

Public Funds Management Seminar

Willdan Financial Services & Cutwater Asset Management

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The World Was All Before Them

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...and the expensive delicate ship that must
have seen

Something amazing, a boy falling out of the
sky,

had somewhere to get to and sailed calmly
on.

Musee des Beaux Arts, W.H. Auden

Topics

1. State & Local Finances Are Unavoidably Linked
2. Recent History
3. The 2010 Budget
4. What Does the New Governor Face? What Are the Implications for Local Government?

State & Local Finances Are Unavoidably Linked

Figure 1
 Annual Net Fiscal Relief Provided by State Statute
 and Proposition 172
 1978-79 through 2006-07

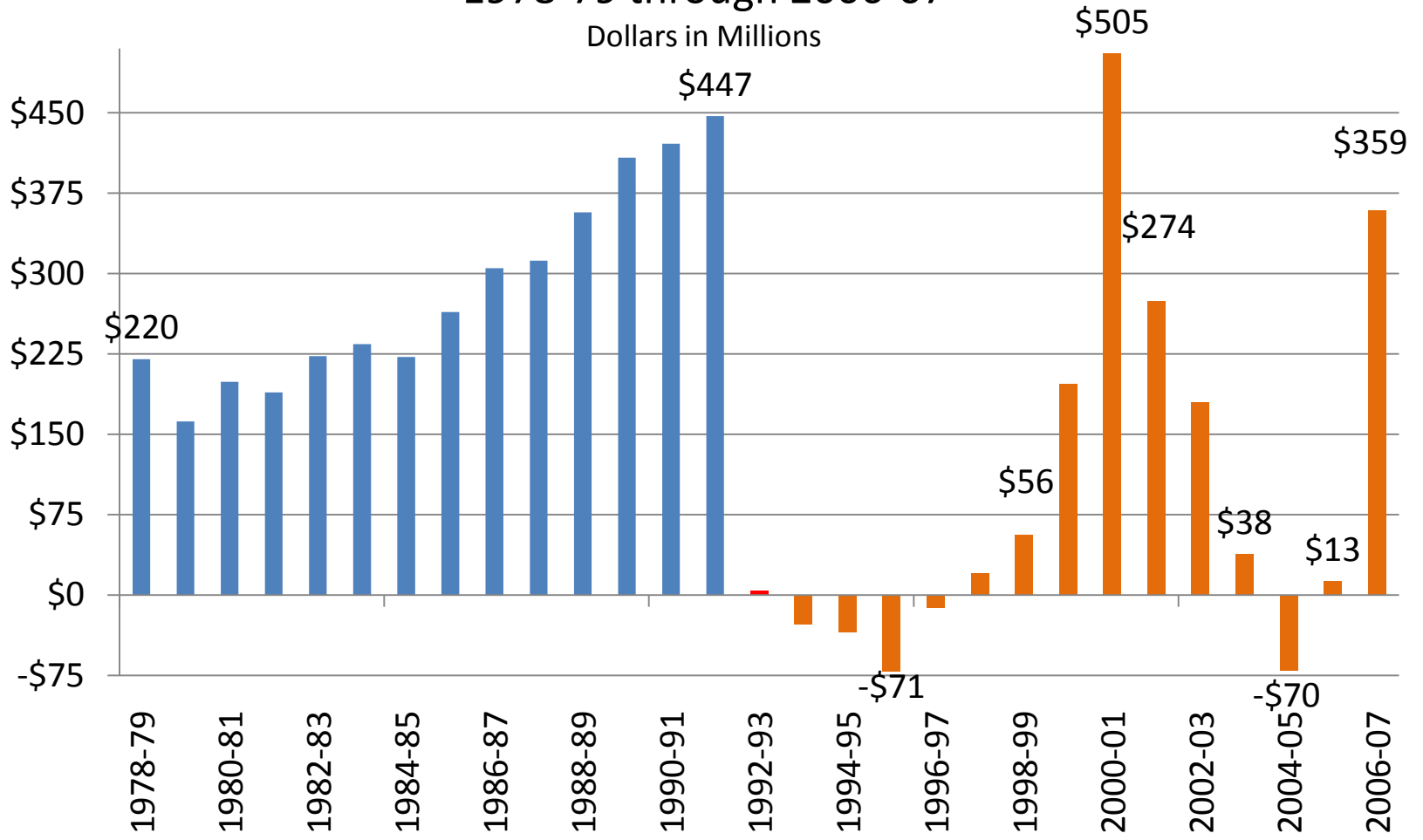


Figure 6

Annual State and Local Issuances

Comparison of Interim and Long-Term issuance, by Year

Dollars in Billions
1985 through 2008

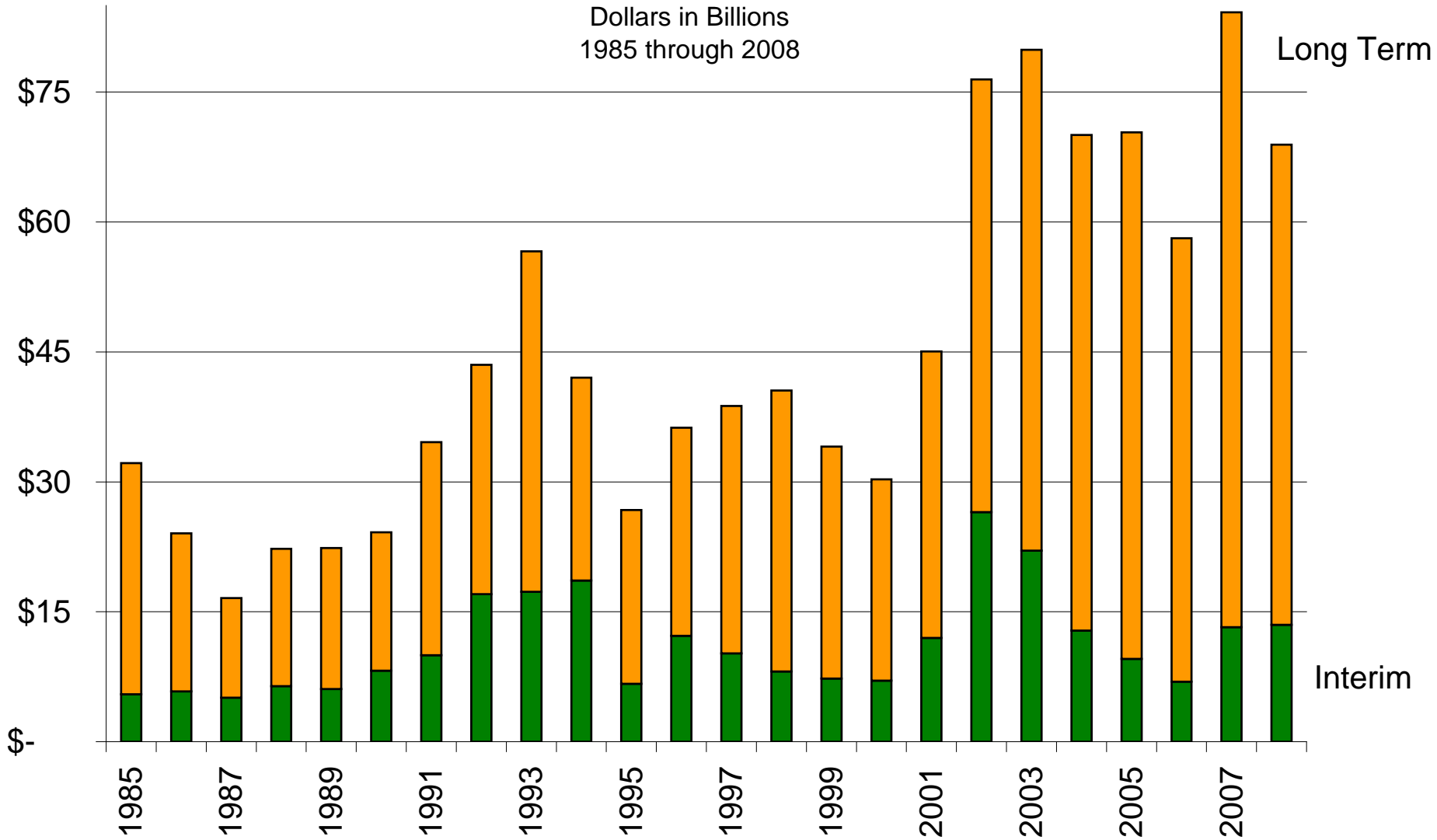


Figure 3
Income Tax Revenues
 Actual Returns Compared to a Long-Term Trend
 1981-2004

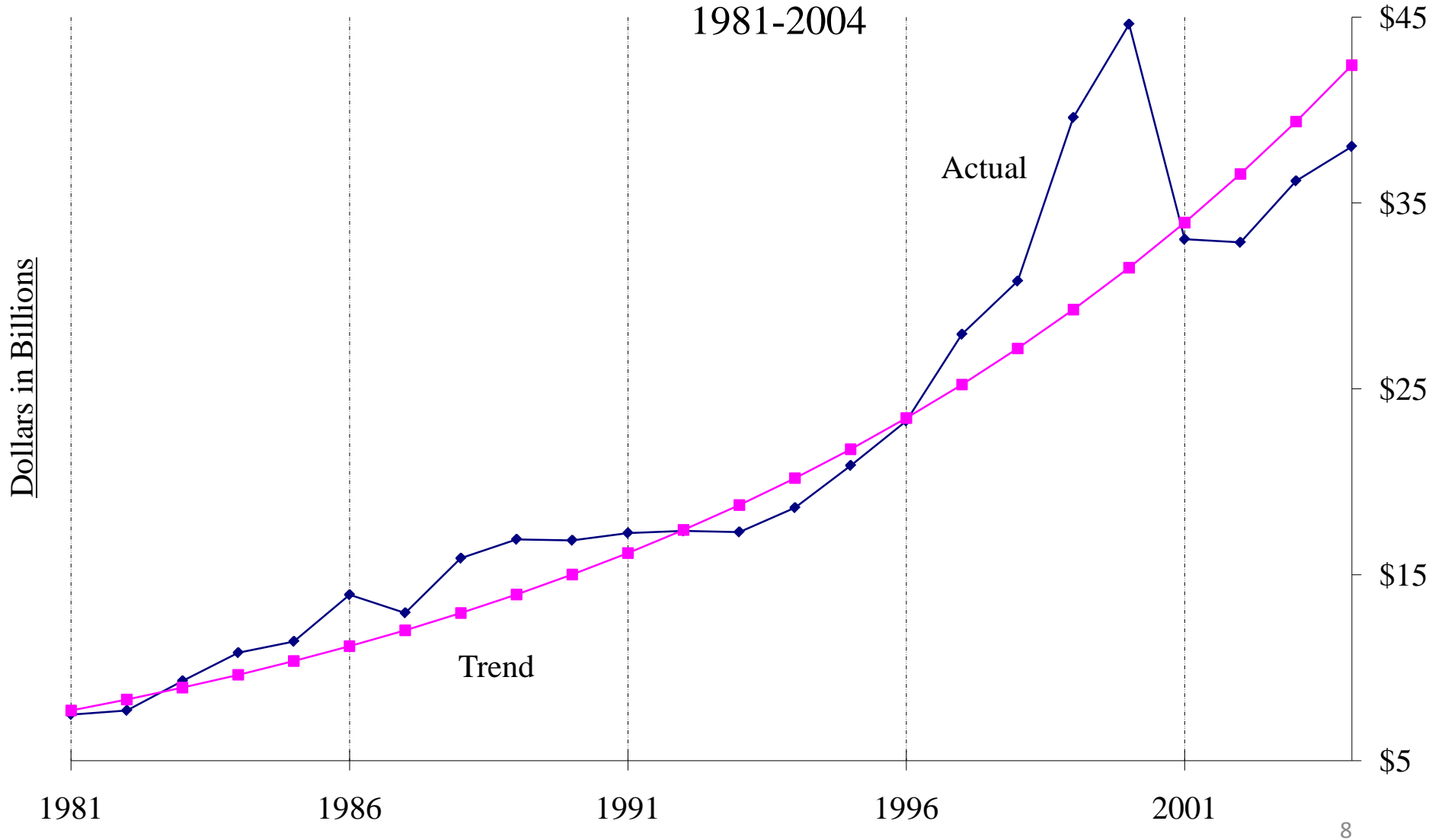
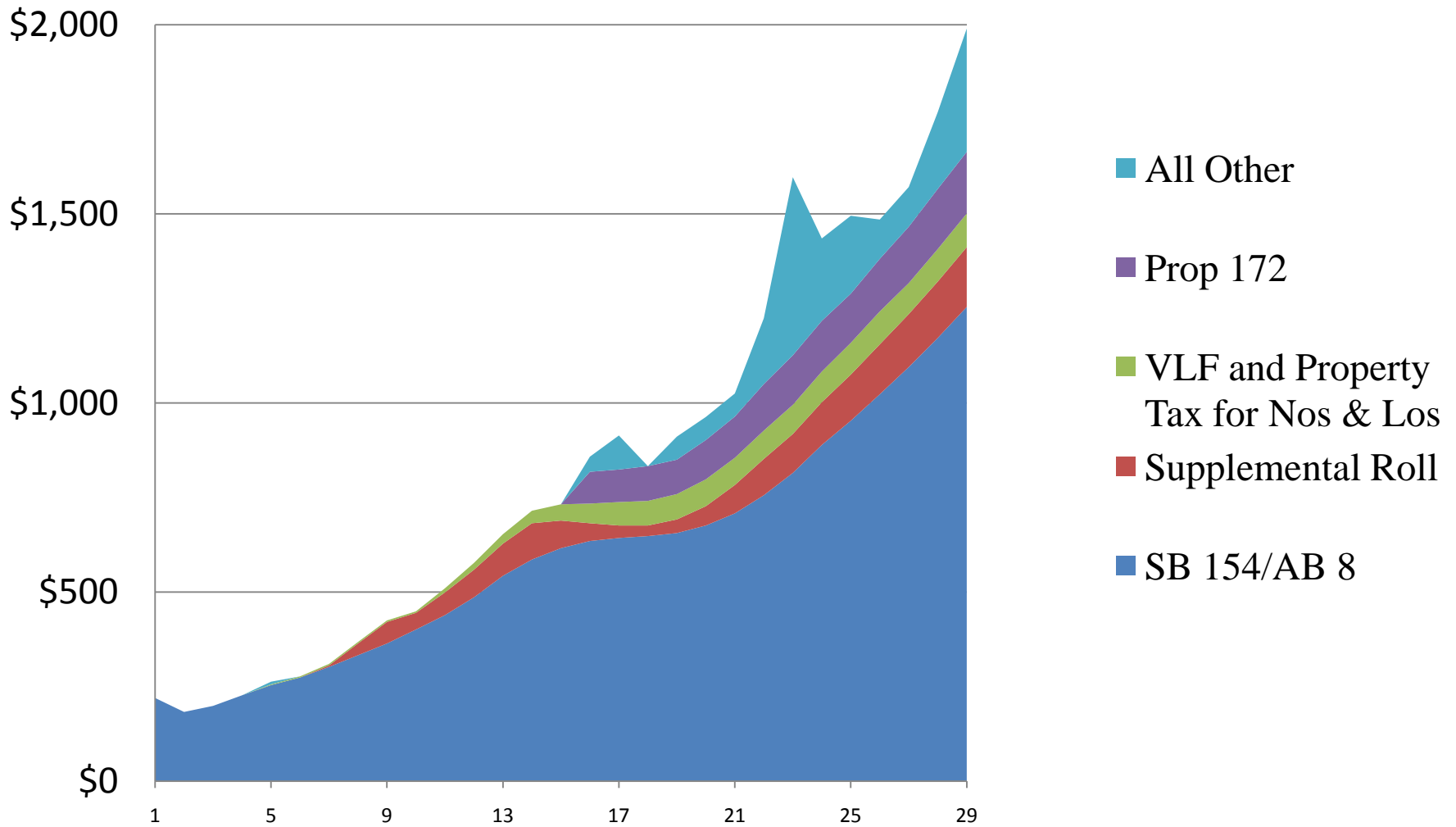


Figure 4
 Positive Fiscal Relief
 provided by State Since 7/1/78 by Major Relief and Year
 Dollars in Millions



Recent History

Figure 5
Operating Surplus/Deficit
1999 Estimate
1999-00 through 2005-06
Dollars in Millions

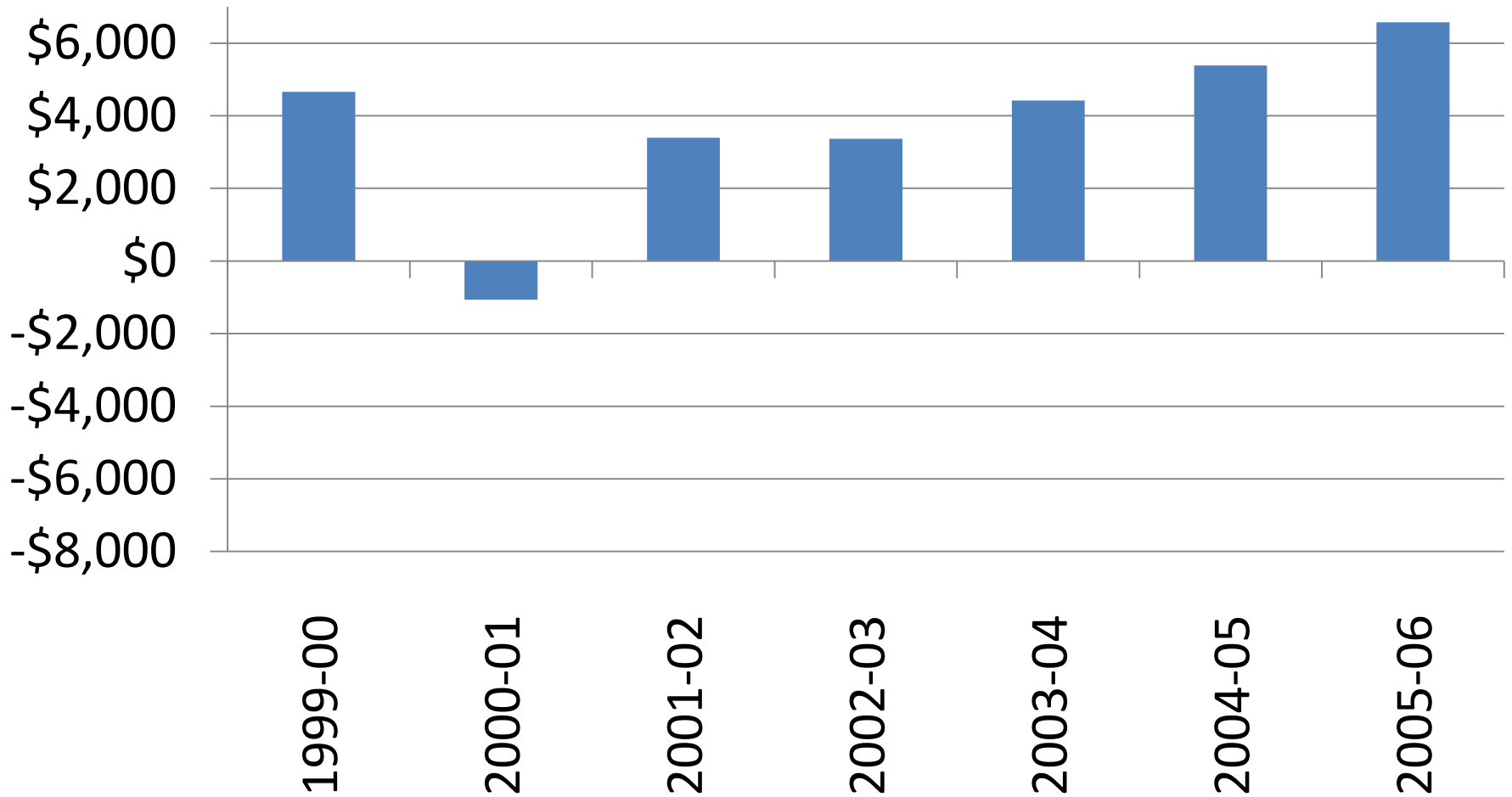


Figure 6
Operating Surplus/Deficit
1999 Estimate vs. Actual
1999-00 through 2005-06
Dollars in Millions

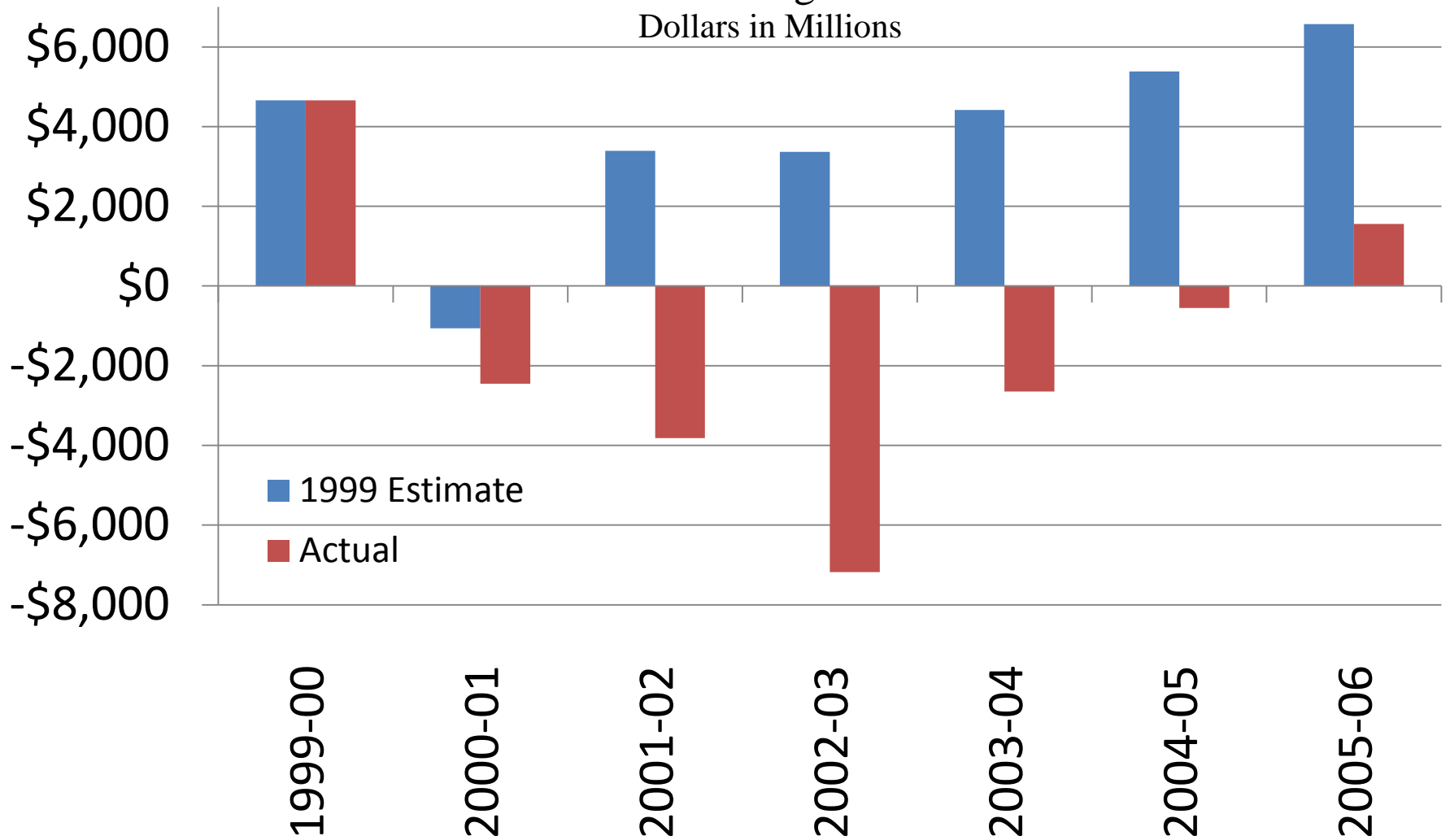


Figure 7
Operating Surplus/Deficit
Estimated 2006-07
2006-07 through 2008-09
Dollars in Millions

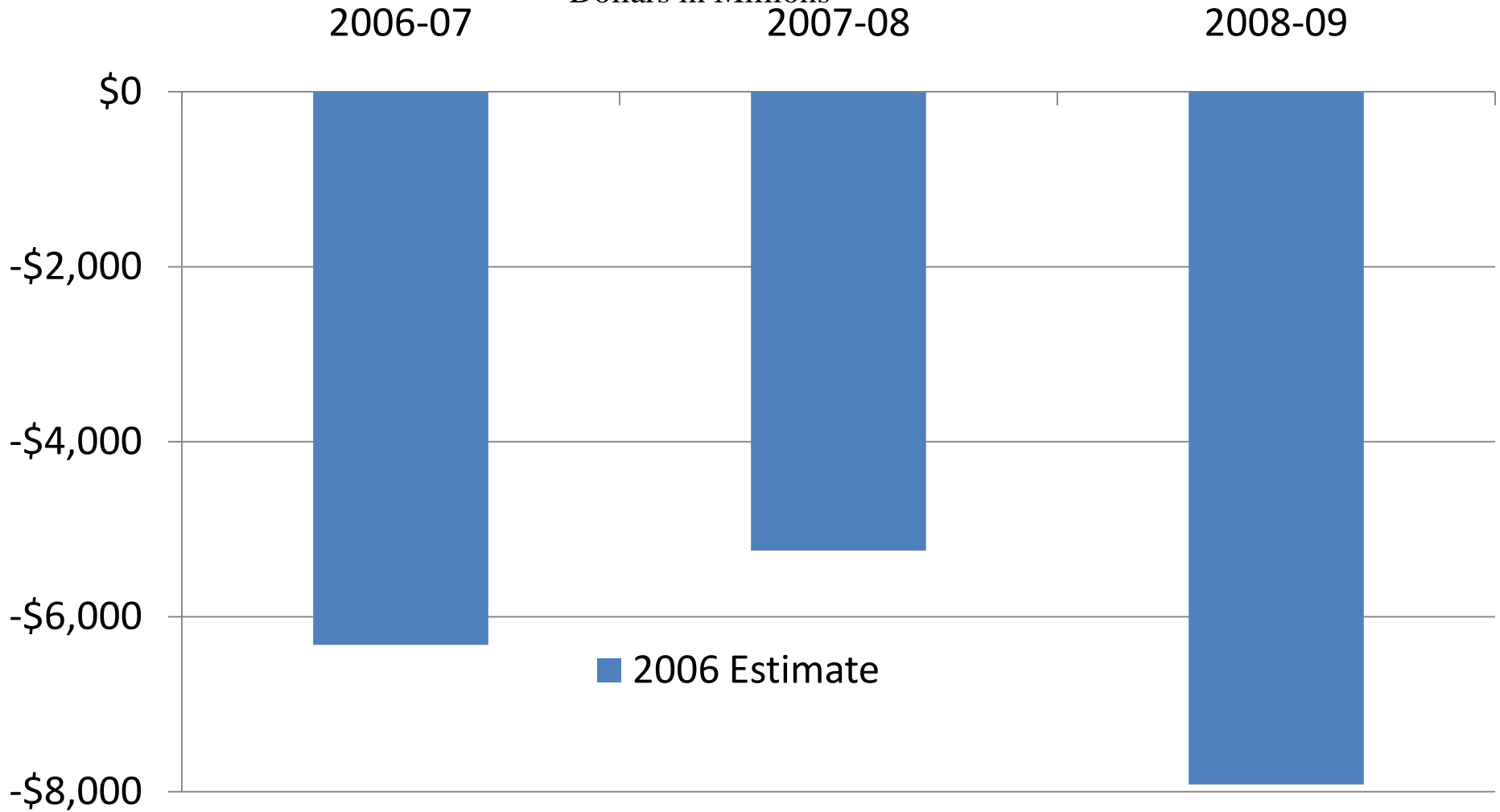


Figure 8
Operating Surplus/Deficit
Estimated 2006-07 vs. Actual
2006-07 through 2008-09
Dollars in Millions

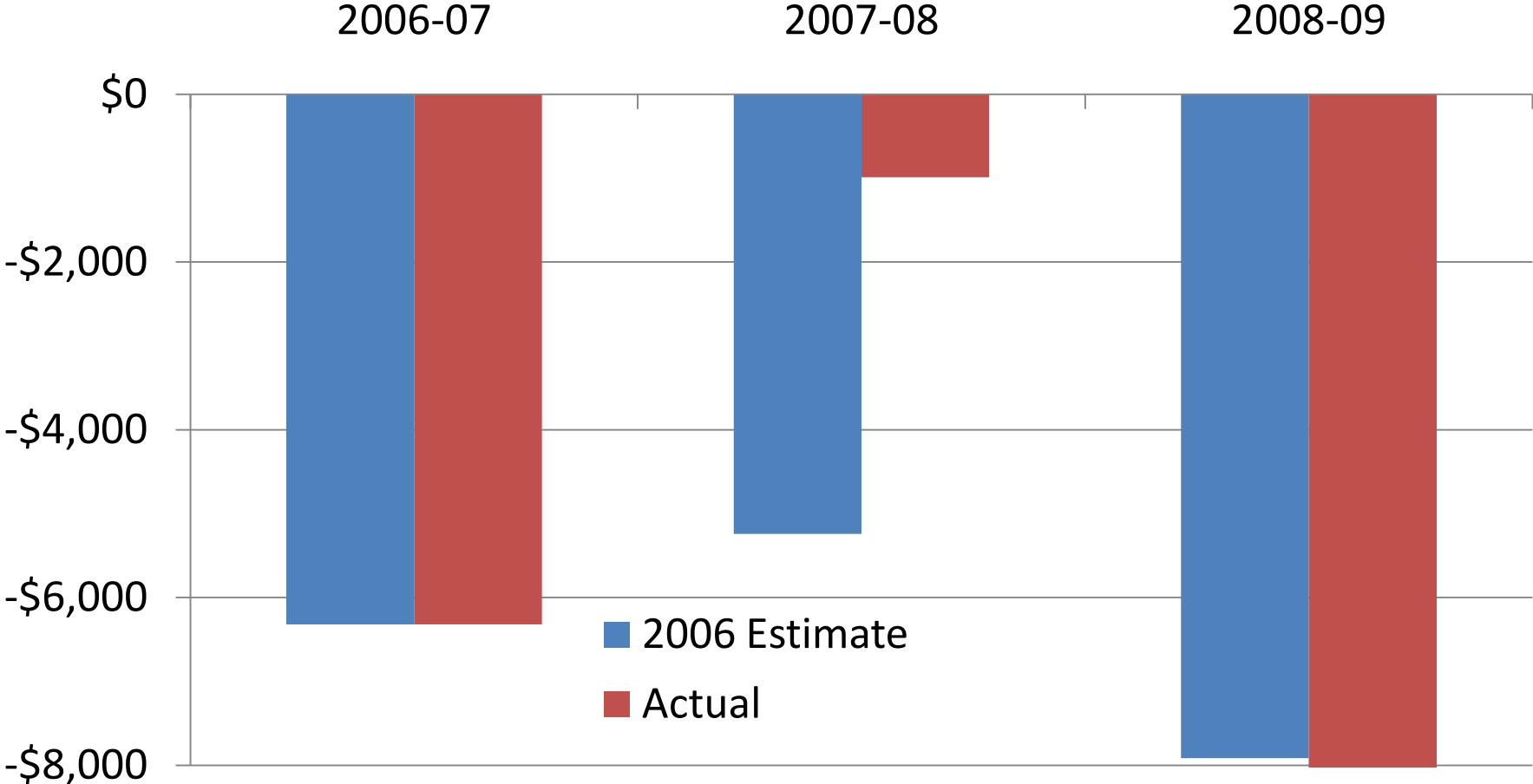


Figure 9
GF Expenditures for
2010-11 through 2012-13
2007 Estimate
Dollars in Billions

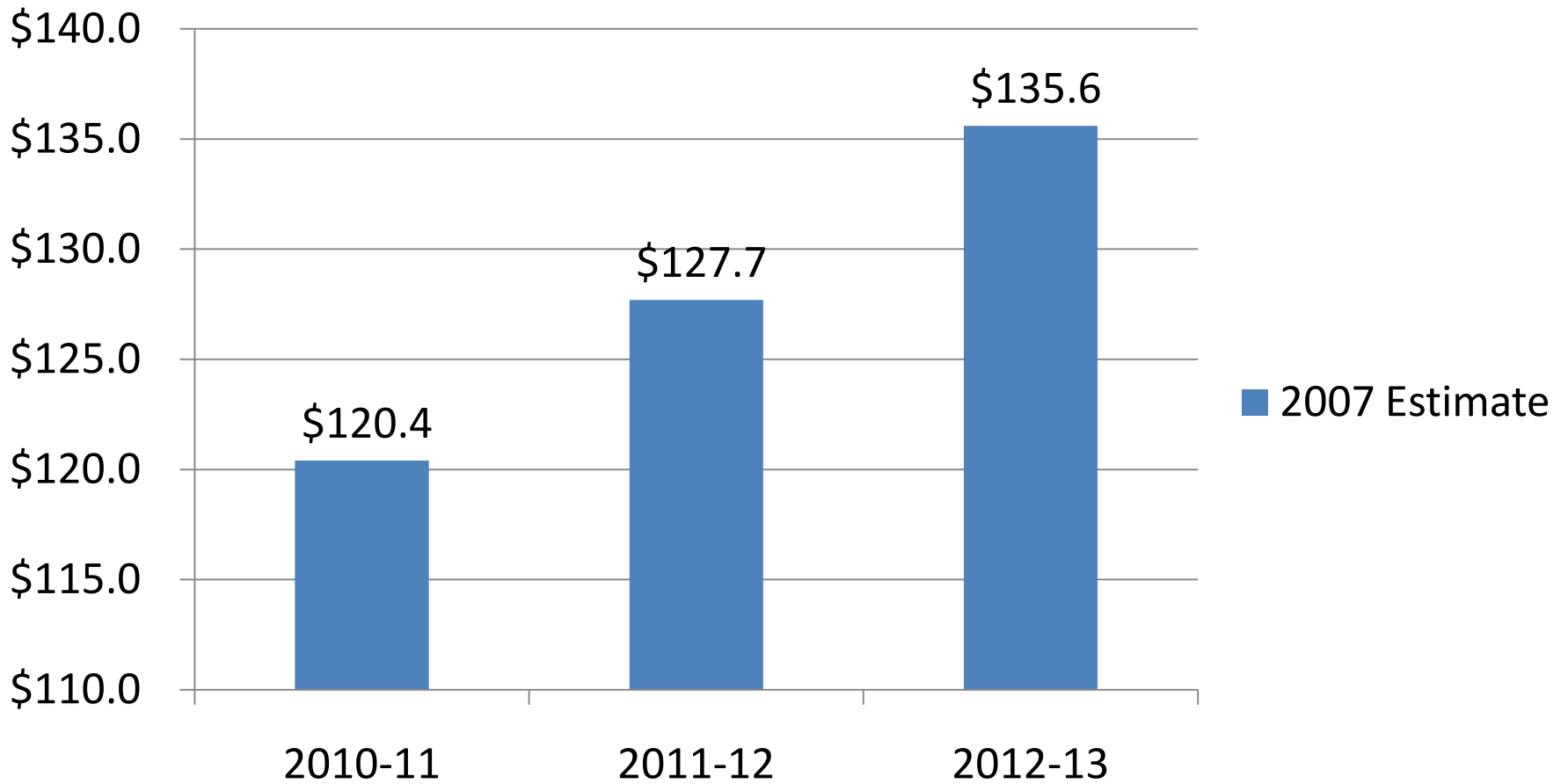


Figure 10
GF Expenditures for
2010-11 through 2012-13
2007 vs 2009 Estimate
Dollars in Billions

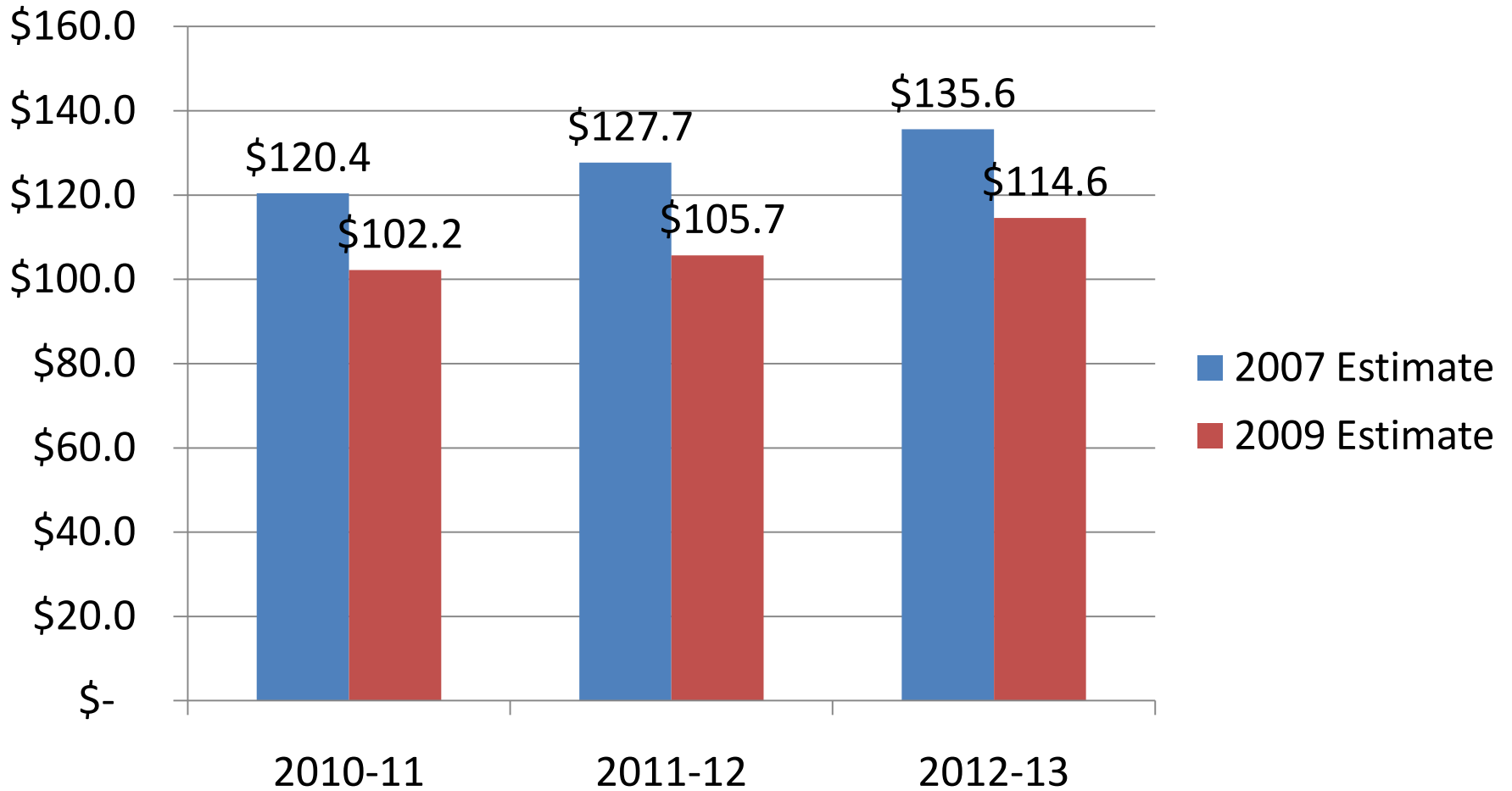


Figure 11
General Fund Resources
2007 Estimate
2010-11 through 2012-13
Dollars in Billions

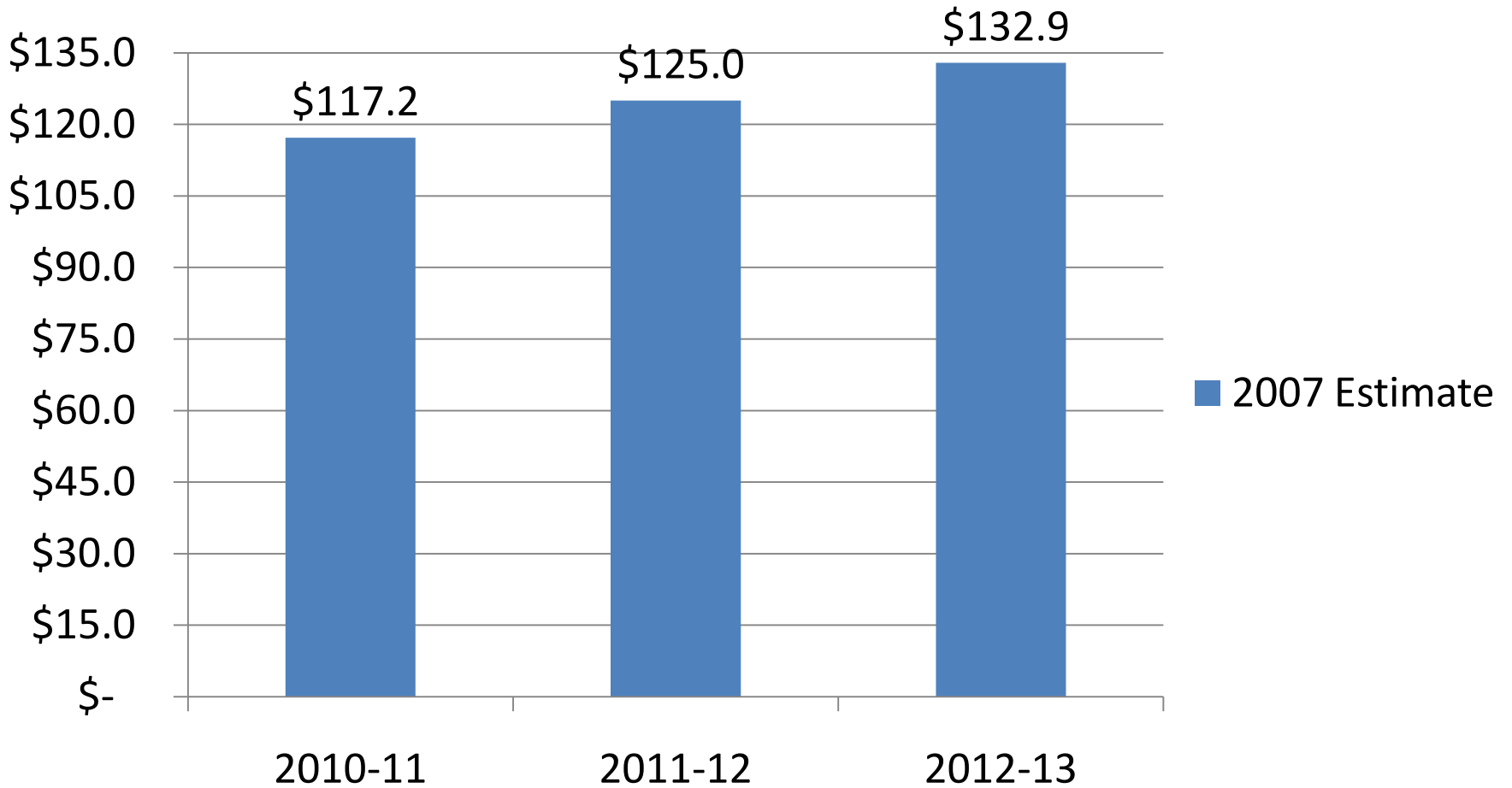
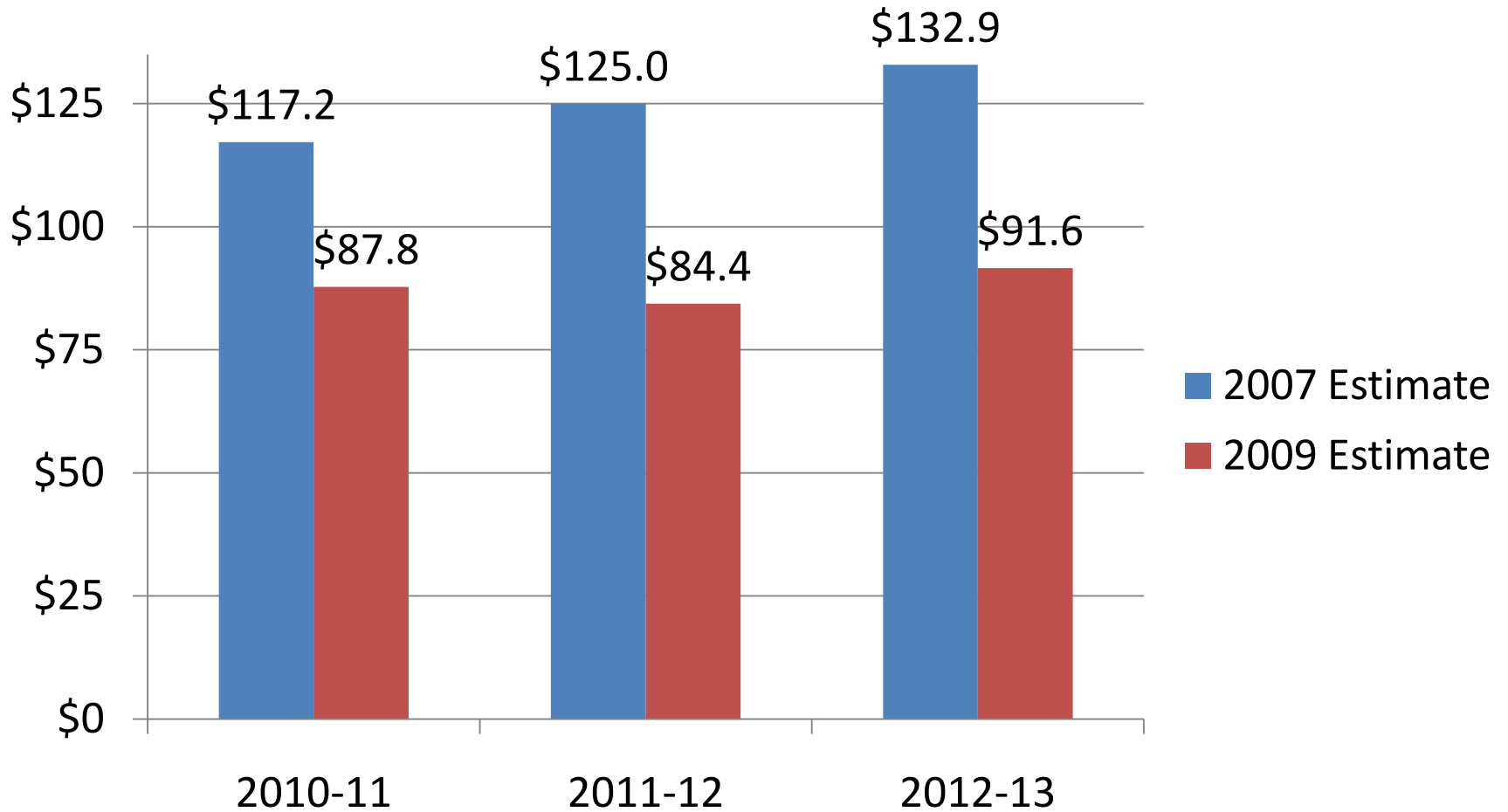


Figure 12
General Fund Resources
2007 vs. 2009 Estimate
2010-11 through 2012-13
Dollars in Billions



Debt Services and Other General Fund Expenditures 2009-10 through 2027-28 Dollars in Millions

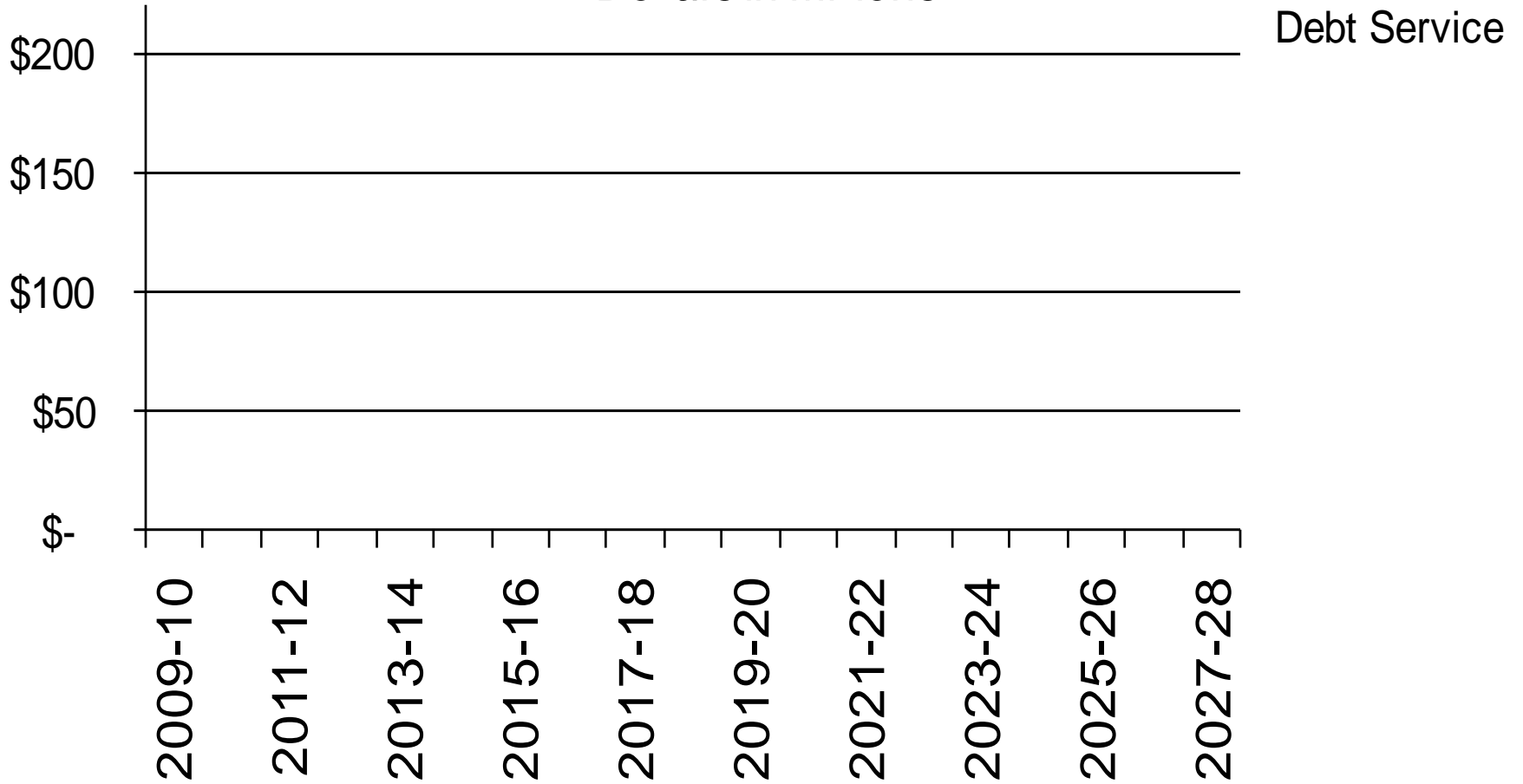
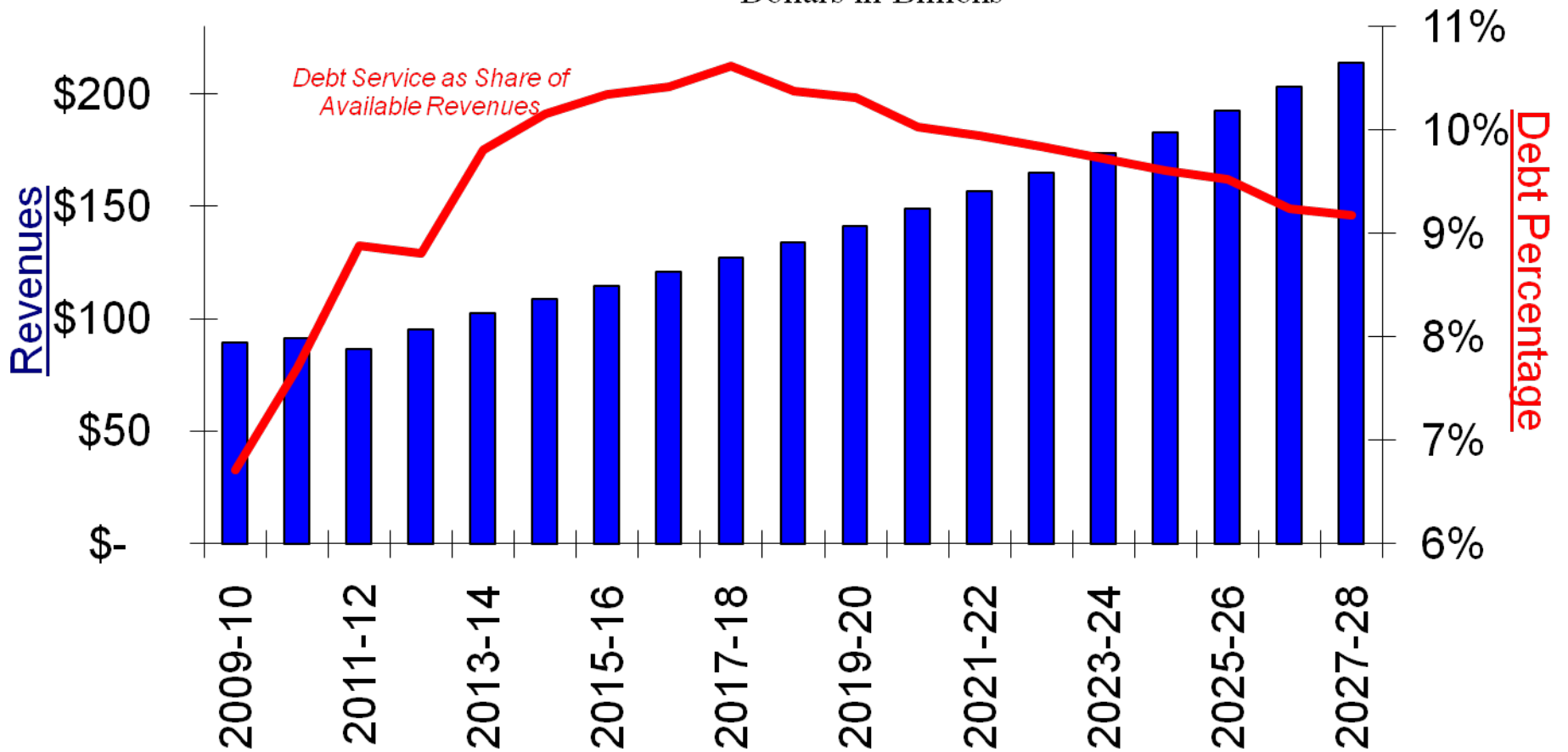


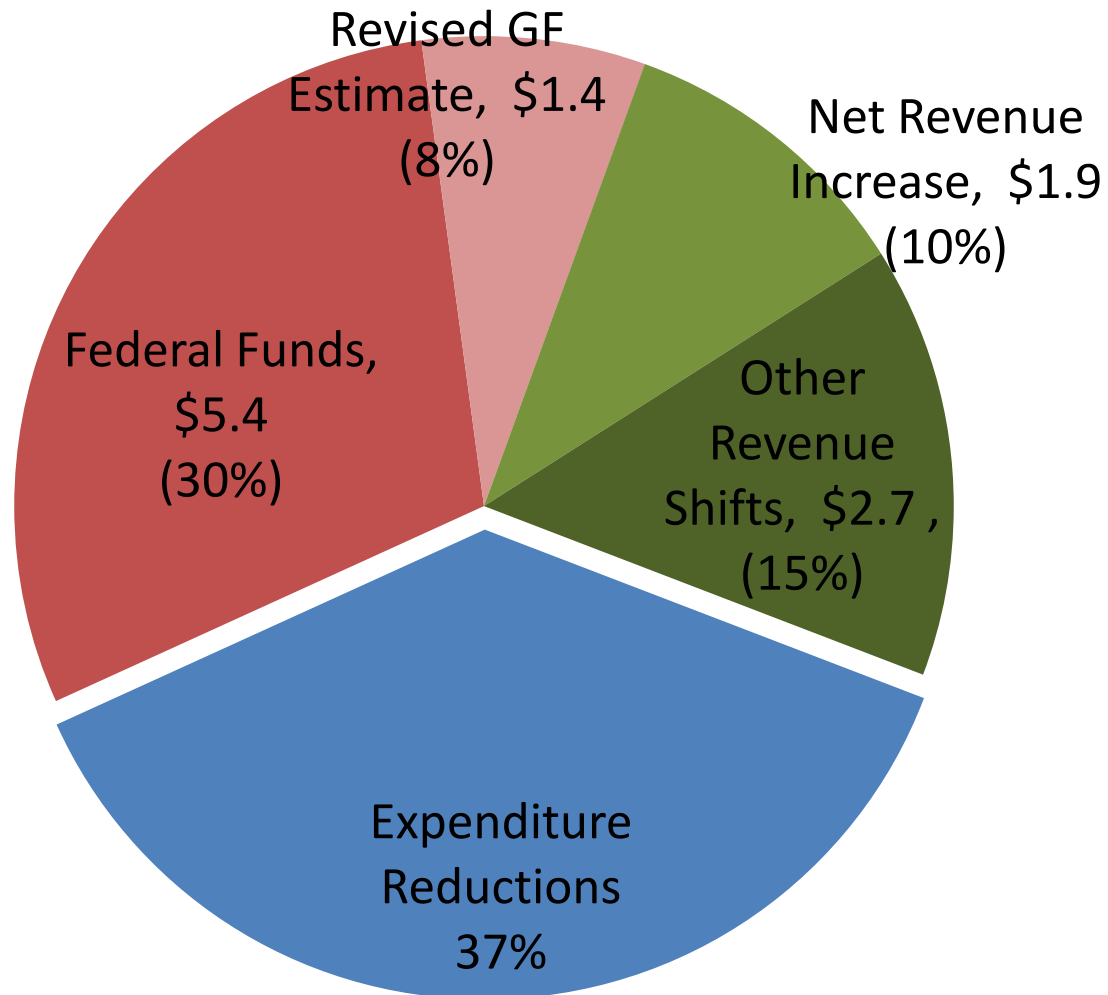
Figure 14
 General Fund Debt Service (Percent)
 Compared to Total Revenues
 Dollars in Billions



The 2010 Budget

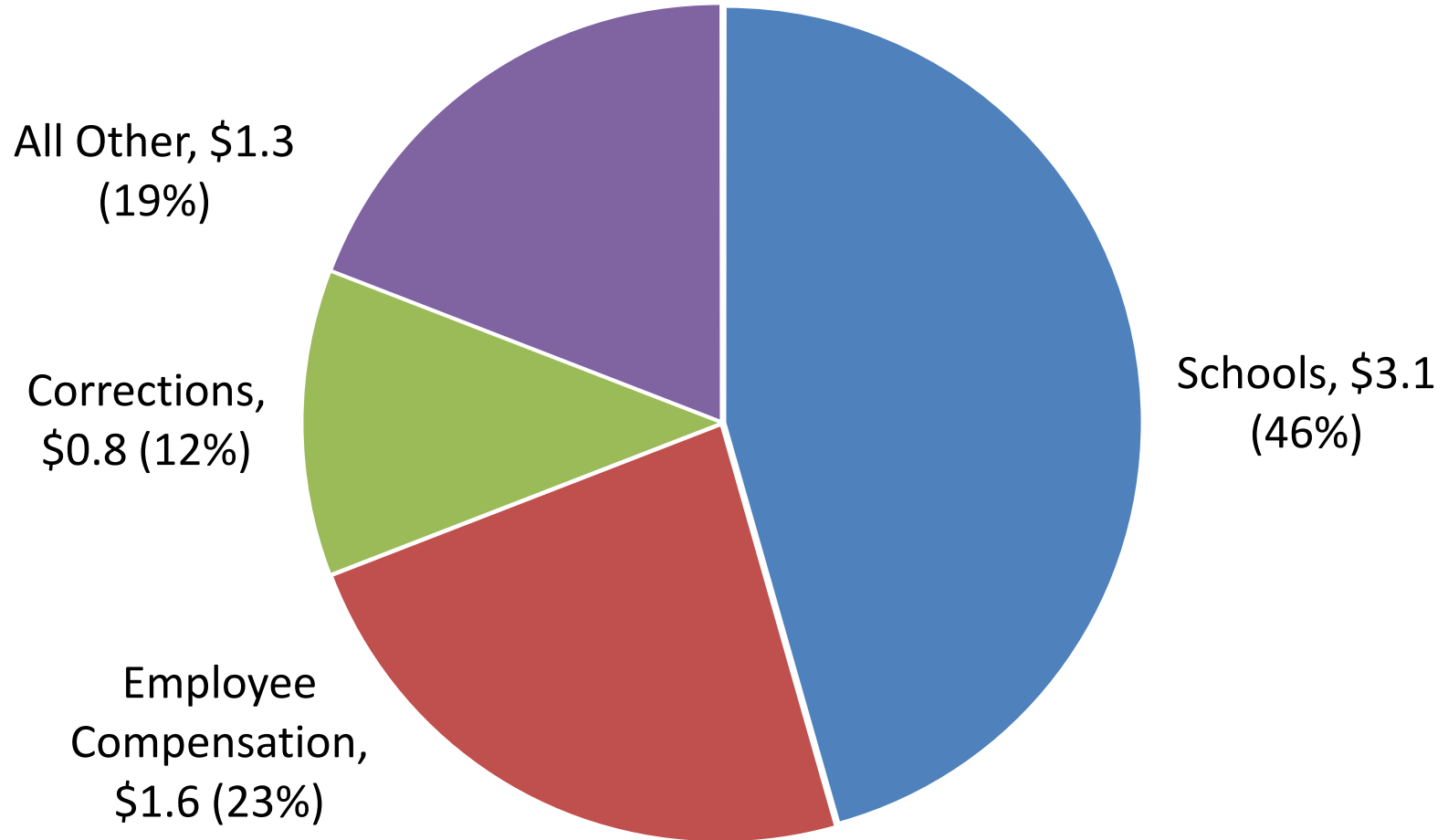
2010 Budget Solutions (As Passed by Leg)

Dollars in Billions

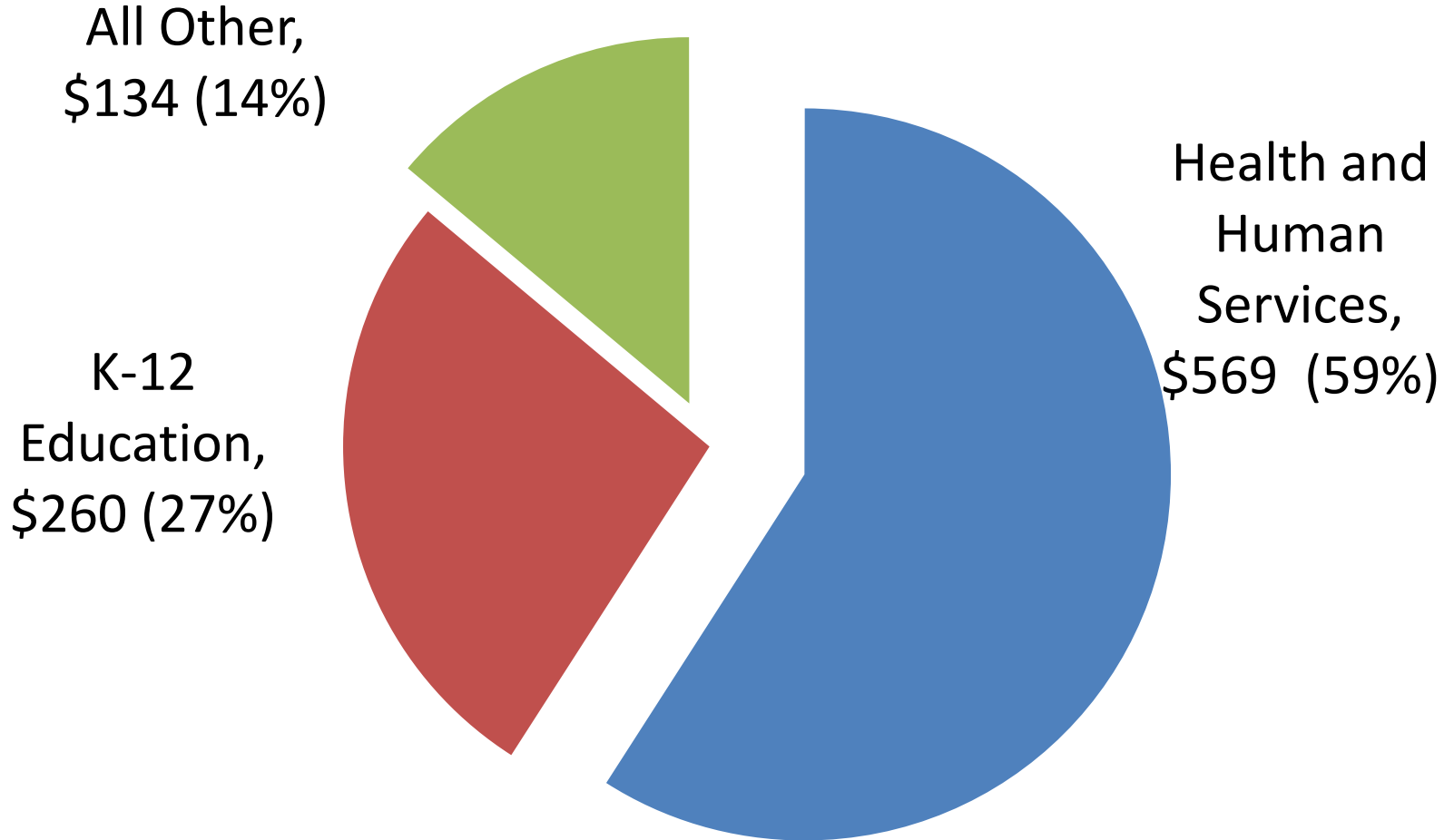


Where Were the Reductions?

Dollars in Billions

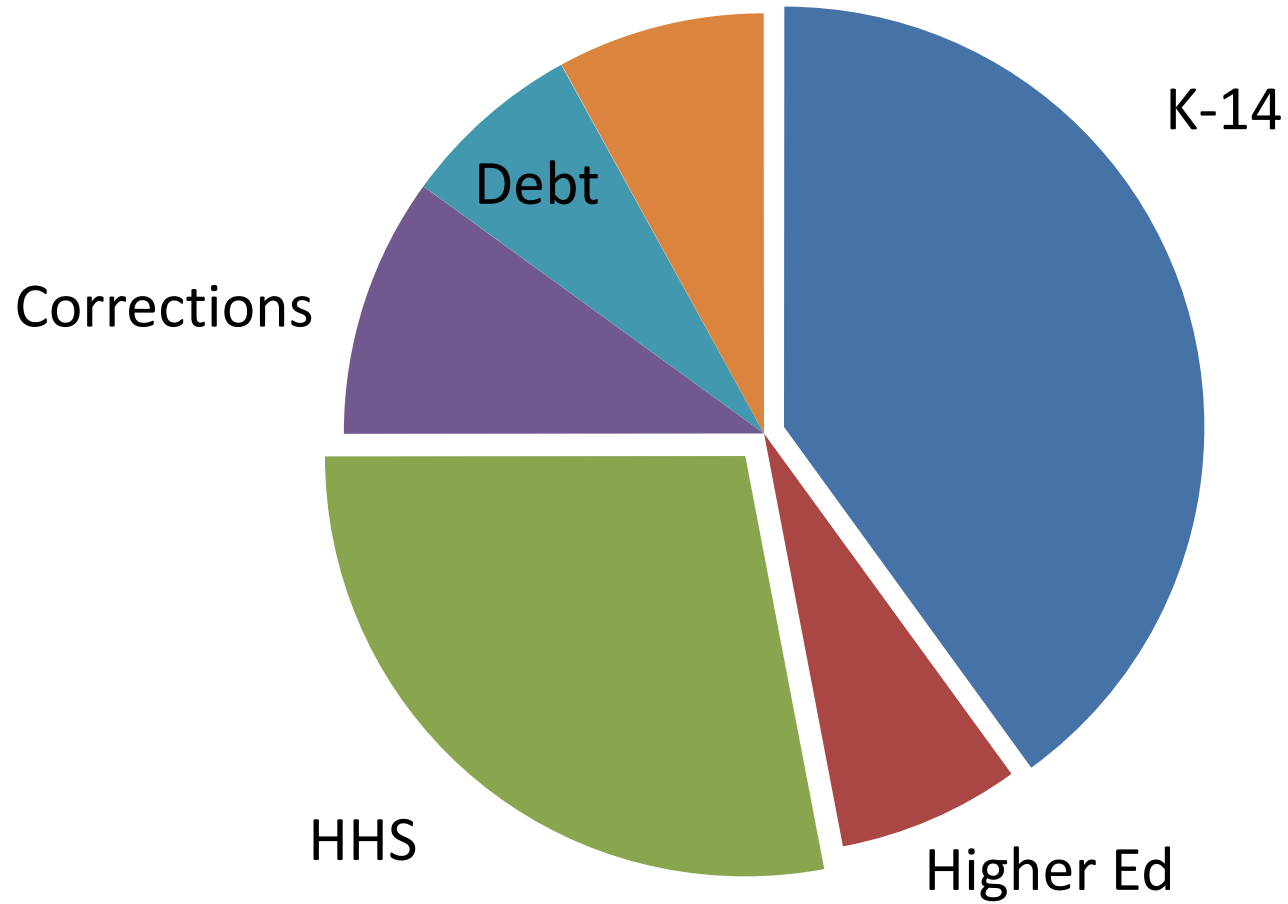


Where Were the Vetoes? Dollars in Millions



What Does the New Governor Face? What Are the Implications for Local Finance?

Figure 15
State General Fund Budget by Program



“Balancing” Is Only One Option

The objective may be to facilitate:

Planning (continuity)

Evaluating Performance (change)

Responding to Economic Conditions (flexibility)

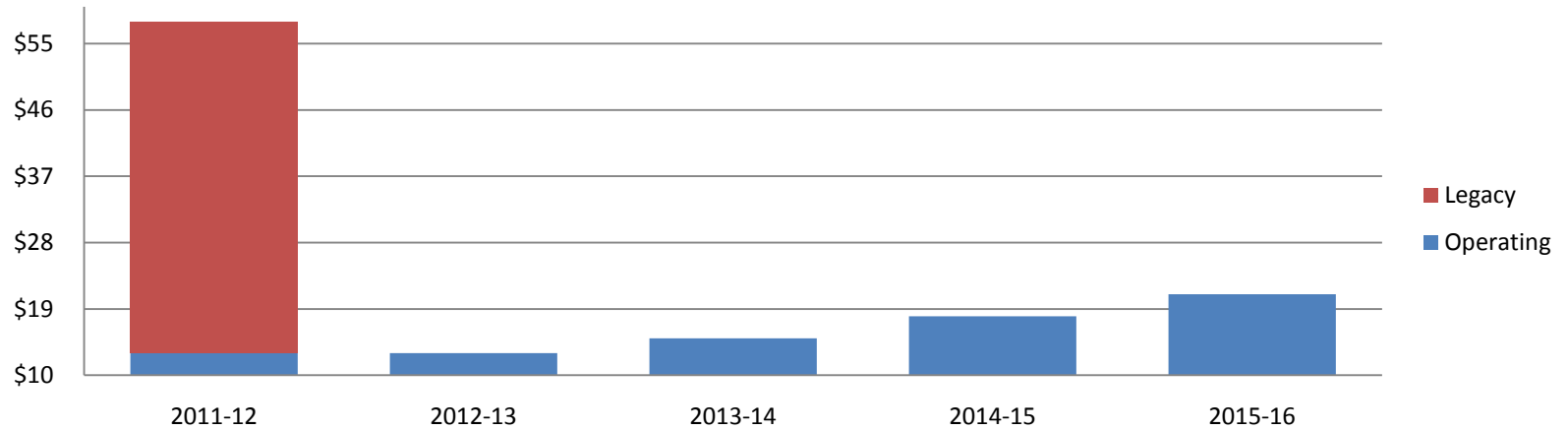
Controlling Spending (rigidity)

Improving Public Understanding (openness)

“Balance”

$$(\text{Revenues} + \text{Debt}) - \text{Expenditures} > 0$$

Figure 16



Quantify the Legacy Deficit

What is a “legacy” deficit?

Does (all of) it need to be solved?

Cal Forward “Reforms”

Prop 1 A Is Pretty Good Protection

Local Finance Remains at Risk

Realignment Options

State - County

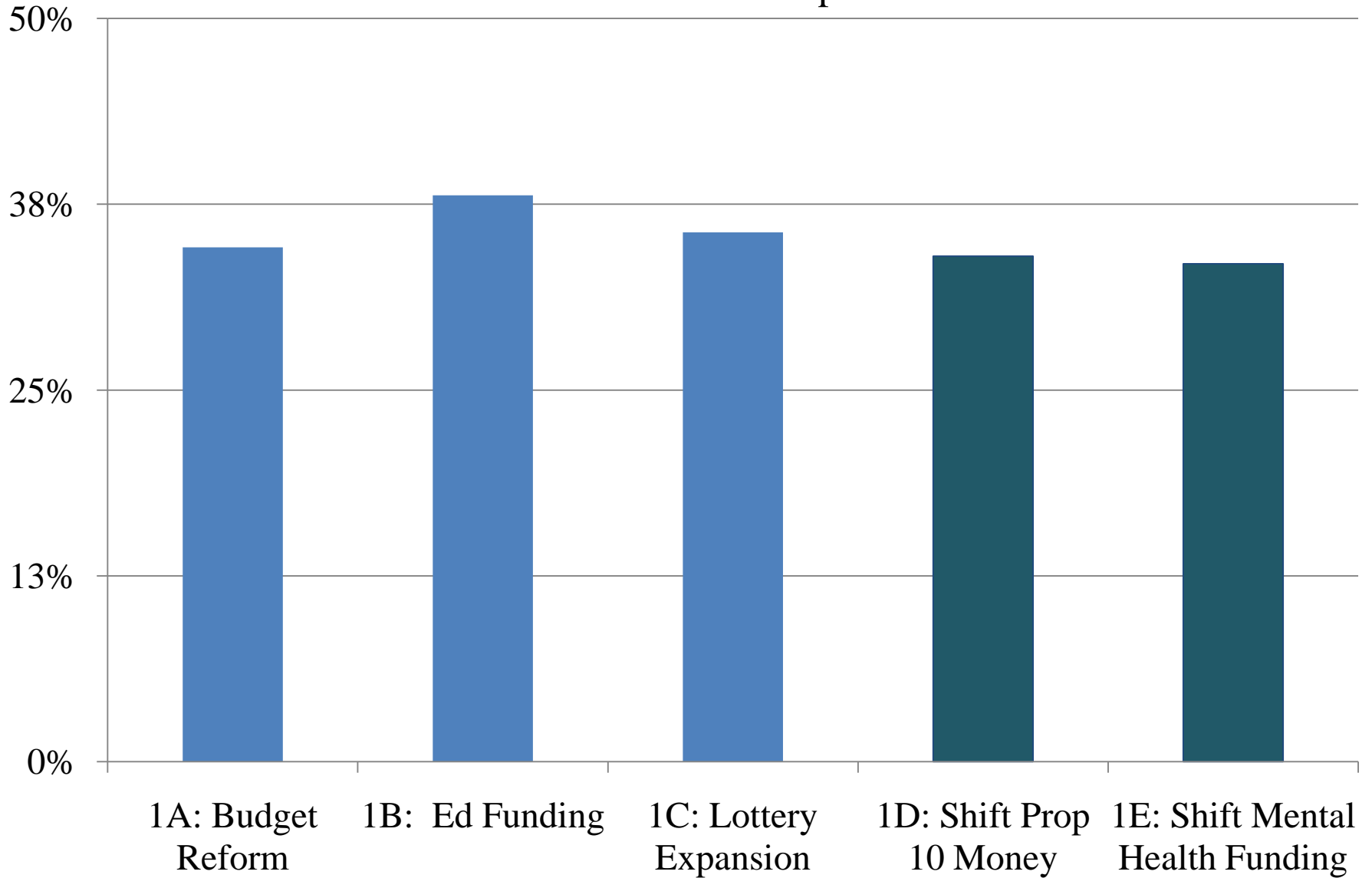
State – Regional

Must the transaction be revenue neutral?

What reasonably can be decentralized?

Is the real problem the underperformance of the local tax system?

Figure 17
Results of 2009 Statewide Special Election



They looking back, all th' Eastern side beheld
Of Paradise, so late their happy seat,...
Some natural tears they drop'd, but wip'd them soon;

The World was all before them, where to choose
Their place of rest, and Providence their guide:
They hand in hand with wandering steps and slow,
Through Eden took their solitary way.

Conclusion, *Paradise Lost*
John Milton