



CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

FACT SHEET

Date: February 3, 2009

Report: 2008-603

The California State Auditor released the following report today:

High Risk

The California State Auditor Has Designated the State Budget as a High-Risk Area

BACKGROUND

Based on the current fiscal crisis and history of ongoing budget deficits, the California State Auditor has added the State's budget condition to its list of high-risk issues facing the State. Further, the budget condition will likely continue to affect the State's ability to effectively provide and pay for needed services. As with all issues on the high-risk list, the California State Auditor will continue to monitor developments in this area, clarify issues when needed, and continue to assist decision makers by providing recommendations for a cost effective government.

KEY REVIEW RESULTS

During our review of the State's budget process and condition to determine whether it should be added to the high-risk list, we noted the following:

- During the last 20 years, projected deficits have outweighed projected surpluses—eight years had surpluses totaling about \$30 billion, while 12 years had shortfalls totaling \$146 billion.
- Some of the solutions used to close the budget gaps that occurred in six of the last 10 fiscal years only deferred the problem into the future. Twenty-seven percent of the amounts used to close shortfalls involved increasing debt while another 22 percent were closed by fund shifts or transfers, accelerated revenue payments that reduce future revenues, and expenditure deferrals.
- The increase in the State's General Fund expenditures has exceeded the rate of inflation and growth in the State's general population largely due to the growth rate in populations served by key programs. Specifically, while the general population grew 28 percent from fiscal years 1989–90 through 2007–08, the growth rates for specific groups grew at a much greater rate—the inmate population grew by 82 percent and persons eligible for Medi-Cal increased by 90 percent.
- Ballot measures have locked in future spending to pay for bonds. Between June 1998 and November 2009, 19 measures approved by voters authorized the issuance of a total of roughly \$105 billion in general obligation bonds—interest payments from the General Fund on these bonds could amount to as much as \$98 billion.
- Nearly two-thirds of General Fund revenue is made up of personal income and corporation taxes, which are volatile and vary more than other types of revenue streams.
- Various constraints limit the ability of decision makers to achieve substantial reductions in expenditure levels.
- Because the California Constitution requires that any increase in state tax revenue must be approved by a two-thirds vote in both houses of the Legislature, reaching a consensus to raise revenue by increasing state taxes can be difficult.

