

JANUARY 23, 2020

Overview of the Governor's Budget

PRESENTED TO: Senate Budget and Fiscal Review Committee
Hon. Holly J. Mitchell, Chair



LEGISLATIVE ANALYST'S OFFICE

Schools and Community Colleges

Constitutional Spending Requirement

Proposition 98 Funding in Governor's 2020-21 Budget					
	2018-19	2019-20	2020-21	Change From 2019-20	
				Amount	Percent
Total Funding (<i>In Billions</i>)	\$78.4	\$81.6	\$84.0	\$2.5	3.0%
Funding Per Student					
K-12 Education	\$11,712	\$12,119	\$12,619	\$499	4.1%
California Community Colleges	8,190	8,433	8,761	328	3.9

Major Proposals

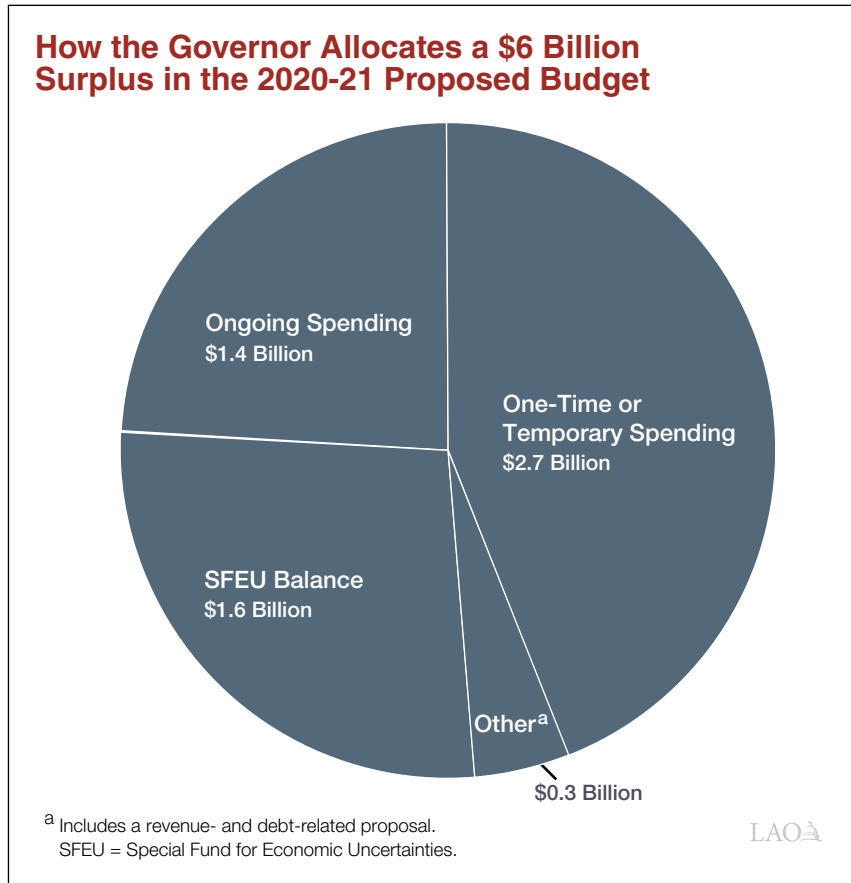
- **\$1.4 Billion Cost-of-Living Adjustment (COLA).** Provides 2.29 percent for COLA and enrollment changes, which represents a \$1.2 billion increase for K-12 education and \$200 million for community colleges.
- **\$1.9 Billion One-Time Funding Package.** Includes \$900 million for school workforce issues and \$600 million to address the achievement gap.

Comments

- Although the one-time proposals broadly are consistent with the priorities of the Legislature, many of them provide funding for issues that have been ongoing for many years and may require ongoing funding to address.
- The Legislature might want to consider repurposing some of the one-time funding to instead help school and community college districts address their unfunded liabilities.



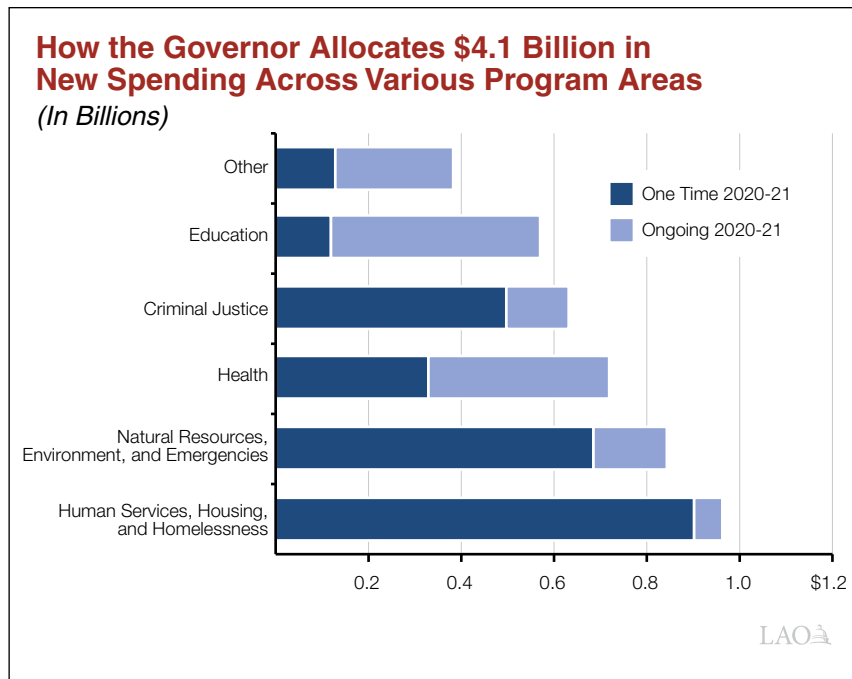
Discretionary Budget Proposals



- Our assessment of resources available is very close to the administration’s estimate, in particular because our revenue assumptions are very close to one another.
- The Governor’s budget includes some large proposals, but vast majority cost less than \$100 million.



How the Governor Allocates One-Time and Ongoing Spending Among Program Areas



Comments

- Trade-off between addressing more smaller proposals versus fewer larger proposals.
- Some budget proposals could create pressure to continue expansions.



Budget Structure and Multiyear Condition

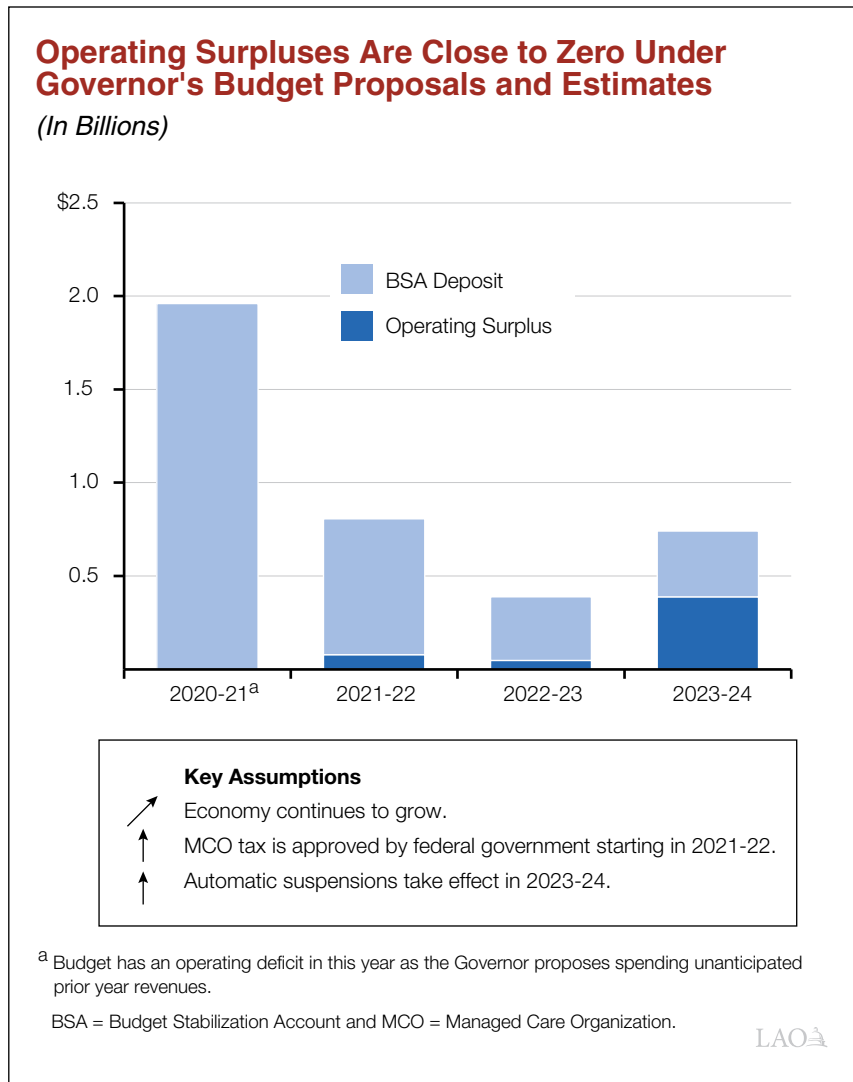
Budget Reserves Reach \$20.5 Billion Under Governor's Budget

Comparing Reserves in the Governor's 2020-21 Budget Proposal to Recently Enacted Levels			
	2018-19 Enacted	2019-20 Enacted	2020-21 Proposed
Budget Stabilization Account	\$13.8	\$16.5	\$18.0
Special Fund for Economic Uncertainties	2.0	1.4	1.6
Safety Net reserve	0.2	0.9	0.9
Totals	\$15.9	\$18.8	\$20.5

- Recent budgets have allocated a significant share of the surplus to increasing discretionary reserves. The Governor's proposal does not continue that practice.
- Under Proposition 2 (2014), however, the state continues to make constitutionally required reserve deposits.



Small Operating Surpluses Estimated Under Governor’s Budget



- Governor proposes delaying “suspensions” to 2023-24.
- Revenue estimates subject to heightened downside risk from slowing economic growth.
- Large operating deficits could emerge under recently proposed federal regulations.



Comments on Budget Structure

► Overall Target for Reserves

We encourage the Legislature to determine whether it is satisfied with the level of reserves proposed by the Governor or whether it would like to aim for a higher level.

► Maintain Positive Operating Surplus

In November, we recommended the Legislature dedicate no more than \$1 billion from the surplus to ongoing purposes. The Governor's budget allocates slightly more than that (\$1.4 billion in 2020-21 growing to \$1.8 billion over time).

