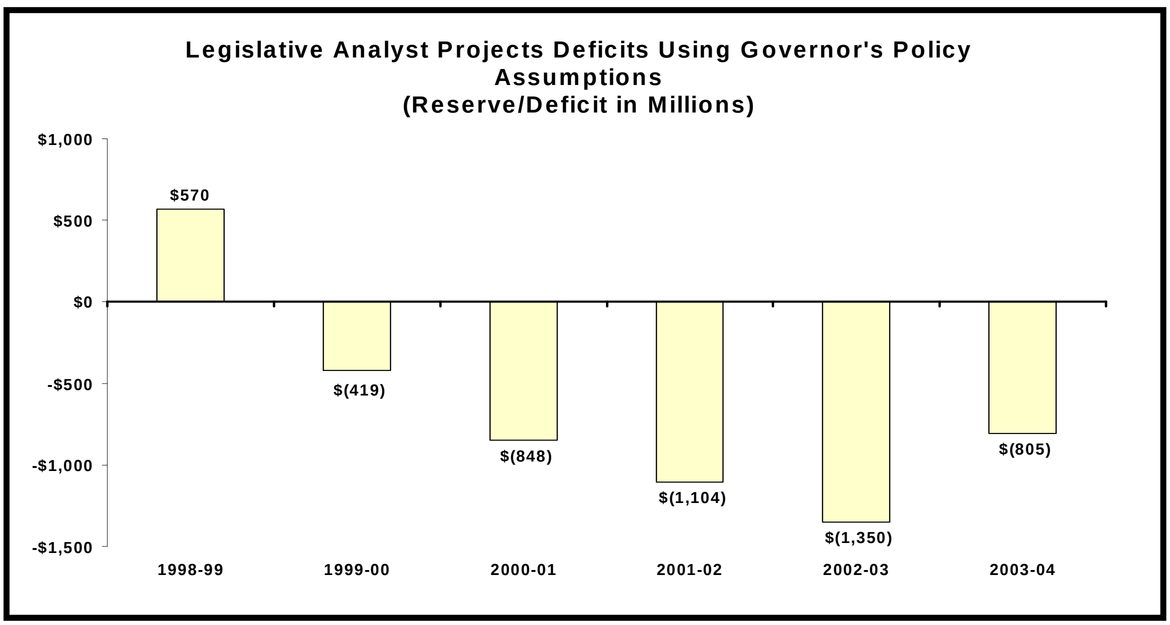
June 18, 1998

CAN CALIFORNIA AFFORD THE GOVERNOR'S VLF PROPOSAL?

The Legislature's Tax Conference Committee convened on June 18 to take testimony on the state's long-term fiscal condition from the state's Legislative Analyst and Department of Finance. The Legislative Analyst projects that the Governor's proposal would result in a deficit every year beginning in 1999-00 ***assuming the Governor's expenditure assumptions.*** In other words, the Governor's VLF proposal would result in a deficit even if:

- ✓ The Renters' Tax Credit is eliminated.
- ✓ CalWORKs recipients receive no cost-of-living increases for the next five years and prior grant cuts are not restored.
- ✓ CalWORKs service costs are allowed to drop below budget year levels.
- ✓ No augmentations are made to K - 12 spending above the minimum Proposition 98 other than the $500 million proposed in the Governor's May Revision over the next five years.

In fact, the Legislative Analyst projects that deficits occur even though they estimate lower spending levels in each of the next five years than the Department of Finance. Key differences between the Analyst and Finance include the Analyst's assumption of lower pension costs for teachers, lower CalWORKs caseloads, and lower debt service costs.



Other key points made during the Conference Committee hearing include:

- ✓ The Governor's projections show that the state will spend more than it collects in revenues in four of the next five years.
- ✓ Neither the Legislative Analyst nor the Governor assumes an economic downturn in the foreseeable future. Both forecasts assume slower, but continued, growth.
- ✓ The Legislative Analyst's forecast shows that, using the Governor's expenditure assumptions, even a billion dollar tax cut would leave the state with a bare one- percent reserve in 1999-00 and 0.3 percent reserve in 2000-01.

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