

# The 2021-22 Budget: California's Fiscal Outlook



Presented to:

**League of California Cities**

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# What Has Changed Since the Budget Passed?

- **Rapid Rebound Results in Incomplete, Uneven Recovery**
- **Spike in Unemployment Was Historic, but Less Than Feared**
- **Drop in Consumer Spending Was Very Large, but Short-Lived**
- **Stock Market and Technology Sector Doing Particularly Well**
- **Safety Net Program Caseloads Have Not Materialized as Anticipated**

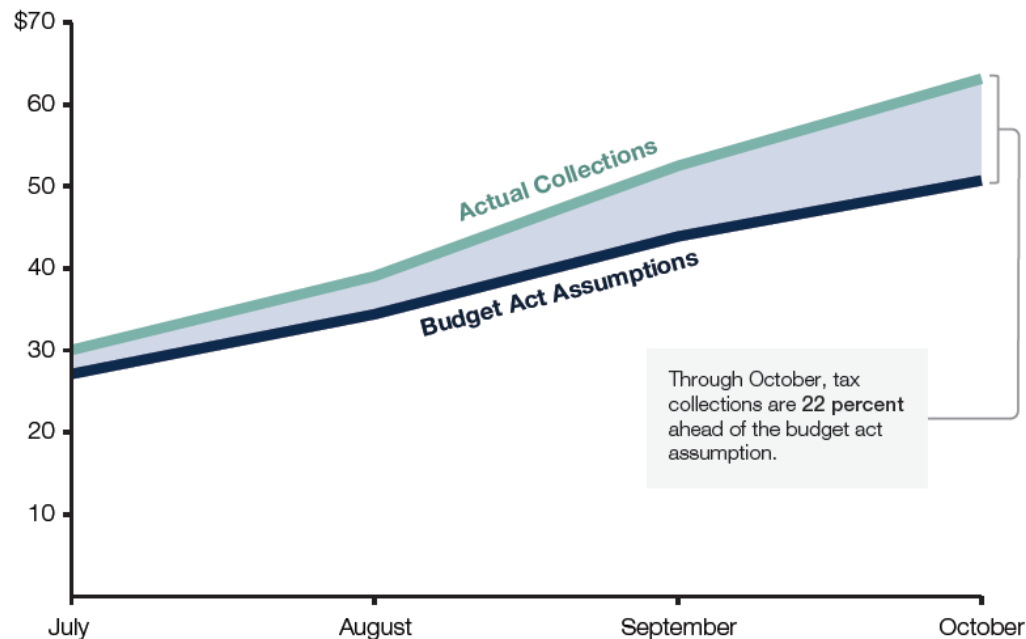
# What Has Changed Since the Budget Passed?

(Continued)

## Tax Collection Well Ahead of Budget Act

Total 2020-21 Collections to Date

Personal Income, Corporation, and Sales Taxes (In Billions)



Through October, tax collections are 22 percent ahead of the budget act assumption.

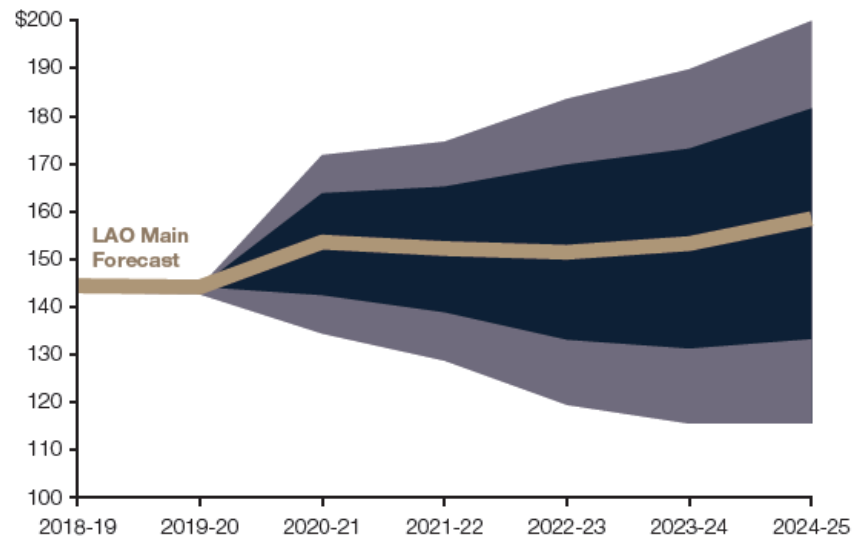
# Economic Uncertainty Clouds Outlook

## Main Forecast Is Our Best Assessment

### Estimating Uncertainty in Our Main Outlook

General Fund Revenue (In Billions)

The shaded regions on this graph show our estimates of how much revenues might differ from our **main forecast**. Our estimates suggest revenues are more likely than not to be in the **inner shaded area**. Revenues in the **outer shaded area** are less likely. Revenues beyond that are very unlikely.



# Likely Significant Windfall in Upcoming Year

## General Fund Condition Under Fiscal Outlook

(In Millions)

	2019-20	2020-21	2021-22
Prior-year fund balances	\$11,280	\$5,550	\$32,159
Revenues and transfers	141,851	173,464	151,725
Expenditures	147,581	146,855	154,360
Ending fund balances	5,550	32,159	29,523
Encumbrances	3,175	3,175	3,175
<b>SFEU Balances</b>	<b>\$2,375</b>	<b>\$28,984</b>	<b>\$26,348</b>
<b>Reserves</b>			
BSA balances	\$16,489	\$8,683	\$10,871
Safety Net Reserves	450	450	450
<b>Total Reserves</b>	<b>\$16,939</b>	<b>\$9,133</b>	<b>\$11,321</b>

SFEU = Special Fund for Economic Uncertainty and BSA = Budget Stabilization Account.

# Despite Windfall, Budget Faces Operating Deficit in 2021-22...

## General Fund Condition Under Fiscal Outlook

(In Millions)

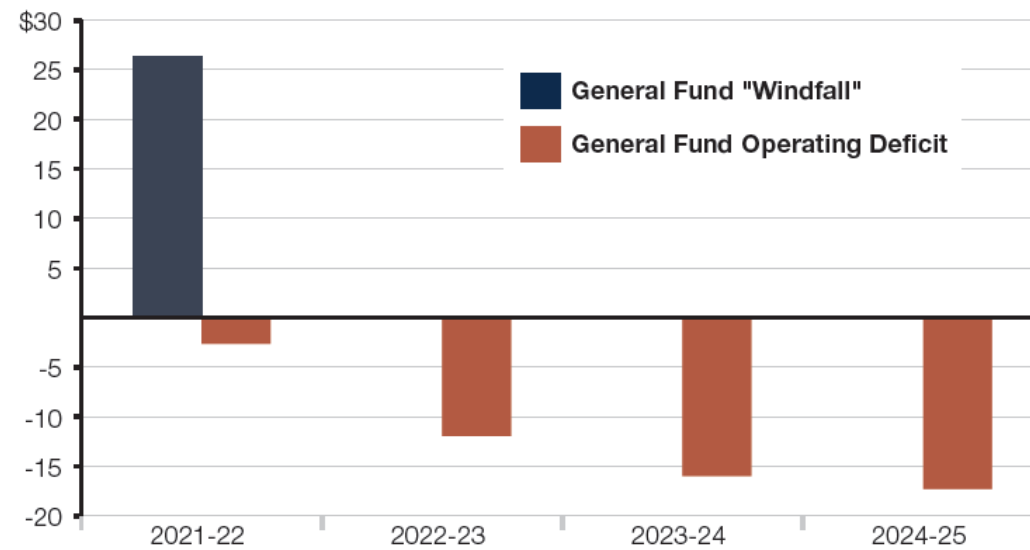
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# ... Which Grows in Future Years

## Under Main Forecast, Operating Deficits Grow Over Multiyear Period

(In Billions)



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# Could the Economy Grow Fast Enough to Overcome Operating Deficits?

## How Likely Is the Budget to Break Even?

General Fund Revenue (In Billions)

The shaded regions on this graph show our estimates of how much revenues might differ from our **main forecast**. Our estimates suggest revenues are more likely than not to be in the **inner shaded area**. Revenues in the **outer shaded area** are less likely. Revenues beyond that are very unlikely. The **breakeven point** shows the amount of revenue needed for the budget to stay balanced without further solutions.



Most of the outcomes are below the breakeven point, suggesting the budget is likely to face an operating deficit, even if revenue growth differs substantially from our main forecast.



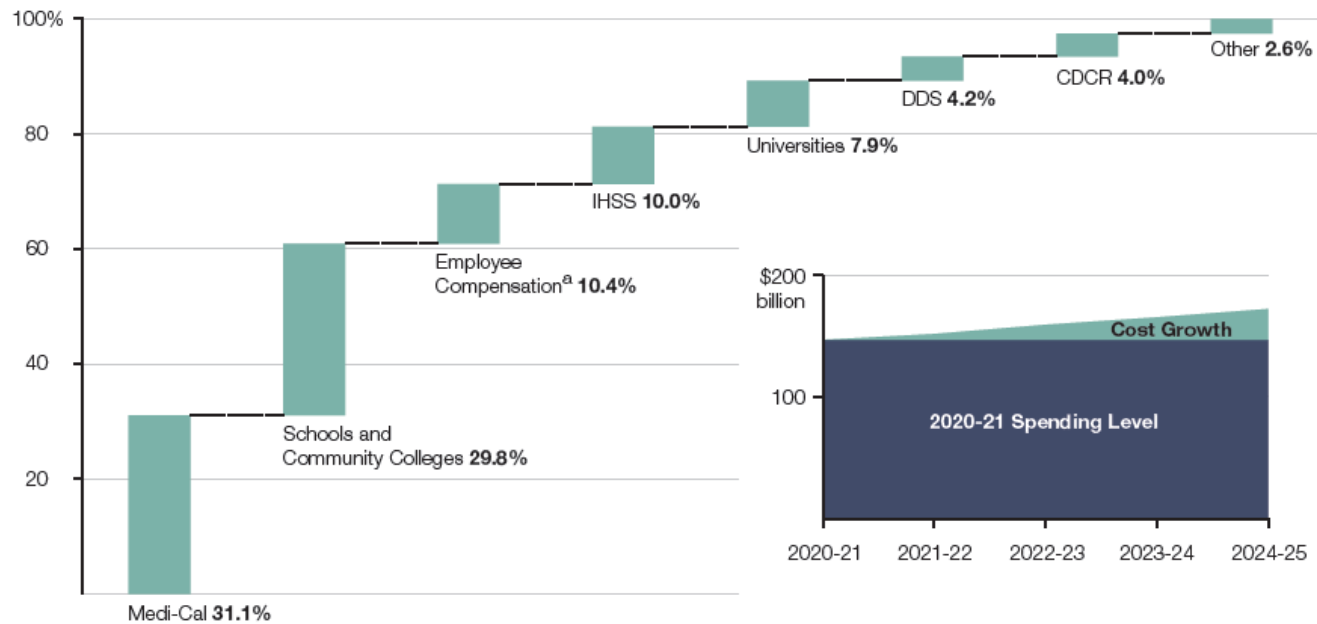
# Comments and Recommendations

- **Recommend Restoring Budget Resilience**
- **Recommend Using Remainder of Windfall for One-Time, Pandemic-Related Needs**
- **Some Early Actions Would Be Reasonable**
- **Recommend Legislature Begin Multiyear Process to Address Operating Deficit Now**

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# Sources of Expenditure Growth

## Major Drivers of Cost Growth From 2020-21 to 2024-25



<sup>a</sup> Excludes CDCR employees.

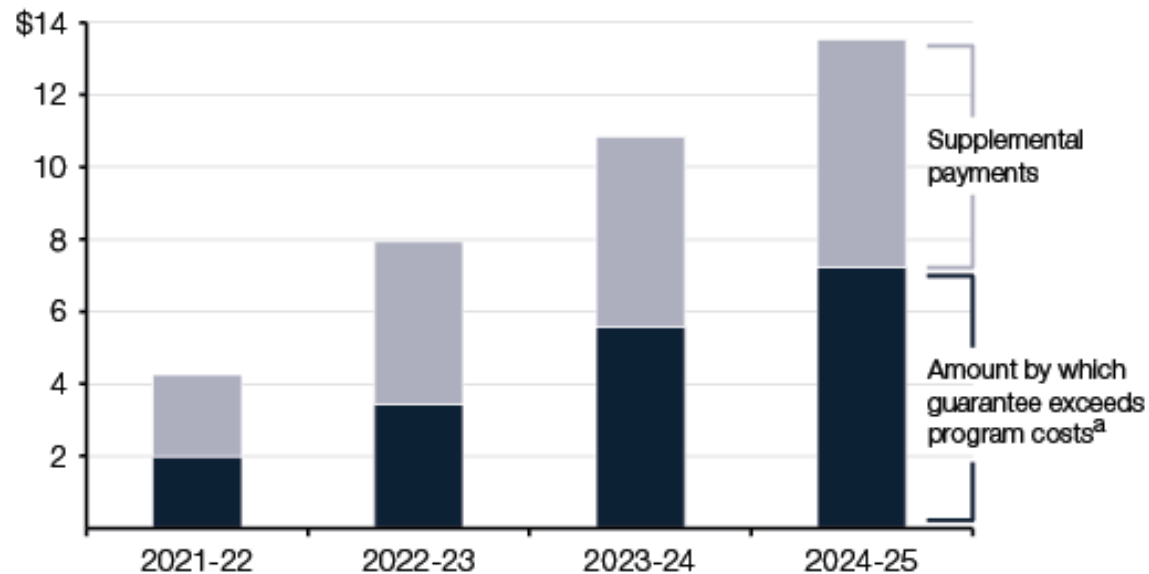
IHSS = In Home Supportive Services; DDS = Department of Developmental Services; and CDCR = California Department of Corrections and Rehabilitation.

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# In Contrast to the Rest of the Budget, Funding for Schools Grows

## Funding for New Commitments Grows Over Time

(In Billions)



<sup>a</sup> Assumes existing programs are adjusted for the statutory cost-of-living adjustment and attendance changes.

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