

California's Fiscal Outlook



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Gabriel Petek
Legislative Analyst's Office

The Governor's \$15.5 Billion Windfall

Comparing LAO to DOF Windfall Calculation

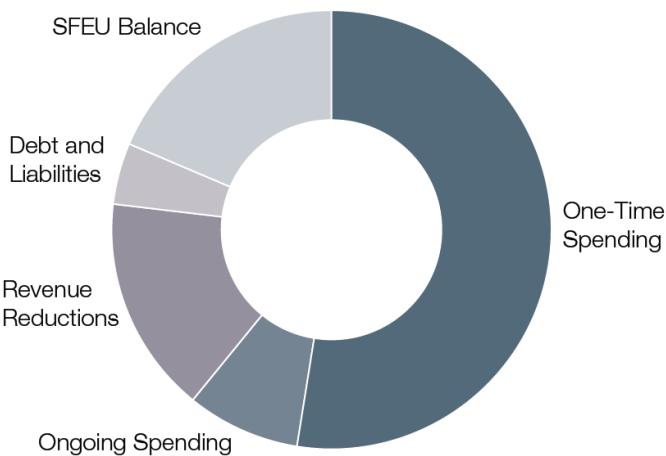
Our November *Fiscal Outlook* anticipated a windfall of \$26 billion. Major sources of differences are:

- Our office and the Department of Finance (DOF) have very similar revenue estimates (DOF higher by only \$1.7 billion).
- Under 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.

The Governor's \$15.5 Billion Windfall

(Continued)

How the Governor Allocates a \$15.5 Billion Windfall

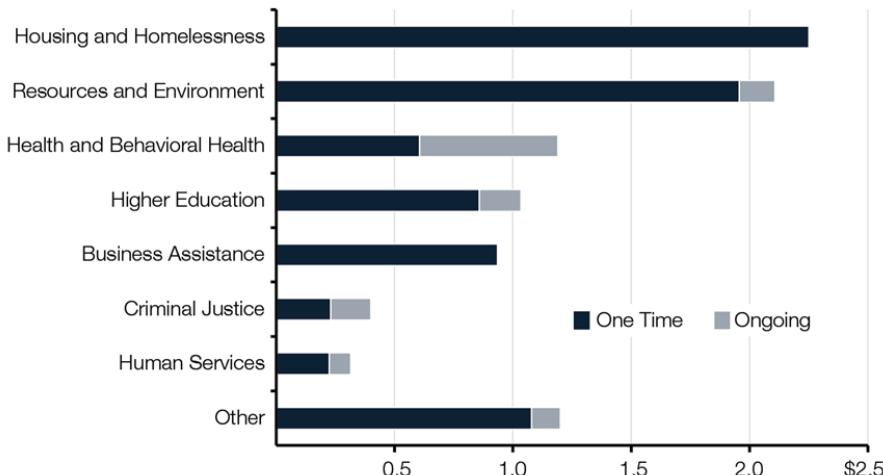


SFEU = Special Fund for Economic Uncertainties.

LAO

How the Governor Allocates the \$15.5 Billion Windfall by Program Area

(In Billions)



LAO

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 proposed 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. 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 were concerned this proposal might set unfeasible time lines.
- **Tax Refunds for Low-Income Californians (\$2.4 Billion):** We thought 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.

LAO Comments

(Continued)

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.

Early Action Related to COVID-19

- **School Reopening (\$6.6 billion)**
 - Provides increased funding to schools to assist with reopening for in-person instruction and addressing learning loss.
- **Golden State Stimulus (\$3.7 billion)**
 - \$600 in direct payments to low-income Californians who qualify for the California Earned Income Tax Credit or are enrolled in other specific benefit programs.
- **Small Business Grant Program (\$2.1 billion)**
 - Provides grants of up to \$25,000 to qualified small businesses and nonprofits with up to \$2.5 million annual gross revenue.
- **Licensing Fee Exemptions (\$115 million)**
 - Waives fee licensing renewal costs for certain businesses affected by public health businesses closures.

Revenue Collections \$10.5 Billion Ahead of Projections (through January)

Only part of revenue surge available for discretionary purposes

