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S&P: California Governor's May Budget Revision Outlines School Cuts And Reserve Drawdowns

Highlights Of The Proposal

- The May Budget Revision proposes large reserve drawdowns, but fiscal 2021 would still end with budgetary fund balances we would consider strong, despite large projected revenue drops.
- One-time budget adjustments would total a large \$19.3 billion in fiscal 2021, or 14% of expenditures, indicating a large structural gap will still need to be addressed in the fiscal 2022 budget, and reserves may be drawn down to low levels before recovery takes place.
- Large one-month one-time deferrals of school aid may close fiscal 2020 and 2021 budget gaps and prop up year-end 2021 budgetary fund balances, but they lower general fund liquidity when 'double month' school payments are made in July, and can create a continuing need for ongoing deferrals in following years.
- About \$14 billion of proposed spending cuts would not go into effect if the federal government provides by July 1 additional aid for lost tax revenue due to pandemic restrictions.
- The budget bill currently pending in the state senate, compared to the governor's May budget revision proposal, contains more spending, more optimistic Medicaid projections, some additional money from managed care providers, and if additional federal aid is not received, a later Oct. 1 'trigger date' that would produce lower reserves and larger one-month one-time school aid deferrals in July.

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