

JANUARY 11, 2021

Overview of the Governor's 2021-22 Budget

PRESENTED TO: Assembly Committee on Budget
Hon. Philip Y. Ting, Chair



LEGISLATIVE ANALYST'S OFFICE

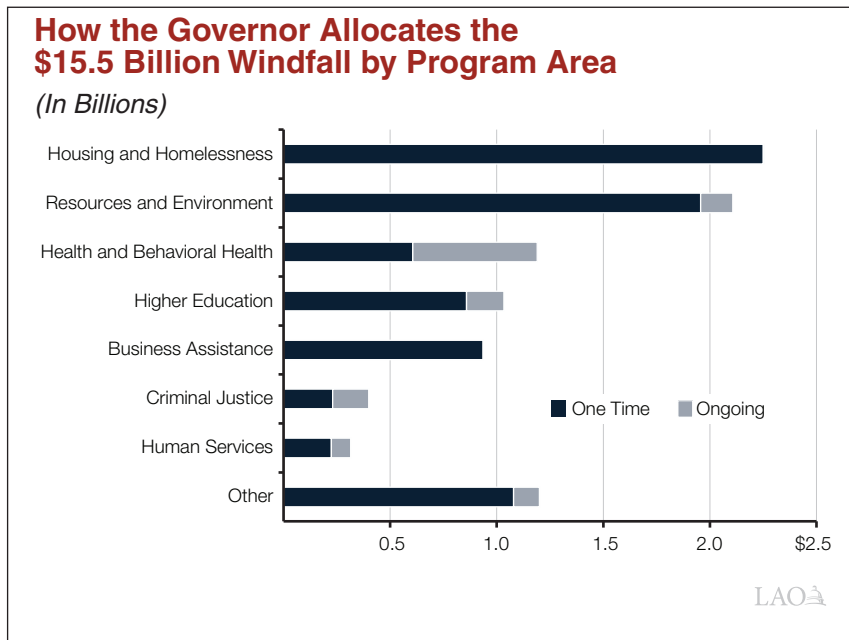
The Governor's \$15.5 Billion Windfall

Comparing LAO to DOF Windfall Calculation

Our November *Fiscal Outlook* anticipated a windfall of \$26 billion. Major sources of differences are:

- Under Department of Finance (DOF) estimates, \$5.6 billion more in reserves and debt payments required under Proposition 2 (2014).
- DOF includes \$2.8 billion more in coronavirus disease 2019 expenditures, net of federal reimbursements.
- DOF's estimates of baseline spending on major Health and Human Services programs higher by about \$2 billion.
- Our office and DOF have very similar revenue estimates (DOF higher by only \$1.7 billion).

How the Governor Allocates the Windfall



Proposition 98 Funding

More Than \$19 Billion in New Spending for Schools and Community Colleges. The Governor proposes to spend most of this amount on three main priorities:

- ***Paying Down Deferrals (\$8.4 Billion One Time).*** The budget pays down \$8.4 billion of the \$12.5 billion in payments deferred in the June 2020 budget plan.
- ***Providing In-Person Instruction and Expanding Academic Support (\$6.6 Billion One Time).*** The Governor proposes immediate action to provide \$2 billion in one-time grants to incentivize schools to offer in-person instruction for younger students and students with high needs, potentially as soon as February 16, 2021. The Governor also proposes early action to provide schools with \$4.6 billion in grants to offer additional academic support for disadvantaged students.
- ***Funding Cost-of-Living Adjustments (COLA) (\$2.2 Billion Ongoing).*** This includes a 3.84 percent COLA for the Local Control Funding Formula and a 1.5 percent COLA for other education programs.

LAO Comment: Reflects a Reasonable Mix of One-Time and Ongoing Spending. By having a substantial amount of one-time spending in 2021-22, the Governor's Proposition 98 package provides a cushion to protect ongoing programs from volatility in the minimum guarantee.



LAO Comments

Recent Federal Action Should Inform State Actions. We recommend the Legislature: (1) determine how to best target state funds to those not benefiting from the federal assistance, and (2) strive to complement, rather than duplicate, the federal activities.

Assessment of Governor's Immediate Action Proposals. The Governor's budget includes \$5 billion in actions he proposes the Legislature adopt within the next few weeks:

- **School Reopening Proposal (\$2 Billion):** We are concerned this proposal might set unfeasible time lines.
- **Tax Refunds for Low-Income Californians (\$2.4 Billion):** We think this proposal could be more targeted.
- **Small Business and Nonprofit Assistance (\$575 Million):** This proposal is worth considering.
- **Fee Waivers (\$71 Million):** This proposal is reasonable.

Framework for Considering \$7.8 Billion in Early Action Proposals. We recommend the Legislature ask the following questions about each early action proposal. (1) Does the administration provide sufficient evidence of a problem? (2) Is the proposal time sensitive? (3) Is the entire funding amount time sensitive? (4) Is there sufficient detail in the plan to assess its potential success?

Restoring Budget Resilience. We agree the state should remain focused on the crisis at hand, but restoring most or all of the budget's resilience is important to address the state's multiyear budget problem and help California weather the next unexpected downturn.

