

JANUARY 19, 2022

Overview of the Governor's Budget

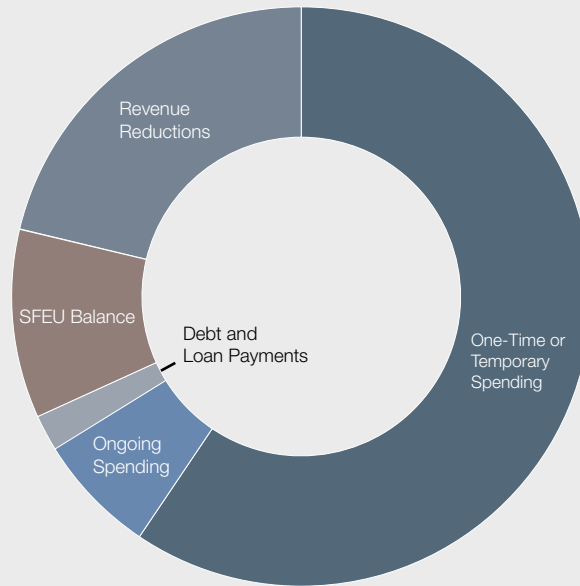
PRESENTED TO: Senate Budget and Fiscal Review Committee
Hon. Nancy Skinner, Chair



LEGISLATIVE ANALYST'S OFFICE

The Surplus

How the Governor Allocates a \$29 Billion Surplus

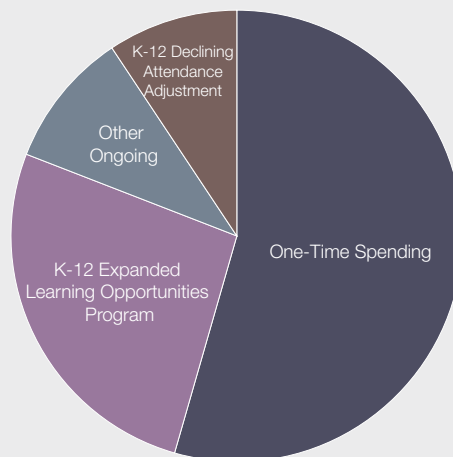


SFEU = Special Fund for Economic Uncertainties.

LAO

Governor's Major Spending Choices for Schools and Community Colleges

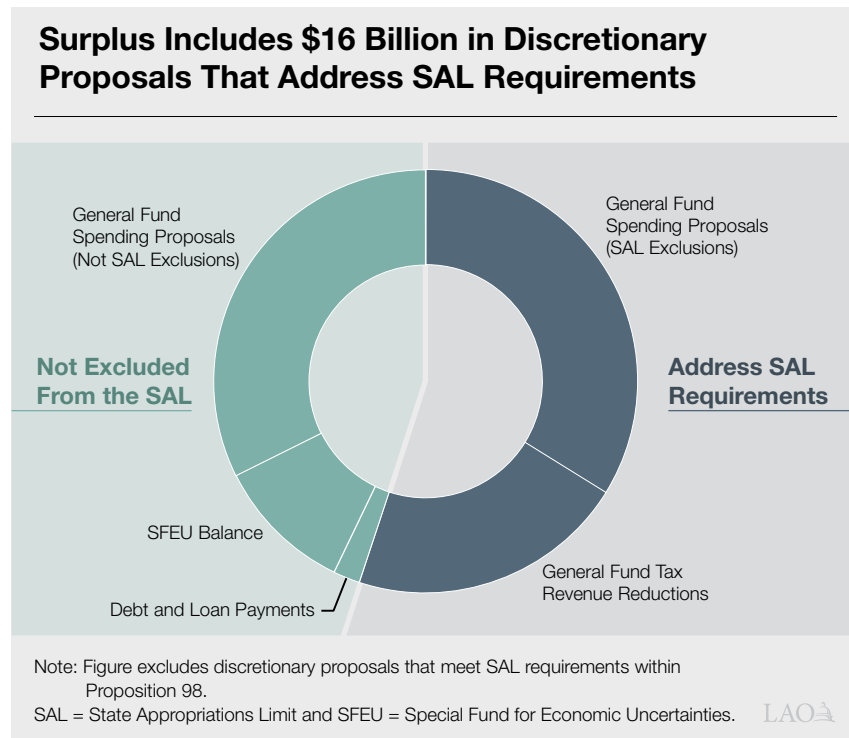
\$13 Billion



LAO



The State Appropriations Limit (SAL)



Comments

- **Develop a Plan for Meeting the Current Year SAL Requirement**
- **SAL Will Continue to Constrain the Legislature's Flexibility in Budget Year**



Comments on Spending Proposals Overall

Focus on Ensuring Success of Recent Initiatives. Given the scale of last year's commitments, we recommend the Legislature: (1) dedicate the early part of the budget process to overseeing their implementation, and (2) be cautious about creating additional new programs as well as expanding the scope of existing programs.

Consider Longer-Term COVID-19 Planning. As COVID-19 likely will remain a public health and economic challenge in future years, we recommend the Legislature closely consider the extent to which the Governor's proposals properly prepare the state for this reality.



Comments on Programmatic Proposals

Focus on a Few New K-14 Programs Responding to Clearly Defined Problems

- School and community colleges are implementing many new programs and requirements amidst ongoing disruptions caused by the pandemic, and their capacity to implement more programs is likely limited.
- We recommend funding fewer new programs and prioritizing those that address underlying problems that cannot be addressed with existing programs.

Legislature Has Better Budget Options for the Universities Than Compacts

- The Governor's recently announced compacts did not involve the Legislature in their development, are not well connected to core university cost drivers, and lack clear enforcement mechanisms.
- We encourage the Legislature to focus on its spending priorities, together with the universities' anticipated cost increases.

Governor Proposes More Workforce Development Items on Top of Over 20 Items Last Year

- Can so many efforts be effectively launched at once?
- What are the specific problems the state aims to solve with all of these efforts?
- How do the myriad proposals work together as a solution to those problems?

Consider Whether Climate Change Proposals Align With Legislative Goals

- Consider whether the proposals are likely to be the most cost-effective set of policies and programs to meet its climate change goals, particularly given the significant funding recently provided for similar activities.



Comments on Programmatic Proposals

(Continued)

Assess Infrastructure Proposals in Context of Priorities and Anticipated Federal Funds

- Key considerations include: whether the proposals are aligned with legislative priorities and how state funding can best complement the anticipated federal funds from the Infrastructure Investment and Jobs Act, particularly for water, energy, and transportation.

Ongoing Oversight of Major New Investment in Public Health Infrastructure Essential

- Seek the administration's clarification on how the \$300 million ongoing spending proposal for local and public health staffing and general support ties to findings from a legislatively required pandemic response review intended to identify public health system gaps and problems.
- Annual updates to the Legislature on the use of, and outcomes achieved from, this funding would facilitate legislative oversight.

Ensure Prior Housing and Homelessness Programs Are on Solid Footing

- Ensuring that previously authorized housing and homelessness efforts are adequately supported and can be maintained over time will be important.
- While the concept of addressing short-term needs while previously funded long-term housing is completed may have merit, whether the short-term options proposed by the administration are most effective is unclear as key details are still under development.



Comments on Budget Condition

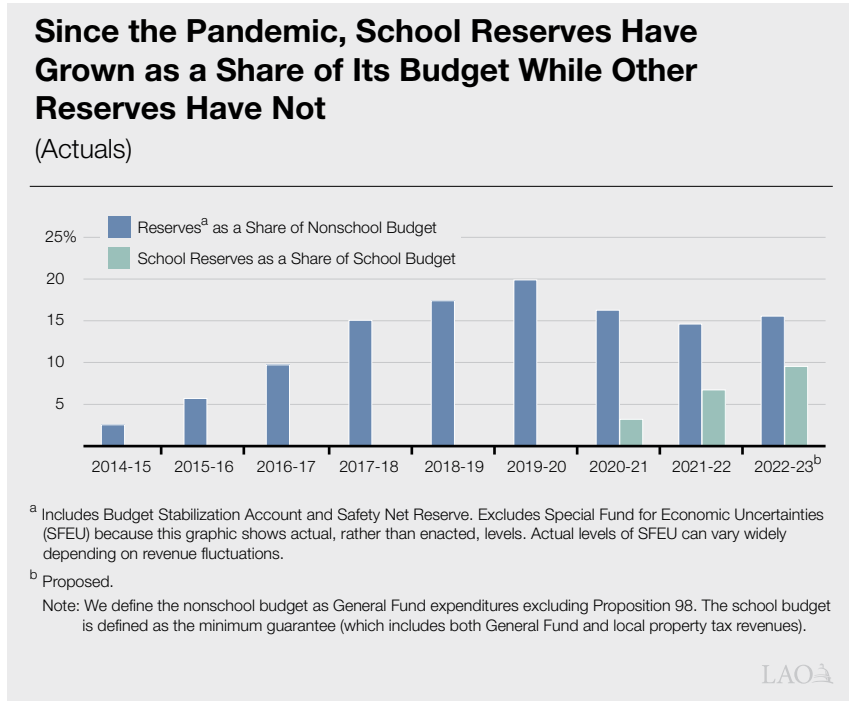
Multiyear Revenue Projections Are Reasonable. Whereas we often noted previously that the administration's multiyear revenue estimates appear to be fairly cautious, we would characterize this year's estimates as a middle of the road among potential outcomes. While building a spending plan around middle of the road assumptions is entirely reasonable, it also calls for allocating additional resources to plan for future budget shortfalls.

New Spending Proposals Exceed Administration's Estimates of the Budget's Capacity in Future Years. The administration's multiyear estimates reflect negative balances in the Special Fund for Economic Uncertainties (SFEU) in 2023-24 (and throughout the rest of their forecast) due to proposed spending exceeding estimated resources. While the administration is not required by law to plan for future positive balances in the SFEU beyond the budget year, doing so is prudent.



Comments on Budget Reserves

General Purpose Reserves Remain Below Pre-Pandemic Levels



Strongly Consider Building More Reserves. More general purpose reserves are warranted. While we and the administration have acknowledged the trade-off between building reserves and the state’s ability to meet its SAL requirements (because reserve deposits are not excluded spending), the budget has the capacity to make additional reserve deposits.

