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State Budget and Economy

Research Director

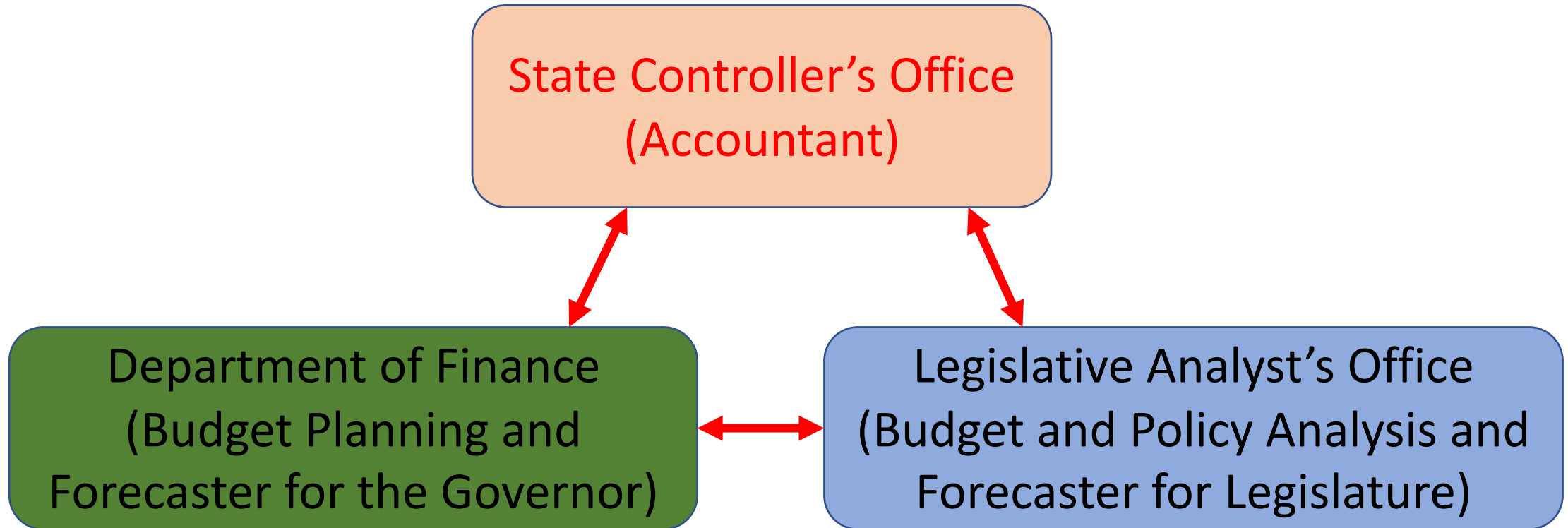
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Overview

State Revenue
Surpluses and Forecasts
Surplus and Its Implications
Long-term Inflation
American Rescue Plan Funds

State Revenues



State Revenues

Actual & Estimated Revenues for FY 2021-22 (in millions)

Source	<i>Actual</i>	<i>Estimated</i>	Amount	%
	Jul. - Nov.	Jul. - Nov.		
Personal Income Tax	\$44,065	\$35,832	\$8,233	23.0%
Retail Sales and Use Tax	\$12,556	\$11,669	\$887	7.6%
Corporation Tax	\$5,199	\$3,331	\$1,867	56.0%
Total Revenues				
	\$65,237	\$53,227	\$11,960	22.5%

State Revenues

- The State's revenues are strong and present an extremely optimistic picture for the state budget over the next few years.
- For example, September 2021 collections for Personal Income Tax, Sales and Use Tax and Corporation Tax are:
 - 40% higher than September 2020.
 - 60% higher than September 2019.
- These collections remain strong despite the ongoing impact of COVID-19 public health measures regular economic activity.
- The progressive personal income tax structure that the State relies on continues to buffer against the overall weaker economy.

State Revenues

General Fund Estimate (in millions)

	2021-22	2022-23
Prior-year balance	\$32,229	\$29,195
Revenues	\$197,944	\$202,288
Expenditures	(\$200,978)	(\$197,059)
Other	(\$3,175)	(\$3,175)
SFEU Balance	\$26,020	\$31,249

Reserves

BSA (Rainy Day Fund)	\$16,825	\$20,917
Safety Net Reserves	\$900	\$900
Total Reserves	\$17,725	\$21,817

Source: LAO California Fiscal Outlook 2022-23

State Revenues

- Like last year, the Legislative Analyst's Office (LAO) fiscal outlook projects a huge surplus of \$31 billion.
- The term “surplus” means the difference between projected revenues and spending under current law and policy.
- Where did the surplus come from?:
 - \$28 billion in higher than expected revenues from increased retail sales, huge growth in stock values, and major firms with historically high earnings.
 - \$11 billion more to K-14 (Prop 98), but this is offset by \$5 billion less in spending in Medicaid programs and Transportation
 - \$5 billion more from revisions to the current FY 2021-22 budget, which will be transferred to FY 2022-23

State Forecast

- The \$31 billion amount based on the Legislative Analysts Office forecast.
- The actual surplus will be an amount between \$10 billion and \$60 billion.
- ***Forecast Well Above the Current Budget Act.*** The LAO forecast assumes growth will slow in the coming year, the budget act (Department of Finance) assumed an even more stark reversal of recent trends.
- As a result, the LAO forecast is \$51 billion above the budget act across the 2020-21 to 2022-23.

State Multi-Year Forecast

LAO Multiyear Revenue Forecast (in Billions)							
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	5 Year Change
Personal Income Tax	\$127.7	\$123.7	\$128.5	\$129.0	\$136.8	\$152.4	19.3%
Corporation Tax	\$22.0	\$38.9	\$35.2	\$33.0	\$34.1	\$30.4	38.2%
Sales and Use Tax	\$28.7	\$31.4	\$32.3	\$33.6	\$34.6	\$35.7	24.4%
Big 3 Sub Total	\$178.4	\$194.0	\$196.0	\$195.6	\$205.5	\$218.5	22.5%

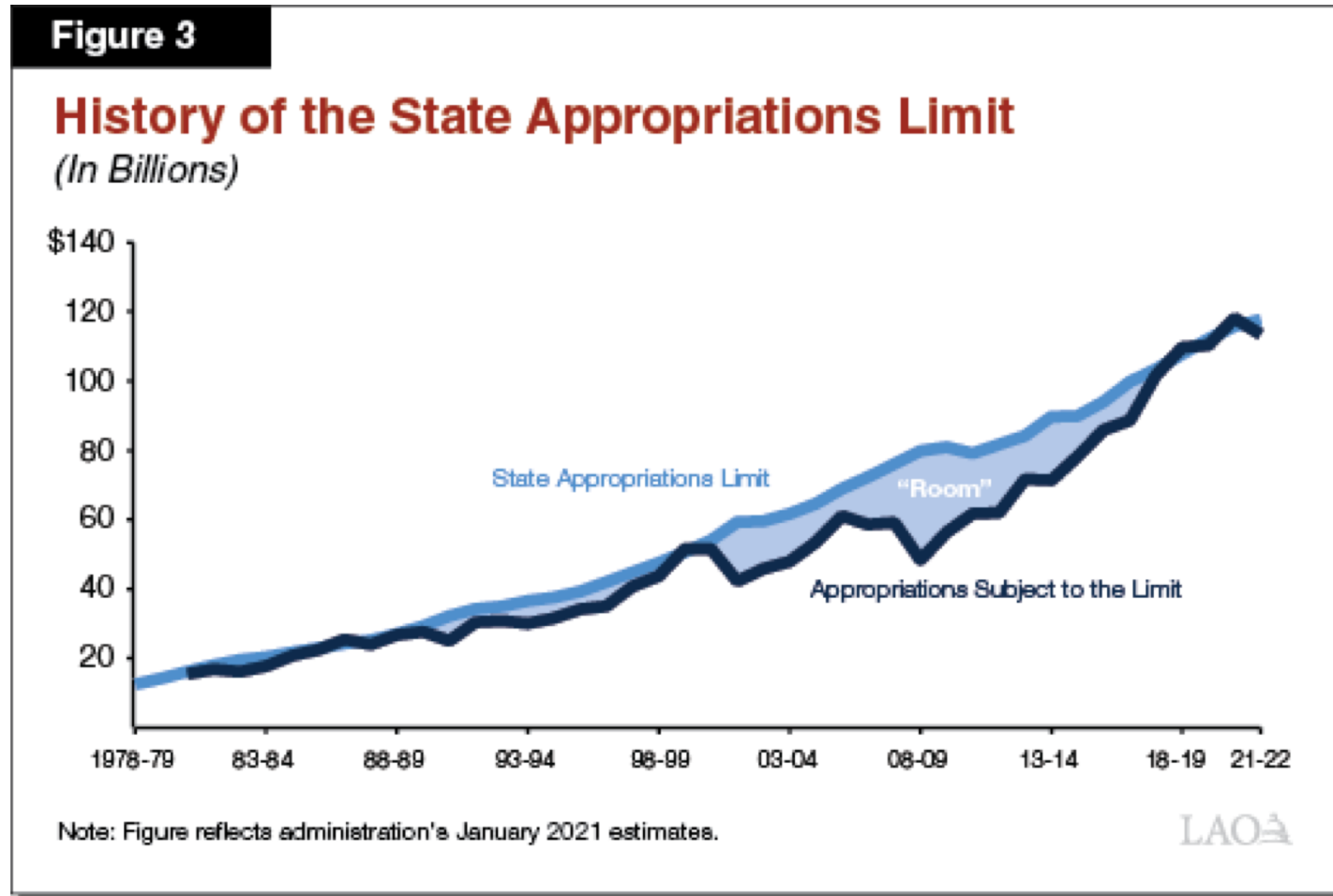
Source: LAO 2022-23 Fiscal Outlook Revenue Estimate



LAO Supports Program Expansion

- For the first time in many years the LAO argues that the state budget can support a sustainable expansion of expenditures.
- Ongoing sustainable surpluses of \$3 to \$8 billion.

State Limits on Spending



Source: LAO's *The State Appropriations Limit*

State Limits on Spending

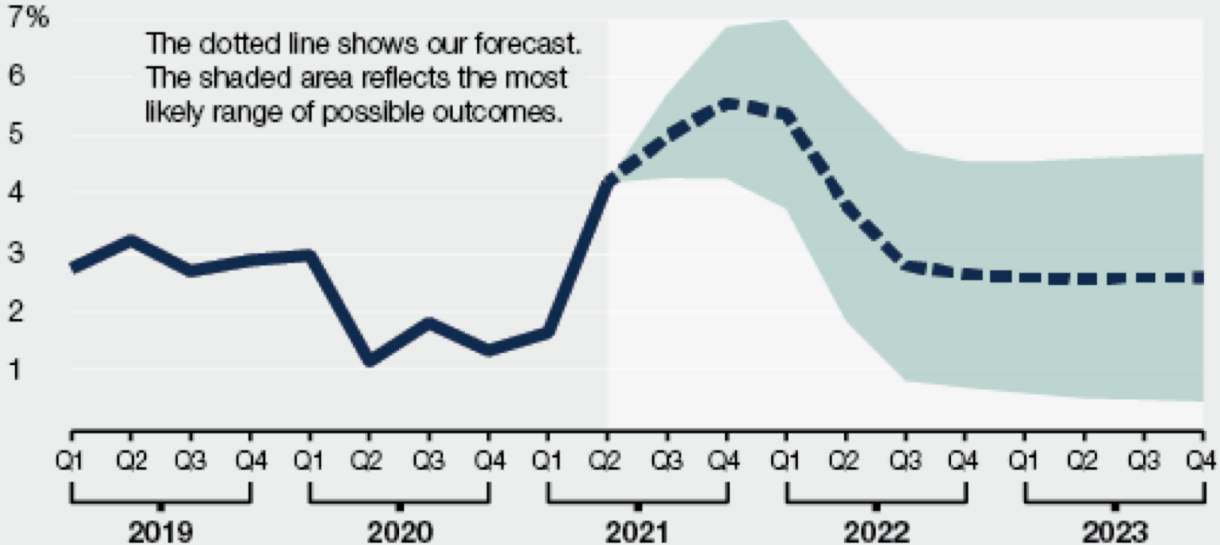
- For the 3rd time since 1979, the State may reach the State Appropriations Limit (SAL), or “Gann Limit.”
- Over the last 5 budget years, the SAL has grown by 5% while revenues (e.g. PIT) have grown by 7.5%, on average.
- Any revenue that comes into the coffers above SAL have to be spent in specific ways:
 - Lower Tax Revenues.
 - Split excess revenues for K-14 spending and taxpayer rebates.
 - Spend it on SAL excluded purposes, like transfers to local governments, capital outlay projects, debt service, federal and court mandates, and some types of emergency spending.

Inflation in CA

Figure 8

Inflation Elevated Recently

Annual Growth in California Consumer Price Index



LAOA

Inflation in CA

- Higher inflation could result in:
 - Higher revenue and collections from Sales and Use taxes.
 - Higher Personal Income Tax revenue from higher salaries in the private sector.
 - Greater instability in the economy overall.
 - Higher costs to the State in interest payments on federal loans for unemployment insurance and on bonds and other debt.
 - Increases pressure on the State to pay its employees higher wages to keep up with inflation.

State Expenditures

- What happened to the \$27 billion in American Rescue Plan money?

State Allocation of the American Rescue Plan Funds (July 2021-Dec 2024)	Funds (in Billions)
Replace Lost Statewide Revenue	\$8.9
Address Increased Homelessness and Housing Shortages	\$4.9
Broadband Infrastructure, Access and Affordability	\$3.8
Relief for Unpaid Energy Utility Bills	\$2.0
Child Savings Accounts	\$1.8
Small Business Grants	\$1.5
COVID-19 Response Costs	\$0.8
Other	\$3.4
Total	\$27.0



Questions?