

Initial Comments on the Governor's May Revision



Presented to:

**Senate Budget and Fiscal Review
Committee**

Gabriel Petek

Legislative Analyst's Office

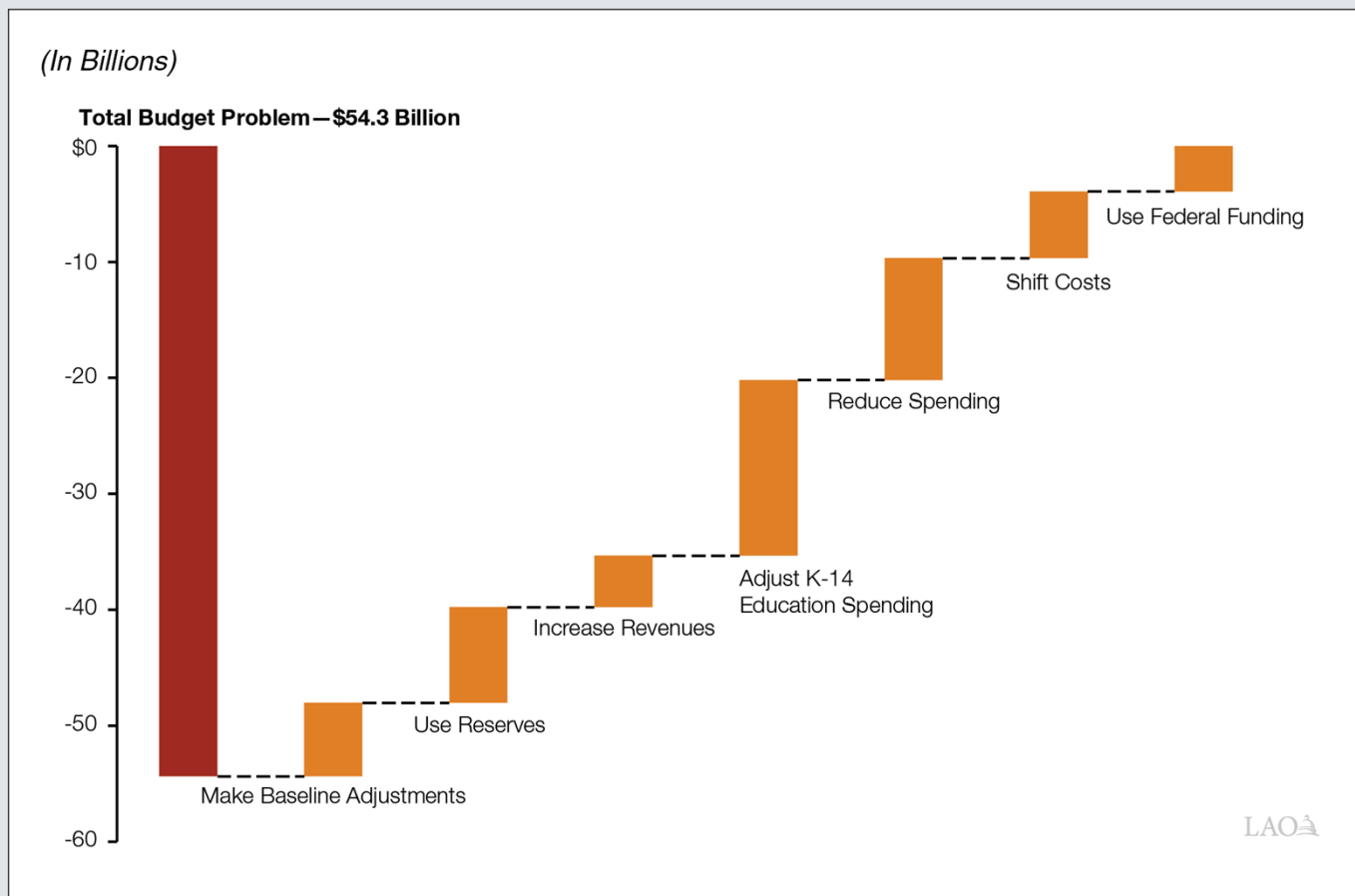
General Fund Condition Under Governor's May Revision

<i>General Fund (In Millions)</i>		
	2019-20	2020-21
Prior-year fund balance	\$11,280	\$1,619
Revenues and transfers	136,837	137,417
Expenditures	146,497	133,902
Ending fund balance	\$1,619	\$5,135
Encumbrances	3,175	3,175
SFEU balance	-\$1,556	\$1,960
Reserves		
BSA balance	\$16,156	\$8,350
SFEU	— ^a	1,960
Safety Net Reserve	900	450
Totals	\$17,056	\$10,760

^a Negative SFEU excluded from total reserves balance.

SFEU = Special Fund for Economic Uncertainties and
BSA = Budget Stabilization Account.

How the Governor Proposes Solving a \$54.3 Billion Budget Problem

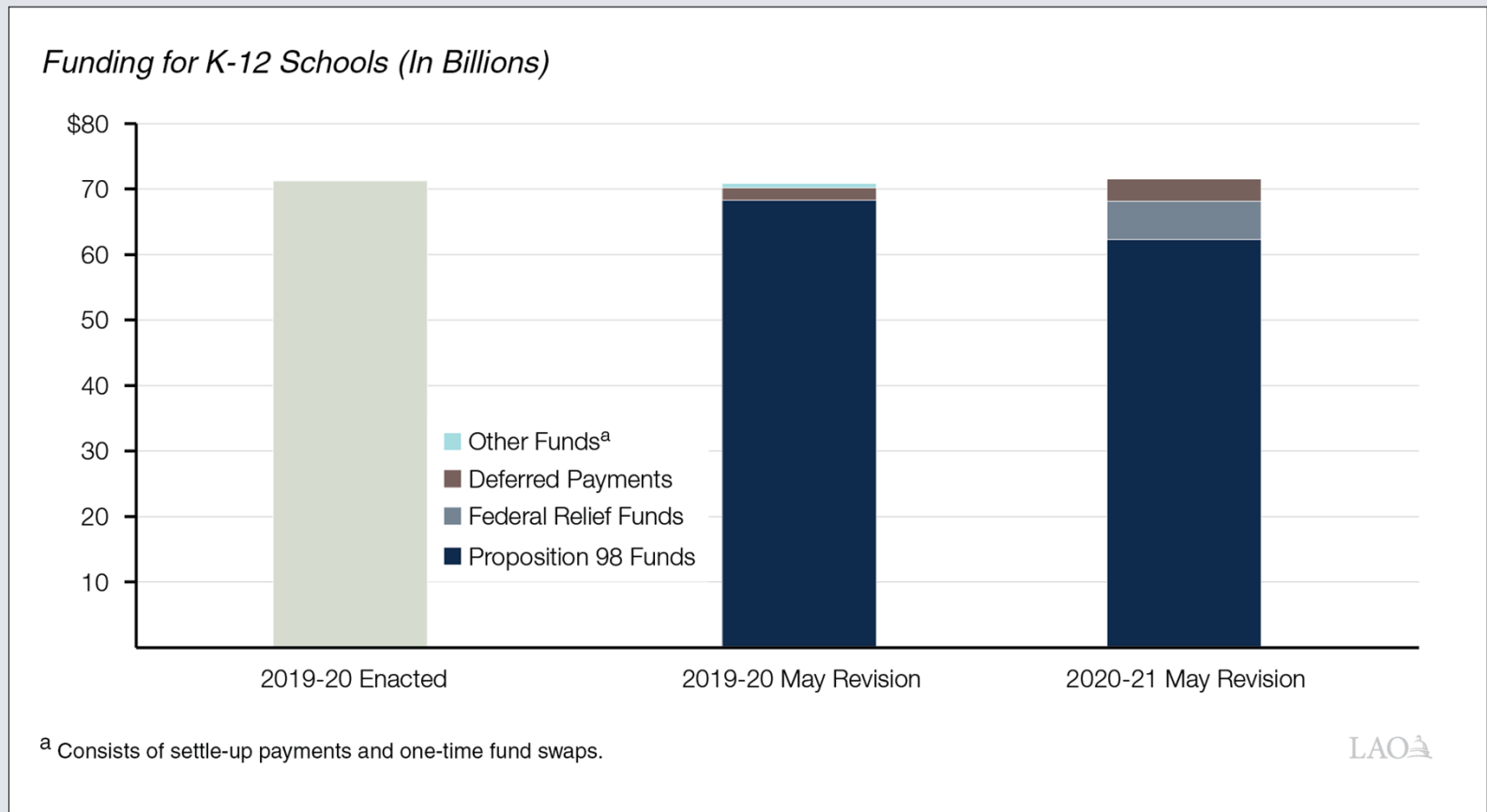


Further Detail on How the Administration Proposes Solving the Budget Problem

<i>(In Billions)</i>			
	Subject to Trigger	Not Subject to Trigger	Totals
Make Baseline Adjustments			
Account for higher federal Medicaid funding	—	\$4.3	\$4.3
Remove or modify January proposals	—	2.1	2.1
Use Reserves			
Make BSA withdrawal	—	7.8	7.8
Make Safety Net Reserve withdrawal	—	0.5	0.5
Increase Revenues			
Suspend net operating losses	—	1.8	1.8
Limit business incentive tax credits	—	2.0	2.0
Interaction between the two above items	—	0.6	0.6
Adjust K-14 Education Spending			
Provide funding at the minimum guarantee	\$8.1	7.1	15.2
Reduce Spending			
Make flat 10 percent reductions	3.6	1.4	4.9
Make targeted reductions	2.3	3.2	5.6
Shift Costs			
Make special fund loans	0.9	2.0	2.9
Shift pension costs	—	1.7	1.7
Convert capital financing to LRBs	—	0.8	0.8
Transfer special fund balances	—	0.4	0.4
Use Federal Funding			
Use Coronavirus Relief Fund	—	3.8	3.8
Use CCDBG funds	—	0.1	0.1
Totals	\$14.9	\$39.4	\$54.3

BSA = Budget Stabilization Account; LRBs = lease revenue bonds; and CCDBG = Child Care and Development Block Grant.

Deferred Payments and Federal Funds Offset Reductions in K-12 Funding



Direct COVID-19 Related Funding In the May Revision

<i>(In Billions)</i>	
	Amount
Funding Already Expended	
Authorized under Control Section 36	\$0.8
Authorized under DREOA	1.4
Funding Proposed in the May Revision	
Direct responses expenditures (2019-20)	\$2.1
Direct response expenditures (2020-21)	1.4
COVID-19 contingency fund	2.9
Total	\$8.6
DREOA = Disaster Response-Emergency Operations Account.	

LAO Comments

Budget Solutions

- **Mix of Solutions Generally Well Balanced**
- **Proposed Revenue Solutions Are Reasonable Starting Point, but Have Limitations**
- **Some Spending Reductions Targeted, Others Less So**

LAO Comments

(Continued)

Multiyear Budget Condition

- **Governor Makes Progress in Addressing Ongoing Deficit ...**
- **... But Creates Significant New, Ongoing Obligation**
- **Pension Proposals Also Shift Costs to Future Years**
- **Continuing to Seek Federal Assistance Warranted ...**
- **... But Budget Structure Would Still Need To Be Reconsidered if Federal Assistance Materialized**

LAO Comments

(Continued)

Legislative Authority and Oversight

- **Governor Continues to Propose Significant Policy Changes That Require More Time for Legislative Consideration**
- **Several Proposals Sideline Legislative Authority**

lao.ca.gov