



STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

January 10, 2007



Dear Governor:

When you took office in 2003, the state faced a structural budget crisis of unprecedented proportions. The structural deficit was estimated to be \$16.5 billion unless steps were taken to reduce it. Your Budget for 2007-08 brings good news for our state: it reduces the net operating deficit to zero. And, it achieves this without raising taxes.

Your Budget limits the growth in General Fund spending to 1 percent—the lowest rate of growth in five years and maintains a sizeable reserve of \$2.1 billion. The 2007-08 Budget also proposes \$1.6 billion in pre-payments of the Economic Recovery Bonds (ERB) that were issued to refinance past budgetary borrowing. This will bring the total amount set aside to repay the ERBs to \$7.4 billion in the four years since the bonds were issued. As a result, the bonds are projected to be repaid in full by August of 2009—14 years ahead of schedule. This prudent focus on eliminating the operating deficit and paying down debt is key to financing the long-term investment in our critical infrastructure under your Strategic Growth Plan.

This Budget reflects fiscal restraint at the same time it protects essential services. It fully funds the Proposition 98 guarantee, bringing per pupil funding from all sources to \$11,584, an increase of 21 percent since you took office. It fully funds public safety and your compact with the judiciary, ensuring that the justice system can continue to protect the lives, rights and property of California citizens. It fully funds your compact with our higher education systems and goes farther by adding money for new research in nano-technology and alternative fuels.

Last year, you initiated the first phase of a comprehensive Strategic Growth Plan (SGP) to begin to address California's critical infrastructure needs over the next 20 years. You worked closely with the Legislature and the voters approved the \$37.3 billion SGP in November 2006. The Budget completes this work by proposing additional bond funding of \$43.3 billion between now and 2016, which when combined with the bonds already approved, new strategies you are proposing for public-private partnerships and other existing funds, will provide a ten-year investment of \$211 billion in California's future.

California's economic and fiscal future again looks bright, but we must re-double our efforts to ensure that the state does not return to spending beyond its means. Spending pressures and revenue volatility could bring back the structural budget deficit as soon as next year. That is why you are calling on the Legislature to work with you to develop and implement long-term budget reform.

Please join me in expressing my sincere thanks to the women and men of the California Department of Finance and their families. Without our staff's dedication and hard work and the sacrifices of their families, this budget would not have been possible.

Sincerely,

Michael C. Genest
Director of Finance