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California Faces Budget Shortfall That Could Top \$35 Billion

California is likely to blow through its record \$17 billion budget surplus and face deficits of more than twice as much because of the severe recession expected from the coronavirus pandemic, the state's nonpartisan fiscal analyst said.

Unemployment claims show that as many as 15% of California workers have lost their jobs, Legislative Analyst Gabe Petek told lawmakers during a senate hearing Thursday. Those numbers suggest the state is already in a recession that could severely crimp tax revenue, he said.

"The pace of job losses make it clear that the economy has entered a recession, and possibly a quite severe one," Petek said. "The state now faces a budget problem, potentially a significant one."

He estimated a worst-case scenario of a budget deficit of as much as \$35 billion near term, swelling to \$85 billion in later years.

Such a shortfall would deal a significant blow to California, the most populous U.S. state and largest issuer of municipal debt, after it spent years building up reserves. Since 2011, the state has raised taxes and resisted wide-scale spending increases after facing crippling deficits in the previous decade that at one point led officials to issue IOUs to pay bills. Governor Gavin Newsom in January proposed a \$153 billion general fund budget that swelled savings to more than \$17 billion.

"California is better prepared than ever to experience an economic downturn," said Senator Holly Mitchell, a Democrat. "If we had experienced it a decade ago, we would already have been out of cash. But it likely won't insulate us from economic harm coming our way."

The federal stimulus package includes about \$15 billion for California and its local governments, which should offset some of the immediate costs of the crisis. Still, the Center on Budget and Policy Priorities said states may face budget deficits of \$500 billion combined over the next two years as the deep economic slowdown causes revenue to plunge.

California, which typically takes in the bulk of its tax revenue in April, has extended the deadline for individuals to pay income taxes until July. Newsom's finance department Wednesday said that the state has about \$8.7 billion in cash and unused internal borrowable resources available through June 30, the end of the fiscal year.

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Nevertheless, the budget office authorized the creation of a cash revolving fund that would allow the state to borrow from Wall Street through securities known as Revenue Anticipation Warrants, which are short-term bonds that can be paid back beyond a single year. The state controller has said such a borrowing isn't anticipated this year because of the cash cushion.