producing surpluses.

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The state's fiscal analyst said Wednesday that California's long-tattered budget is on the verge of producing surpluses, but he cautioned that Gov. Jerry Brown and lawmakers must first avoid a spending spree.

The improved outlook comes after voters approved two tax initiatives last week, and the California economy and housing market showed signs of perking up. State leaders have also cut programs in recent years.

It was the nonpartisan legislative analyst's most optimistic fiscal forecast since the dot-com boom 12 years ago. It shows a relatively small $1.9 billion deficit through June 2014 against a $97.7 billion general fund, followed by annual surpluses that grow beyond $9 billion in 2017-18.

"For the first time since about 2001, we actually show us being in the black," Legislative Analyst Mac Taylor said. "This is a dramatic turnaround."

Those numbers, however, rely on assumptions that few Capitol veterans expect to hold — namely that Democratic lawmakers will keep programs at current spending levels after years of forcing allies to accept cuts and no cost-of-living increases. It also assumes steady economic growth and no broad federal tax hikes or deep spending cuts.

Spending demands are already hitting Sacramento. University of California officials made clear Wednesday they want more money next year, warning that tuition hikes may occur otherwise. Social service advocates have clamored to restore programs such as dental care for low-income adults in Medi-Cal.

Brown said in a statement that he intends to "continue to exercise fiscal discipline

a fun place to be."

In the immediate budget cycle, the state faces a $1.9 billion deficit through June 2014, according to the Legislative Analyst's Office. Just one year ago, it predicted a $13 billion gap over a comparable time period, and a $25 billion shortfall the year before that.

Voters last week approved Brown's tax initiative, Proposition 30, to increase income taxes on top earners and sales taxes by a quarter-cent on the dollar to generate $6 billion annually through 2018-19. They passed a separate initiative, Proposition 39, to permanently raise taxes on some corporations by $1 billion a year.

Despite those new taxes, the analyst's office believes the state faces a short-term deficit largely because it will not receive about $1.8 billion that Brown expected from eliminating redevelopment agencies. The analyst also says state leaders can't use $400 million in cap-and-trade revenues to plug the budget, and California faces higher than predicted wildfire costs.

The immediate deficit would have been higher had Brown's Department of Finance not discovered a surprising amount of additional money this month. Finance officials said they revised their accounting of past revenues — mostly income taxes — to reveal an additional $1.4 billion available for the budget.

That money was not reported to the Legislative Analyst's Office until the afternoon of November 6 — the same day voters approved Proposition 30. Finance spokesman H.D. Palmer said his department found the money as part of an annual review that assigns revenues to past budget years.

The legislative analyst's fiscal forecast serves as the unofficial kickoff to the budget season. Brown will set things in motion when he releases his 2013-14 budget in

January.

But Taylor said the state’s finances are not yet strong enough to enable similar expansion in public programs such as Medi-Cal, universities and in-home care — all of which lack the mandated spending increases that K-14 schools have.

“I think it’s a little bit of a tale of two budgets there,” Taylor said.

As lawmakers and Brown enjoy an influx in revenues and possibly surpluses in years to come, the analyst’s office offered advice that mirrored the wisdom commonly dispensed to consumers by personal finance experts. It suggested that state leaders build an emergency reserve, pay off debt, devote more cash to retirement costs and be very selective about buying back programs.

Senate President Pro Tem Darrell Steinberg, D–Sacramento, told The Bee’s editorial board Wednesday that he wants to do all of that, though he didn’t commit to how he would divvy up the budget.

“Obviously we’re not going to be able to reinvest dramatically in year one and year two or in year three,” Steinberg said. “Obviously we’re not going to be able to make up for all the losses that have occurred in education, higher education, public safety and health and human services in the short run.”

But Steinberg added that he wants to pursue a “medium- to long-term investment plan” that would devote funds to a rainy-day fund, program restorations and paying off debt.

The legislative analyst’s forecast relies on a steady economic recovery in California. Its projections show the state unemployment rate dropping from 10.6 percent in 2012 to 6.7 percent in 2017. It also assumes that personal income will grow by between 4.7 percent and 5.8 percent annually.

Taylor warned that the state and national economy could suffer if federal leaders do

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