

MAY 26, 2020

Initial Comments on the Governor's May Revision

PRESENTED TO: Assembly Committee of the Whole
Hon. Philip Y. Ting, Chair



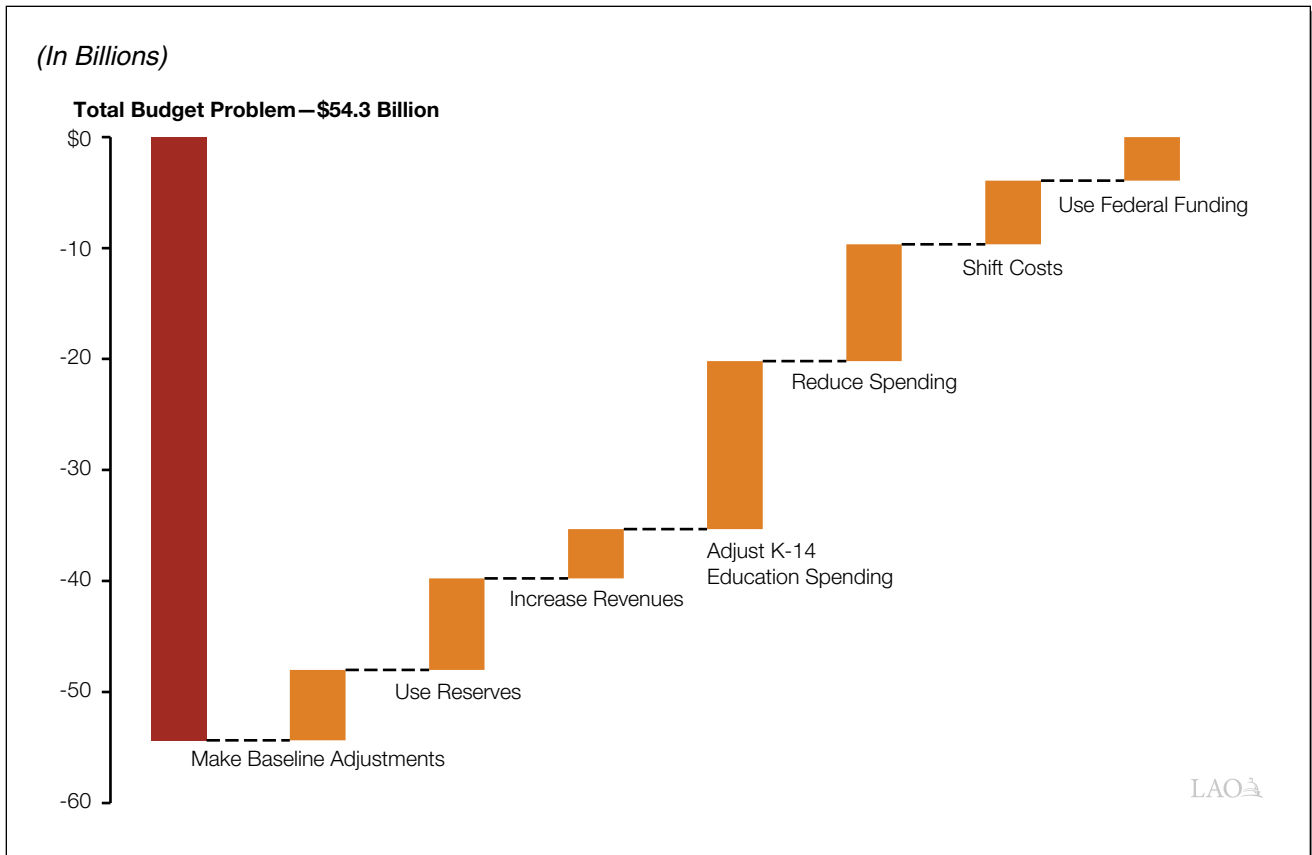
LEGISLATIVE ANALYST'S OFFICE

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

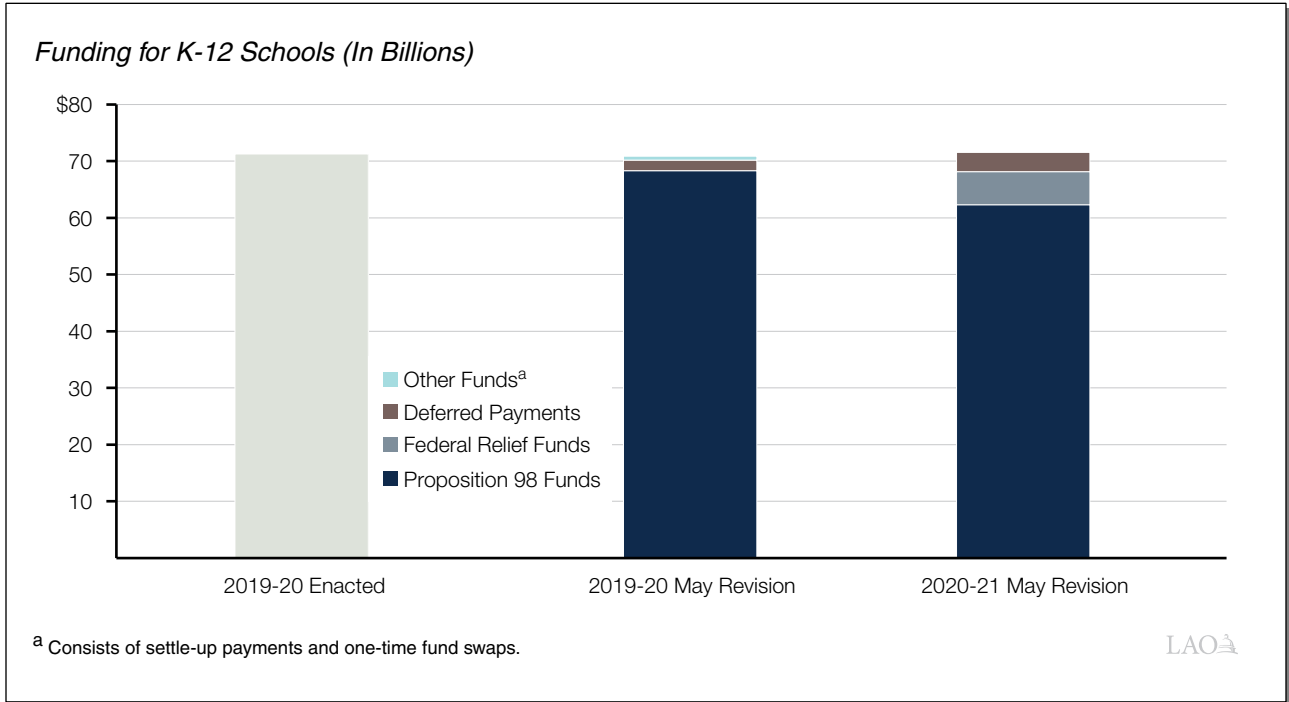


Further Detail on How the Administration Proposes Solving the Budget Problem

<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 response expenditures	\$3.5
COVID-19 contingency fund (Control Section 36)	2.9
Total	\$8.6
COVID-19 = coronavirus disease 2019; and DREOA = Disaster Response-Emergency Operations Account.	



LAO Spring Outlook— An Update to State Budget Condition In Light of the Pandemic-Induced Recession

- ▶ **Analysis Indicated a Likely Budget Problem Under Two Recession Scenarios**
 - *Somewhat Optimistic:* U-shaped recession—\$18 billion budget problem.
 - *Somewhat Pessimistic:* L-shaped recession—\$31 billion budget problem.

- ▶ **Revenue Declines Drive the Budget Problem in Both Scenarios**
 - U-shaped recession: \$26 billion revenue decline.
 - L-shaped recession: \$39 billion revenue decline.



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— 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— Legislative Authority and Oversight

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

