



Town of Fairfax

Fiscal Sustainability Plan

November 17, 2010

California State Budget Update Highlights:

- **\$25 Billion Budget Problem Needs to Be Addressed in Coming Months**

Legislative Analyst's Office forecast of California's General Fund revenues and expenditures shows that the state must address a budget problem of \$25.4 billion between now and the time the Legislature enacts a 2011–12 state budget plan. The budget problem consists of a \$6 billion projected deficit for 2010–11 and a \$19 billion gap between projected revenues and spending in 2011–12.

2010–11 Deficit. It is assumed that the state will be unable to secure around \$3.5 billion of budgeted federal funding in 2010–11. This assumption is a major contributor to the \$6 billion year-end deficit projected for 2010–11. Also projected is higher-than-budgeted costs in prisons and several other programs. In addition, the forecast assumes that passage of Proposition 22 will prevent the state from achieving about \$800 million of budgeted solutions in 2010–11.

2011–12 Deficit. The temporary nature of most of the Legislature's 2010 budget-balancing actions and the painfully slow economic recovery contribute to the \$19 billion projected operating deficit in 2011–12. This gap is \$2 billion less than was projected one year ago. Actions taken during the 2010–11 budget process to reduce Proposition 98 education spending are a major contributor to the decline.

- **Ongoing Annual Budget Problems of \$20 Billion Persist**

Similar to the forecast of one year ago, the projected annual budget contains problems of about \$20 billion each year through 2015–16. In 2012–13, when the state must repay its 2010 borrowing of local property tax revenues and the full effect of Propositions 22 and 26 hit the state's bottom line, the forecast shows the operating deficit growing to \$22.4 billion. Because the methodology generally assumes no cost-of-living adjustments, the projections probably understate the magnitude of the state's fiscal problems during the forecast period.