$47,421
9	Rhode Island	\$58,407	34	Texas	\$47,157
10	Alaska	\$58,395	35	Florida	\$46,921
11	Michigan	\$57,327	36	Alabama	\$46,879
12	Pennsylvania	\$57,237	37	Kansas	\$46,401
13	Delaware	\$56,667	38	Arizona	\$46,358
14	Hawaii	\$55,733	39	New Mexico	\$45,752
15	Ohio	\$54,656	40	Tennessee	\$45,549
16	Wyoming	\$54,602	41	Idaho	\$45,178
	<i>National Average</i>	<i>\$54,319</i>	42	Nebraska	\$44,957
17	Oregon	\$54,085	43	Maine	\$44,731
18	Georgia	\$52,879	44	West Virginia	\$44,701
19	Washington	\$52,567	45	Mississippi	\$44,498
20	Minnesota	\$51,938	46	Montana	\$44,426
21	Wisconsin	\$51,121	47	Missouri	\$44,249
22	Nevada	\$50,067	48	Oklahoma	\$43,846
23	New Hampshire	\$49,872	49	Utah	\$42,335
24	Indiana	\$49,569	50	North Dakota	\$41,654
25	North Carolina	\$48,648	51	South Dakota	\$35,070

Source: National Education Association Research, December 2009

State Funding for K-12 and CCC Proposition 98

(Dollars in Billions)



Source: Department of Finance, except for 2011-12 (Legislative Analyst's Office).



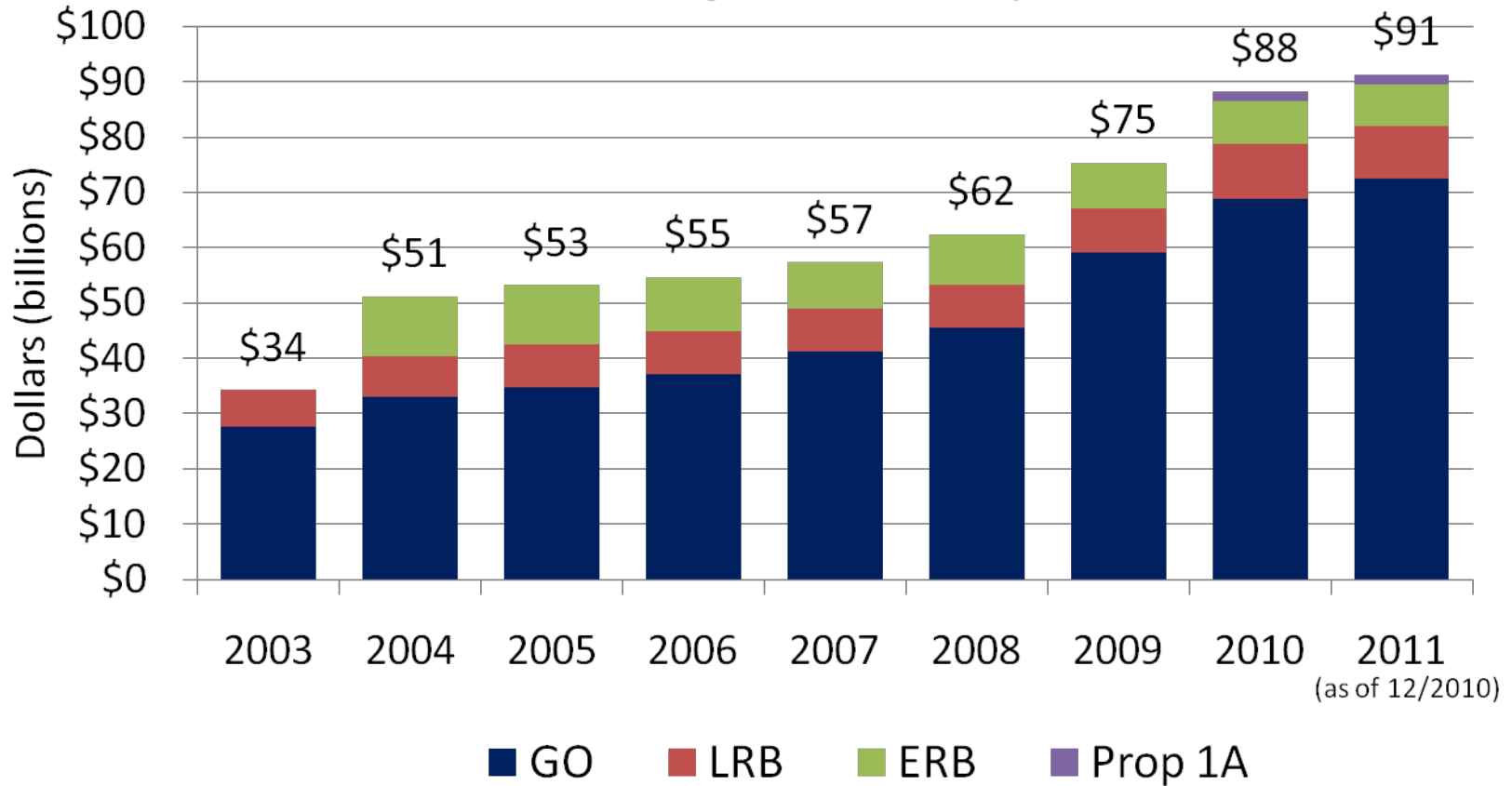
Governor-Elect Brown Budget Briefing

Bill Lockyer
State Treasurer

December 14, 2010

California's Debt Has Increased Significantly Since 2003

Outstanding Debt as of July 1

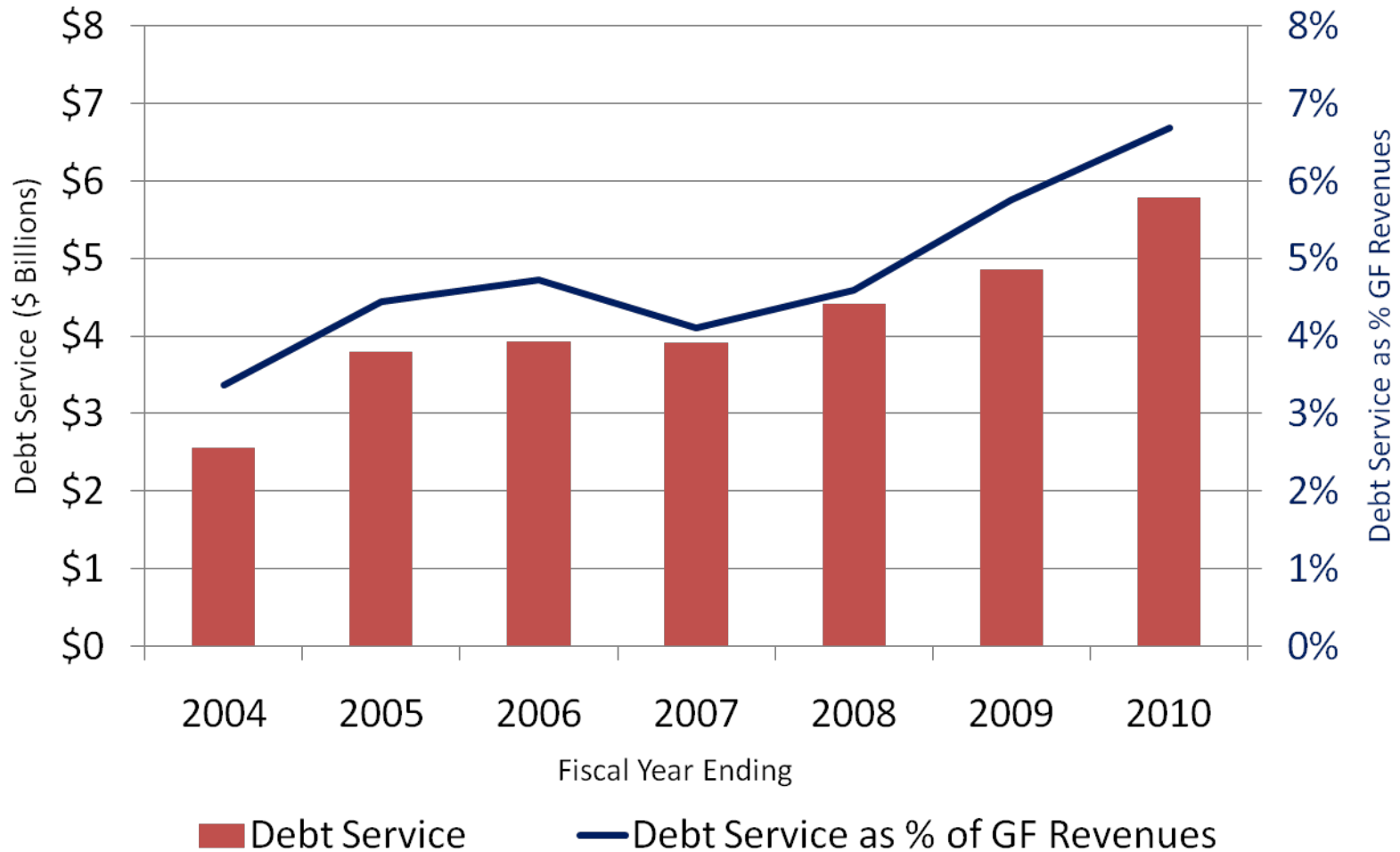


- The rating agencies consider the State's debt burden moderate, but note its rapid growth and significant use for deficit borrowings

Notes: Includes Non Self-Liquidating General Obligation (GO) bonds, SPWB Lease Revenue Bonds (LRBs), Economic Recovery Bonds (ERBs) and Prop 1A bonds. Does not include Enterprise Fund Self-Liquidating bonds such as Vets GO Bonds or outstanding commercial paper notes. ERBs were authorized in 2004. Prop 1A bonds were authorized in 2009 and issued by the California Statewide Communities Development Authority.



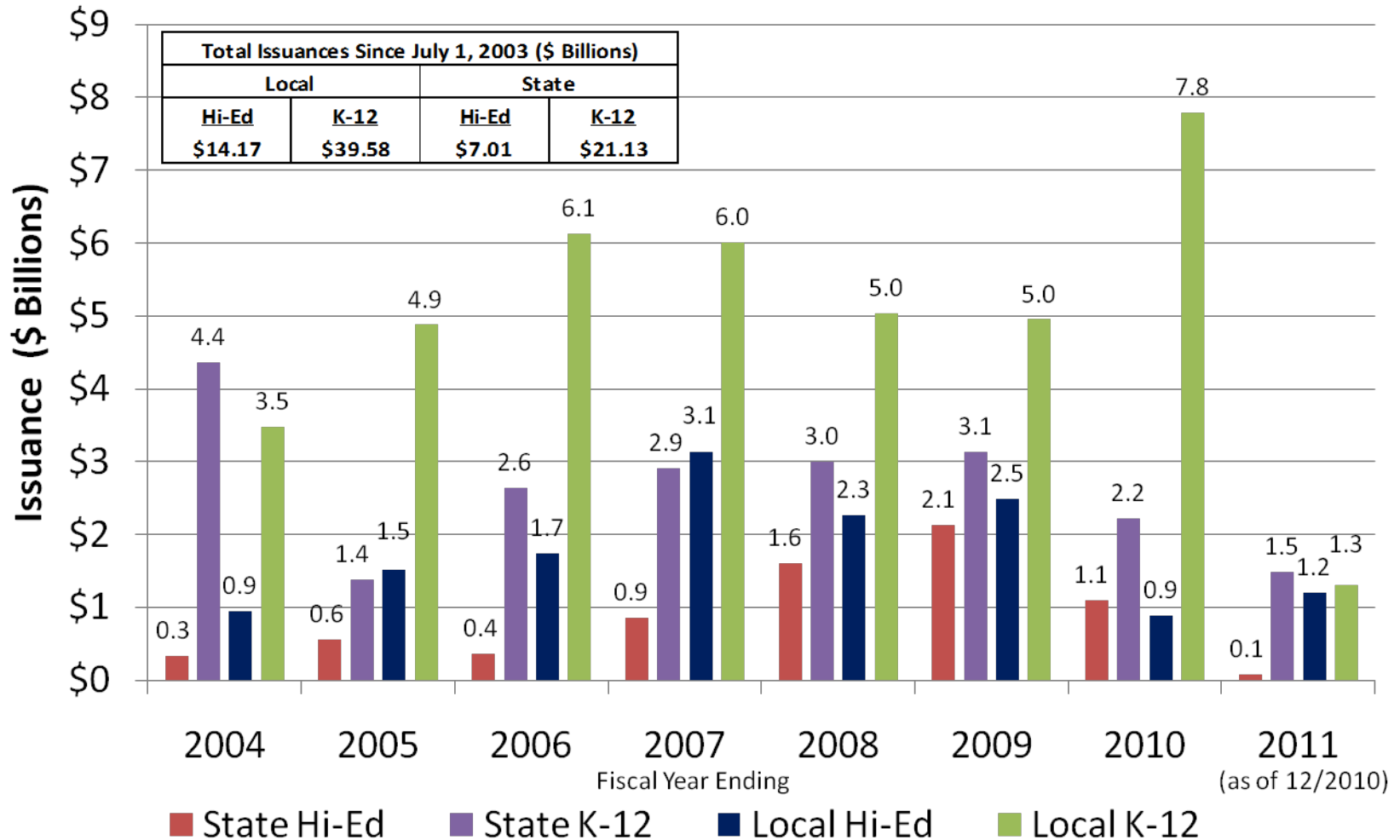
As a Result, Debt Service Has Also Increased



Notes: Includes Non Self-Liquidating GO bonds, SPWB LRBs, and Prop 1A bonds. Does not include Enterprise Fund Self-Liquidating bonds such as Vets GO Bonds, ERBs or outstanding commercial paper notes.



State and Local Issuance for Educational Facilities



Local data provided by the California Debt and Investment Advisory Commission. Local data includes GO bonds, Certificates of Participation/Leases, Limited Tax Obligation bonds, Revenue bonds, and other bonds and notes. State data includes upfront GO bonds issued to fund projects or for repayment of construction loan advances. Excludes \$621.75 million of K-12 and \$113.01 million of HI-Ed outstanding commercial paper notes. Excludes any commercial paper or bonds issued to refund previously issued GO bonds.



November 2010 Election – Local School Facilities Measures

■ Statewide Results

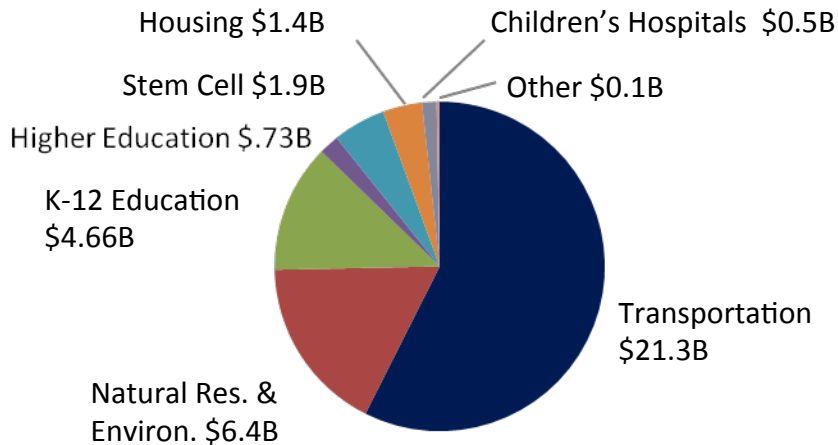
- Dollar Amount of Approved GO Bond Measures = \$3.73 Billion
 - \$474 million in Bond Measures were not approved
- Number of Total Approved Bond Measures = 47
- Number of Approved Tax Measures = 3
- Percent of Bond and Tax Measures Approved by Voters = 62%



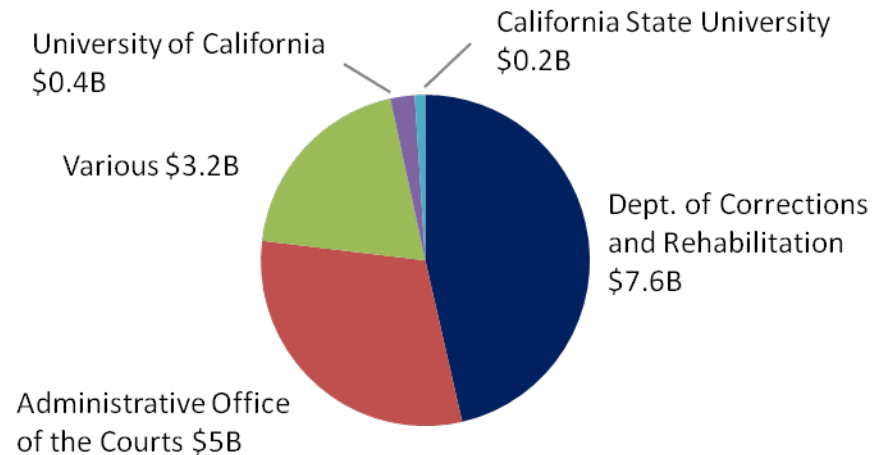
Authorized But Unissued Bonds

- Anticipated additional bonds as of December 2010:
 - \$37 billion of voter authorized but unissued GO bonds, including \$5.39 billion for education, and
 - \$12.3 billion of LRBs authorized by the Legislature and \$5.0 billion of LRBs for SB 1407 Court facility projects (of this amount, \$868,020,000 is included in the 2010-11 Budget Act authorization)
- The State's General Fund debt service ratio is estimated to peak at 10.2% in FY 2012-13, the year when Proposition 1A bonds mature⁽¹⁾
 - From FY 2013-14 through FY 2019-20, the State's General Fund debt ratio is estimated to range from 7.6% to 9.6%⁽¹⁾

Remaining GO Bond Authorization



Remaining LRB Bond Authorization



1) Assumes DOF's 5-year Revenue projections from the May Revision through 2013-14; thereafter GF revenues grow between two and five percent annually; no additional bonds are authorized by voters or the legislature; and bond issuances are estimated by the Department of Finance as of October 2010.



California's Credit Ratings

(As of 12/6/2010)

General Obligation Ratings of the 10 Most Populous States

State	Moody's Investors Service	Standard & Poor's	Fitch Ratings
Georgia	Aaa	AAA	AAA
North Carolina	Aaa	AAA	AAA
Texas	Aaa	AA+	AAA
Florida	Aa1	AAA	AAA
Ohio	Aa1	AA+	AA+
Pennsylvania	Aa1	AA	AA+
New York	Aa2	AA	AA
Michigan	Aa2	AA-	AA-
Illinois	A1	A+	A
California	A1	A-	A-



Selected Rating Agency Commentary

■ Constraints to the State's credit quality:

- “Reliance on one-time solutions, including deficit borrowing, to resolve budgetary gaps and address longer-term challenges.” (Moody's, November 2010)
- “A large and persistent structural imbalance over the last decade combined with pronounced revenue cyclicalities periodically leads to acute budget crises. State revenues are dominated by volatile personal income and sales taxes, both of which have experienced severe recession-related declines.” (Fitch, November 2010)
- “Recurring episodes of insufficient financial liquidity resulting in the use of extraordinary cash management measures.” (Standard & Poor's, November 2010)
- “Institutional weaknesses, including inflexibility imposed by voter initiatives and a partisan policy-making environment, have repeatedly delayed action on addressing fiscal challenges, resulting in unsustainable budgetary solutions and exacerbating future-year budget making.” (Fitch, November 2010)



Selected Rating Agency Commentary – Cont’ d

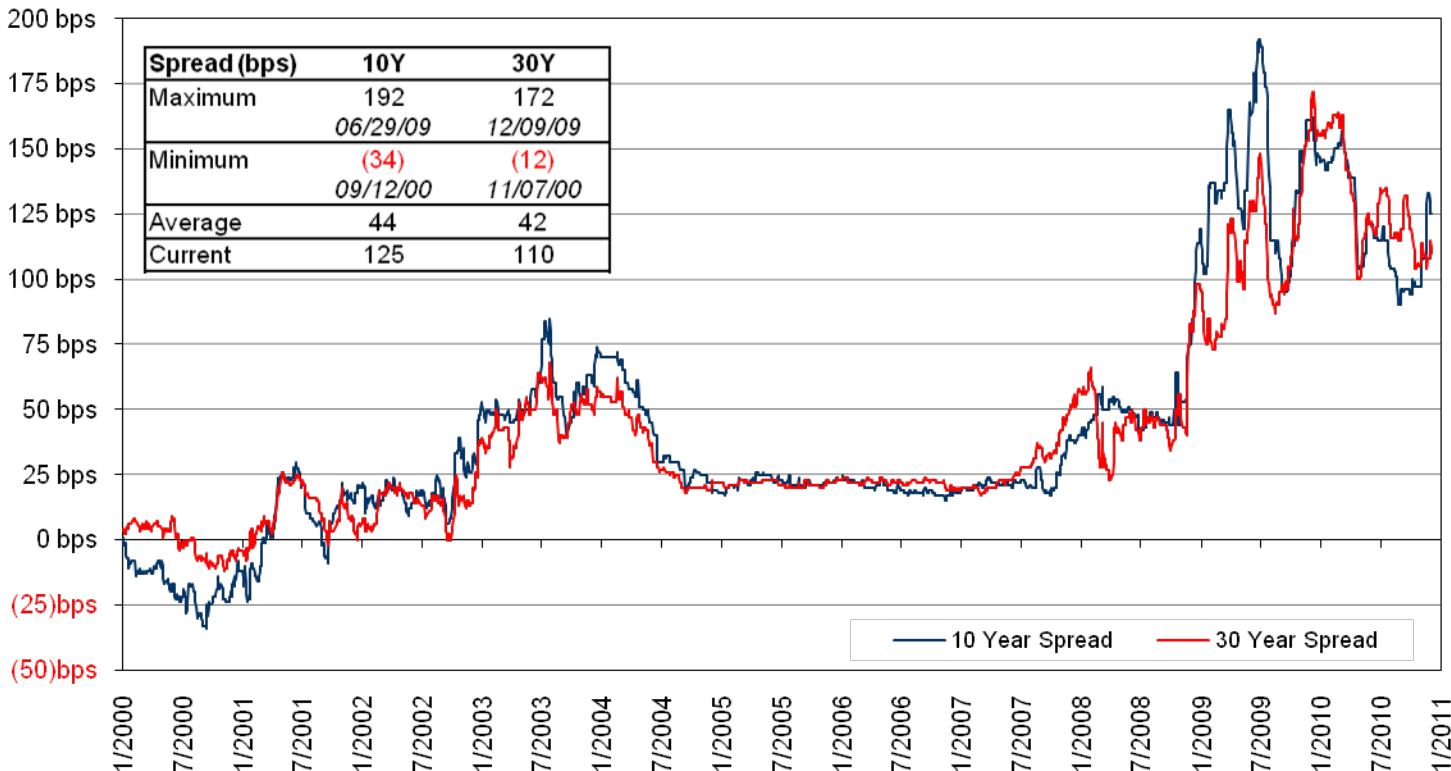
- Causes for the State’ s ratings to be lowered:
 - “An absence of what we view as progress toward resolving the structural mismatch between recurring revenues and expenditures, coupled with additional economic -- and revenue -- deterioration...” (*Standard & Poor’ s, November 2010*)
 - “Unwillingness to tackle difficulties in the next couple of years, causing cash to weaken dramatically and resulting in the state rolling short-term cash flow notes or selling long-term deficit bonds” (*Moody’ s, November 2010*)
 - “...a loss of legislative or administrative resolve to maintain sufficient liquidity to fund both the obligations with a prior claim on general fund cash (for education) and the state's debt service payment obligations.” (*Standard & Poor’ s, November 2010*)



California Pays a Significant Penalty for its Low Credit Ratings

- As a result of the State's low credit ratings, large sales volume, and general market conditions, California's tax-exempt GO bond credit spreads⁽¹⁾ have widened dramatically
- Current credit spread between "AAA" rated GO bond and the State's GO bonds has grown to 110 basis points (1.10%), increasing debt service costs
 - For example, a 110 bp spread increase on the State's \$37 billion of authorized but unissued GO bonds and \$16.4 billion of unissued LRB's equates to more than \$12 billion over the life of the bonds

CA GO MMD vs. AAA GO MMD Spread



(1) Credit spread means the difference in interest rates for bonds in the various rating categories.



Controller's Cash Update
Governor-Elect's Budget Briefing
December 14, 2010



Controller *John Chiang*

California State Controller's Office

Chart #1: Cash Outlook

For the Months of Dec. 2010 - June 2011 (In Billions of Dollars)

Based on 2010-11 Budget Act and Actual Receipts Through Nov. 2010

◇ **Blue Line** = Estimated Monthly Low Points per Budget Act

■ **Orange Line** = Estimated Monthly Low Points with \$6.5 Billion in LAO-Identified Budget Risks

▲ **Brown Line** = Estimated Monthly Low Points with \$6.5 Billion in LAO-Identified Budget Risks and \$1.2 Billion Risk Due to Litigation Over Sale of State Buildings

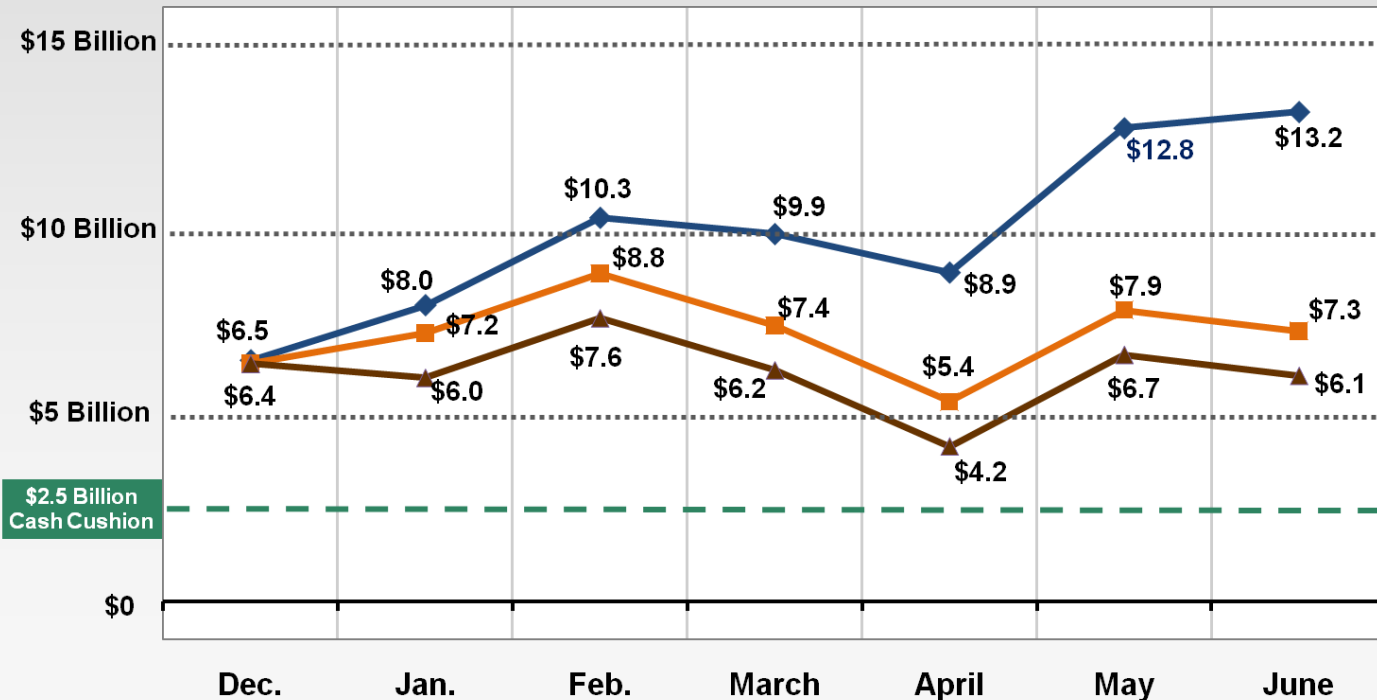
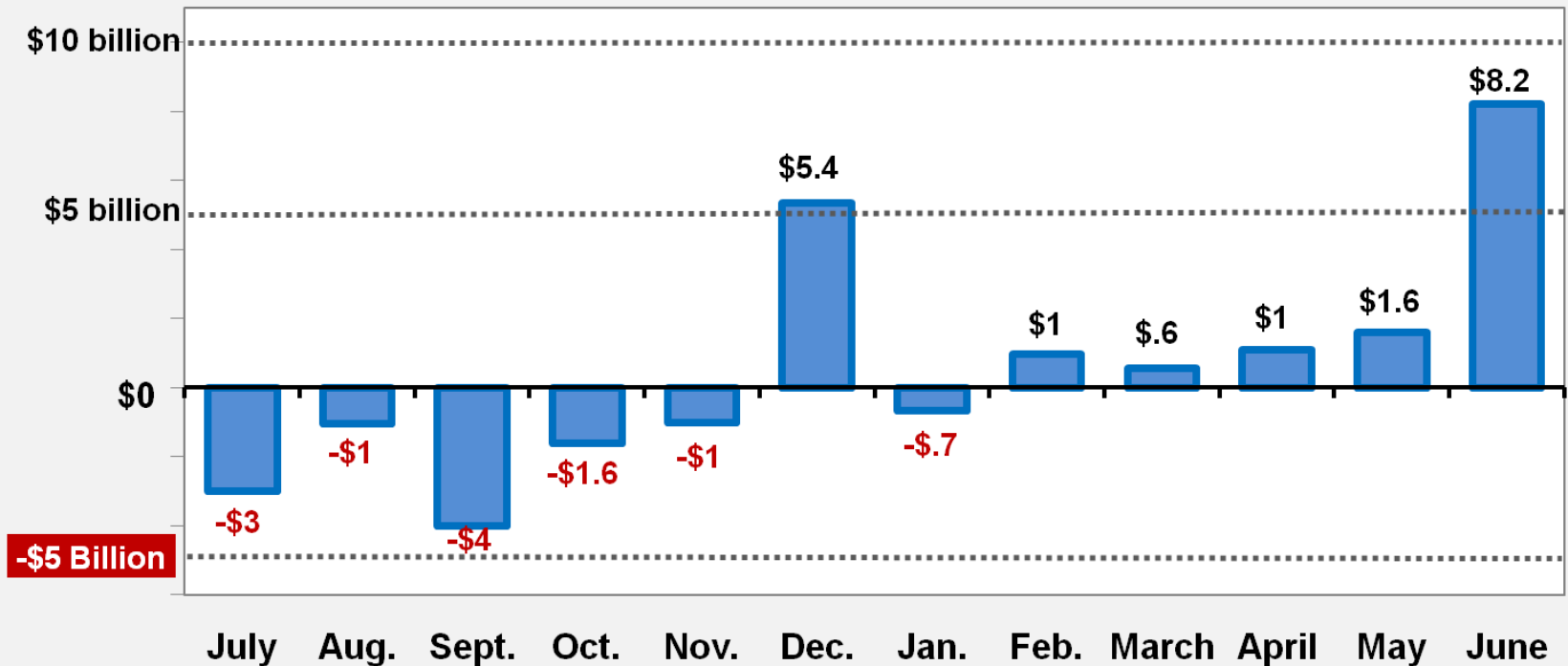


Chart #2 – Difference Between Revenues and Expenditures

For the Months of July 2010 - June 2011
(In Billions of Dollars)
Based on 2010-11 May Revision

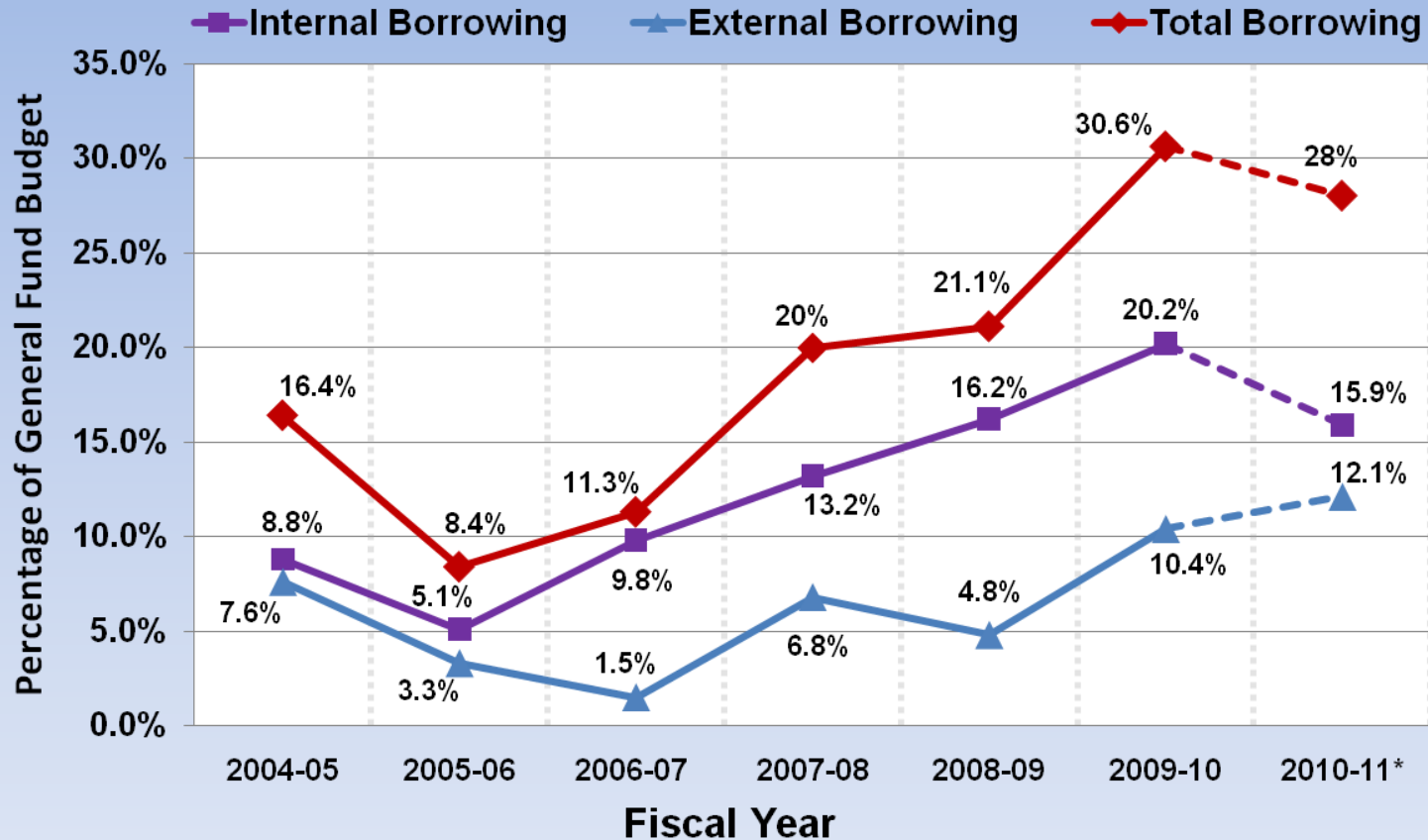


California State Controller's Office

State Controller

Chart #3: Fiscal Year 2004-05 to 2010-11 Borrowing

Borrowing as Percentage of General Fund Budget (Excluding Economic Recovery Bond Issuance)



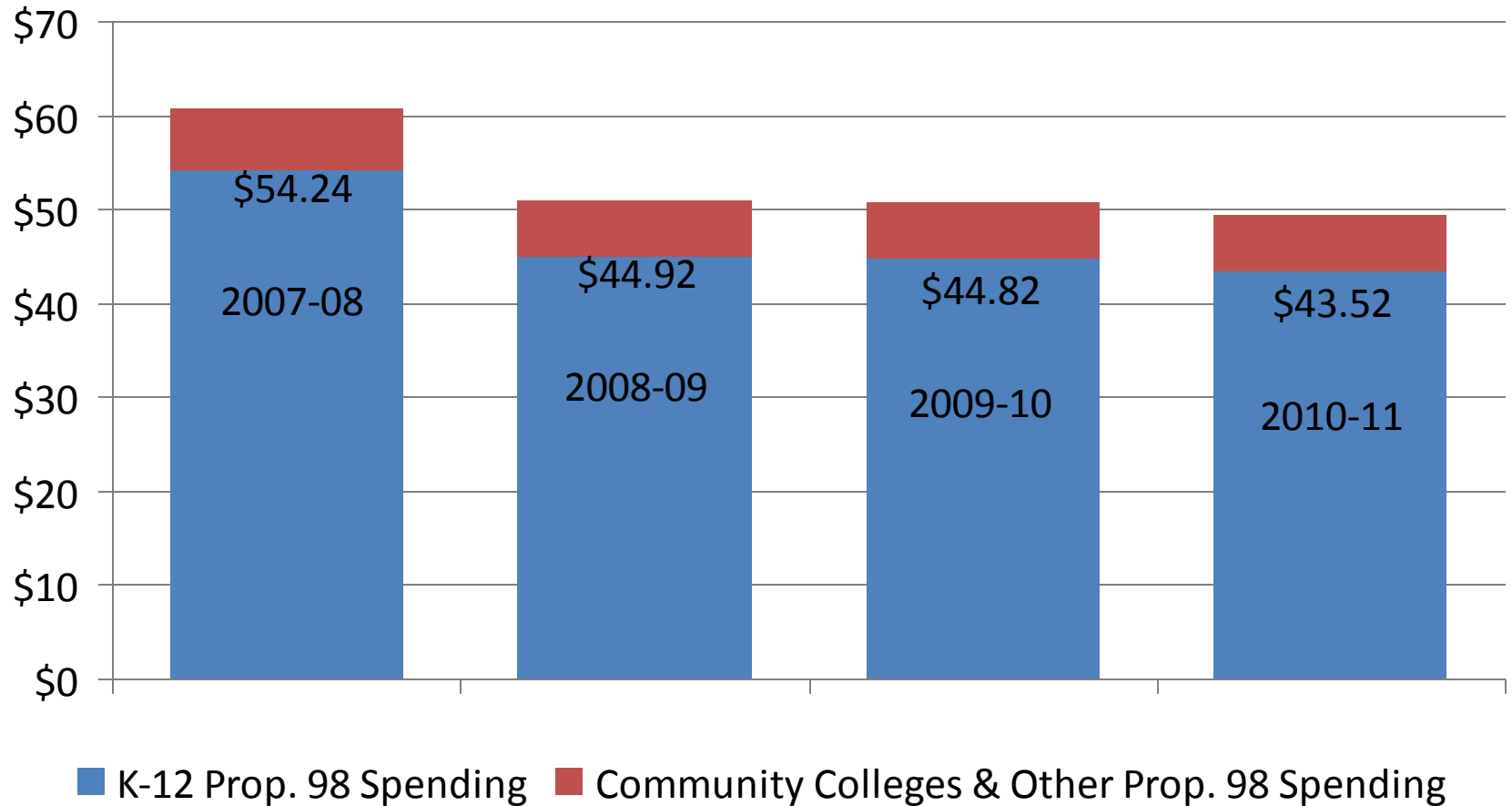
*Projected Fiscal Year 2010-11 percentage declines are due to approximately \$4.5 billion of involuntary payment deferrals to K-12, higher education and local governments



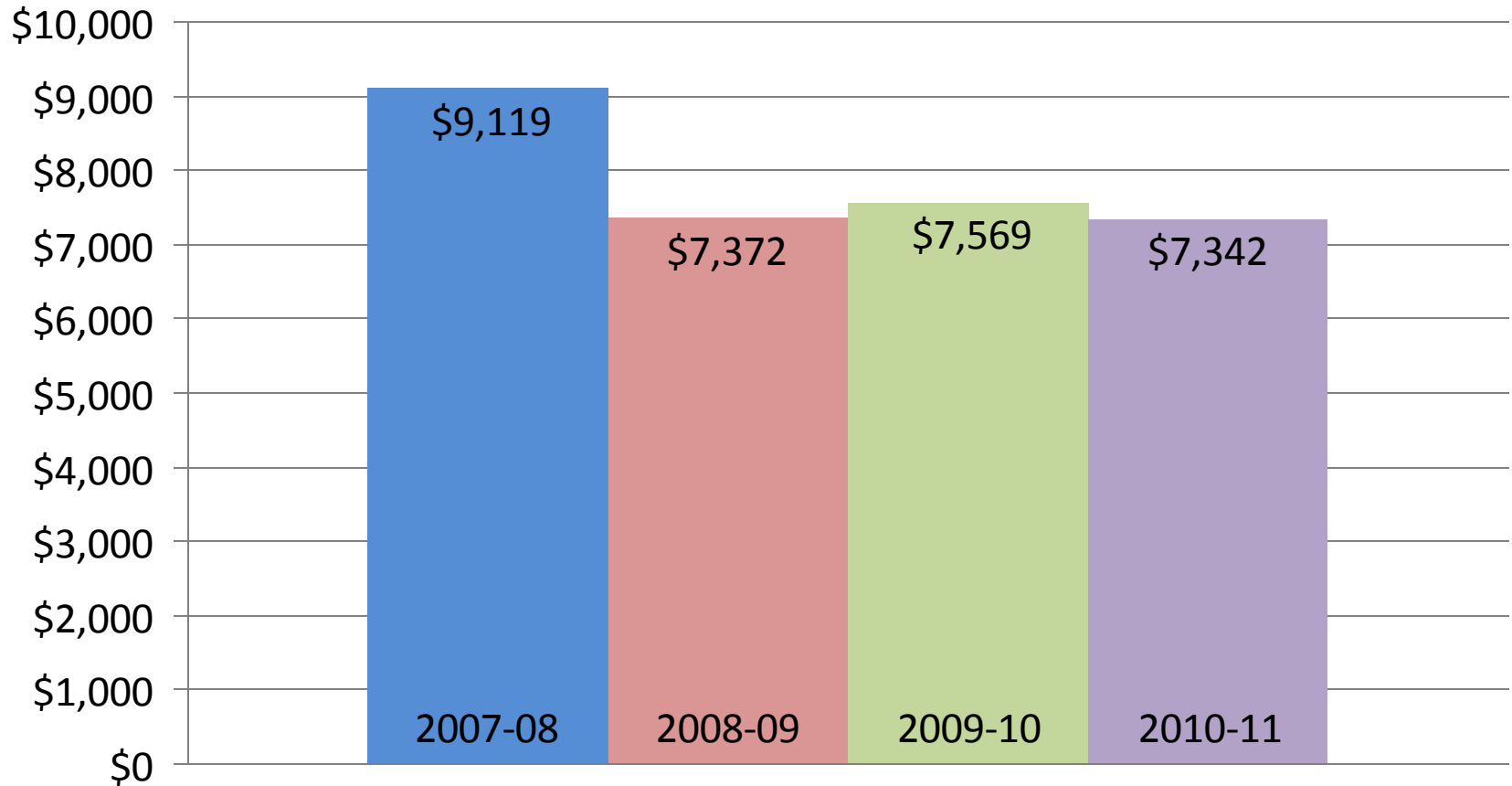
California Department of Education

State Superintendent-Elect
of Public Instruction
Tom Torlakson

Proposition 98 Spending (In Billions, Inflation Adjusted)

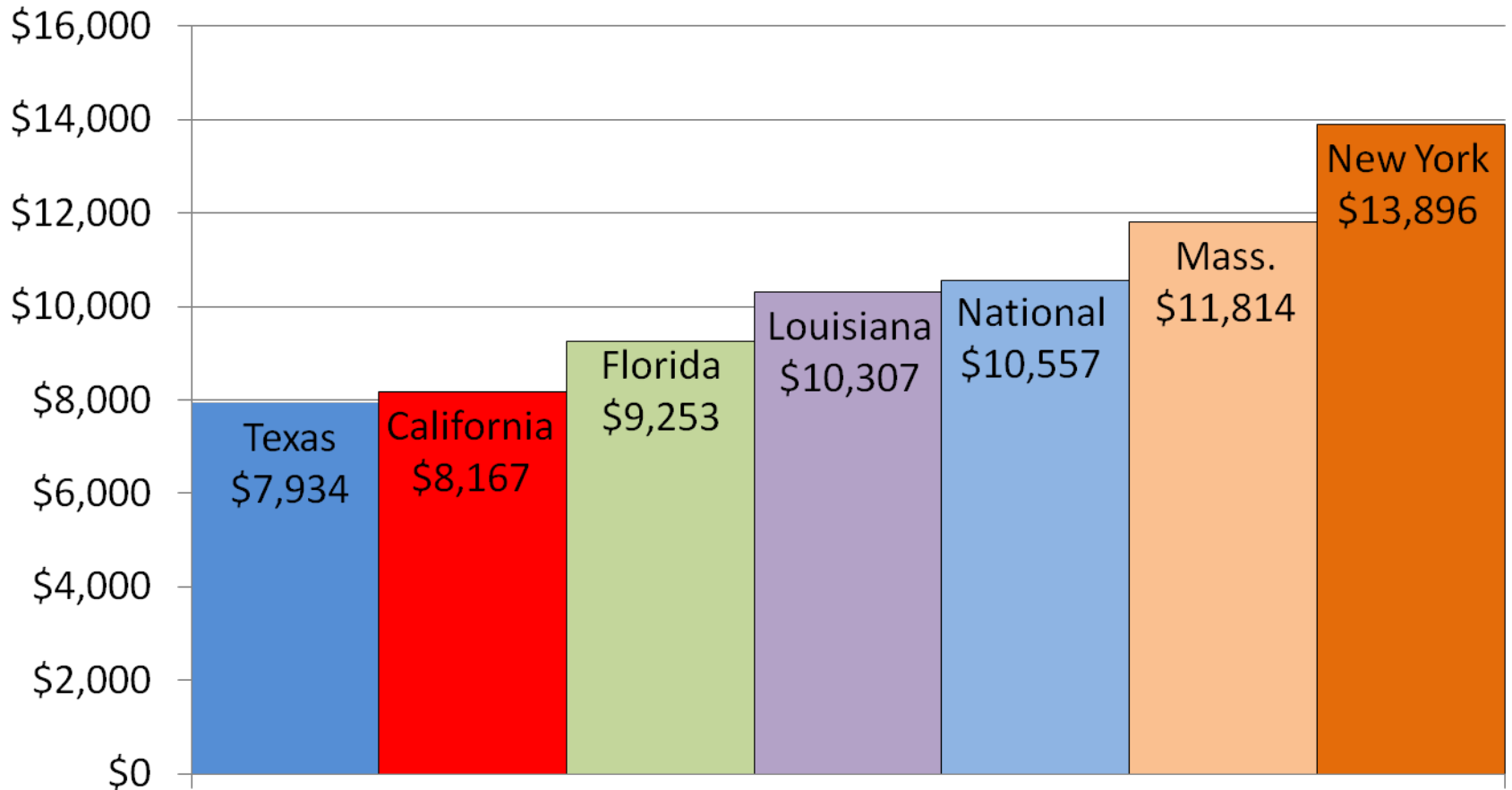


K-12 Proposition 98 Spending Per ADA (Inflation Adjusted)



Per Pupil Spending

(Adjusted for Regional Differences, 2007)



Staff-to-Student Ratios

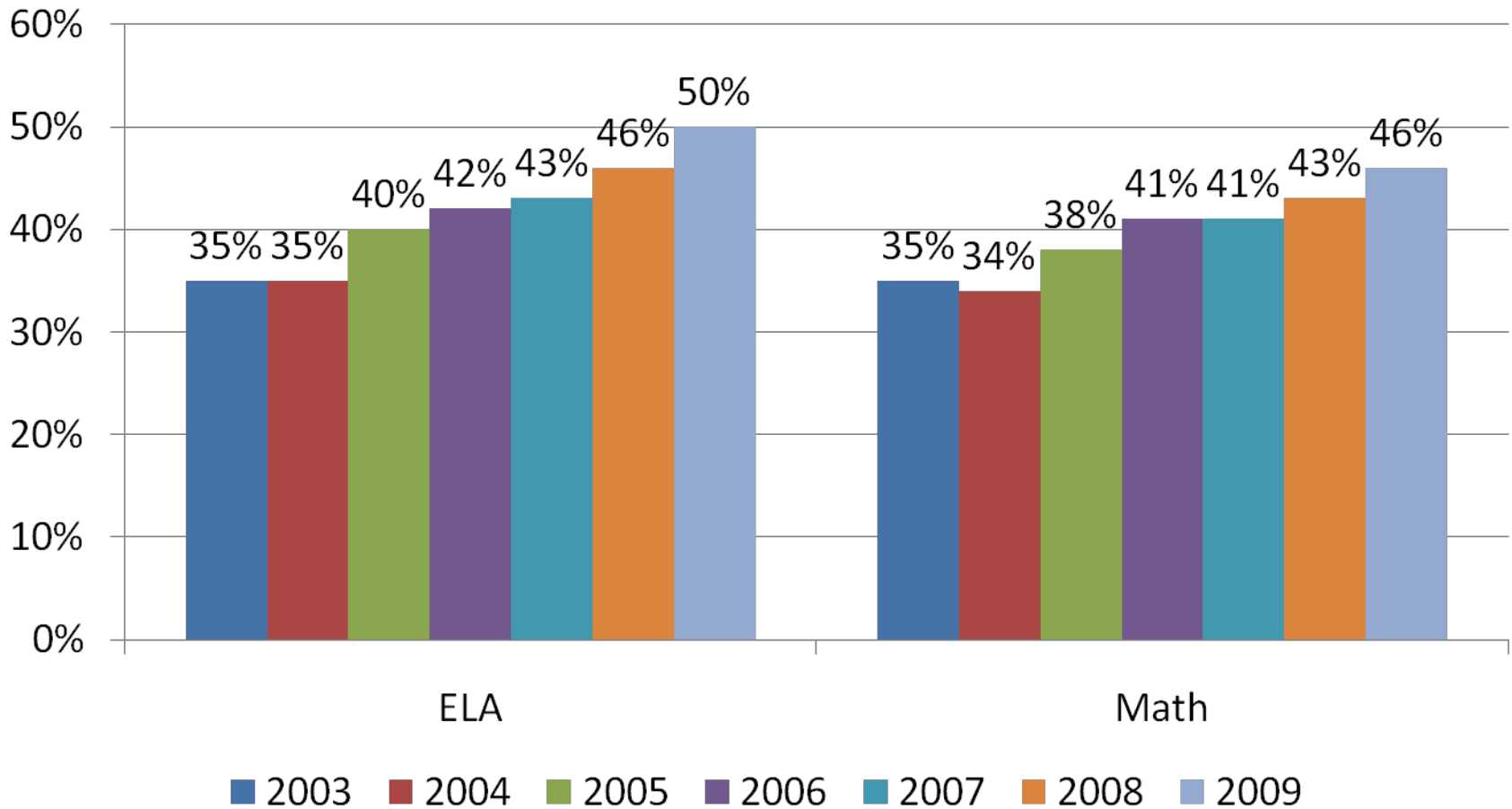
Staff per 1,000 pupils in 2007-08

	California	U.S. Average	California's Rank	% of National Average
Total Staff to students	93.2	128.1	49	73%
District Officials and Administrators Only	0.5	1.2	47	40%
School Staff	71.0	96.5	50	74%
Principals/Asst. Principals	2.3	3.2	48	72%
Teachers	48.1	64.5	50	75%
Guidance Counselors	1.2	2.1	50	58%
Librarians	0.2	1.1	51	18%
Total Certified School Staff	51.9	70.9	50	73%

Source: EdSource, from National Center for Education Statistics (NCES) Common Core of Data, 2007-08

STAR: English Language Arts, Math

Percentage of Students Scoring at or Above Proficient



Higher Education

