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California Governor's Budget Proposal: Steady Sailing For Now; Potential Vulnerability To Stormy Weather

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Key Takeaways

- California's economic assumptions for fiscal 2021 appear reasonable, with 3.4% general fund revenue growth proposed, adjusted to exclude transfers to the budget stabilization fund.
- The state currently runs a structural operating surplus; however, revenue remains very vulnerable to future cyclical economic or stock market decline due to a high dependence on capital gains tax and a small number of top taxpayers.
- The governor proposes large ongoing increases in health and human services, while other key spending areas would remain largely flat. Combined with a drop in one-time spending and almost $20 billion of proposed new general obligation debt authorizations, this may reduce future state spending flexibility.
- Overall financial reserves would remain strong and comparable with last year as a percent of budget, but California needs these high reserves to cover potentially above average revenue cyclicality.

Continue reading.