

**Assembly
California Legislature**



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June 1, 2021

Governor Gavin Newsom
1303 10th Street, Suite 1173
Sacramento, CA 95814

RE: Increasing Budget Reserves

Dear Governor Newsom:

The undersigned members of the Assembly are writing today to urge an increase in budget reserves.

California's state tax revenues are highly dependent upon gains from the sales of capital assets and compensation from stock grants, restricted stock units, stock options and bonus payments that the Governor's Budget and the May Revision rightly characterize as "inherently unpredictable." When those sources dry up, they can do so in a big way. As the May Revision notes, "In the last recession, the S&P 500 dropped by over 50 percent; in the technology-driven recession of 2001, it dropped by about 47 percent," and the Governor's Budget points out that "the higher levels and valuations in the stock market and the higher levels of forecasted capital gains increase the risk of a large stock market drop."

In the absence of sufficient reserves, the combination of volatile revenues from unpredictable sources is lethal to a budget that must provide predictable funding to public services. The Stress Test section of the Governor's Budget reports that, "Revenue losses in this recession forecast would total over \$100 billion (an average of over \$30 billion per year) for three years, continue with more years of revenue declines in the range of \$30 billion, and lead to a permanently lower revenue base compared to the current forecast." Yet the May Revision proposes only \$24 billion of reserves. Given revenue dependence upon unpredictable and volatile sources but program dependence upon predictable funding, we must save much more. Accordingly, we strongly encourage the accumulation of sufficient reserves to withstand the stress described by the Governor's Budget.

This time last year, the 2020 May Revision predicted the S&P 500 would drop 30 percent by year-end. Instead, the S&P 500 rose 30 percent, allowing the state to escape draconian solutions enacted in the 2020 Budget Act. One can hope for good luck to continue but in our view, better



safe than sorry. With the federal government providing \$25 billion of one-time funds, there has never been a better time to save state revenues. We look forward to working with you to secure the state's financial condition for future generations at a unique moment when substantial resources are available.

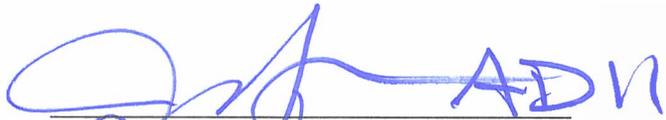
Sincerely,

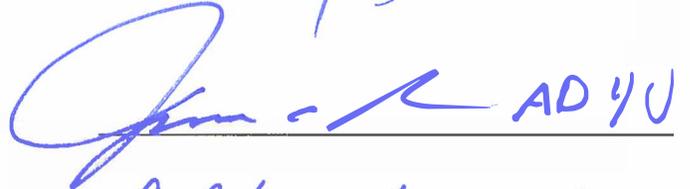

Timothy S. Grayson
Assemblymember, 14th District


Tom Daly
Assemblymember, 69th District

Sharon Quirk-Silva AD65th

R. J. Santos AD32

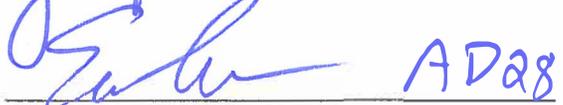
 AD11
Carla Villegas AP13

 AD40

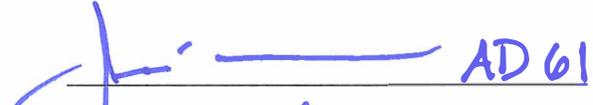
Blanca C. Rubio AD48

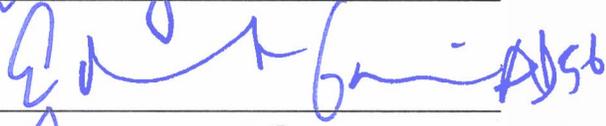
C. Patricia Adams AD74
Jaqueline AD44

 AD30

 AD28

Almy AD4

 AD61

 AD56

Jane Gabriel AD45

Dawra Friedman AD43

Cherlene AD24

cc:
The Honorable Philip Y. Ting, Chair, Assembly Committee on Budget
The Honorable Nancy Skinner, Chair, Senate Committee on Budget