**From:** **David Crane** davidc@governforcalifornia.org
**Subject:** Addressing California's Budget Shortfall
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**To:** Richard Markuson rmarkuson@me.com

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Dear Legislators:

The Legislative Analyst's Office has [forecast]() a budget shortfall of $25 billion for Fiscal 2023-24 *even if a recession does not occur*. A recession could trim revenues by an *additional* $30 billion to $50 billion. Since the state has general purpose reserves of only $23 billion, LAO recommends, and we agree, that the Legislature not dip into reserves to cover a pre-recession deficit:

> ***Save Reserves for a Recession.*** The $25 billion budget problem in 2023-24 is roughly equivalent to the amount of general-purpose reserves that the Legislature could have available to allocate to General Fund programs ($23 billion). While our lower revenue estimates incorporate the risk of a recession, *they do not reflect a recession scenario.* Based on historical experience, should a recession occur soon, revenues could be $30 billion to $50 billion below our revenue outlook in the budget window. As such, we suggest the Legislature begin planning the 2023-24 budget without using general purpose reserves.

Importantly, LAO also points out that its estimate "understates the actual budget problem in inflation-adjusted terms," which means that maintenance of the current level of services would require *additional* spending. To preserve services, we agree with LAO's recommendation that the Legislature pause or delay recent one-time or temporary augmentations and also encourage the Legislature to require state agencies, schools, colleges, universities and all other recipients of state funds to *fully utilize* federal healthcare benefits in place of state spending on healthcare for retired employees.

While now is not the time to add to reserves, a much larger general purpose reserve should remain a major objective for the Legislature. As Governor Newsom noted on page 264 of his last budget, a recession could trigger "an annual General Fund revenue loss in the range of $30 billion to $40 billion *for several years*." (emphasis added). We remain supportive of efforts to permit larger deposits into reserves.

David Crane
President

Govern For California
1121 L Street, Suite 209
Sacramento, CA 95814
United States