



GOVERNOR
Edmund G. Brown Jr.

January 7, 2016

To the members of the Senate and the Assembly of the California Legislature:

Relative to years past, the state budget is in good shape. Education funding is at its highest level ever, fifteen million Californians are covered by Medi-Cal or Covered California, the minimum wage has risen to \$10 an hour, and for the first time, the state will provide almost \$400 million to low-wage working families through an earned income tax credit.

Our Rainy Day Fund is growing and the proposed budget for next year will have a healthy surplus even after spending several billion on long overdue infrastructure investments.

It must never be forgotten, however, that 69.5 percent of our General Fund revenues come from the volatile personal income tax which, as history shows us, drops precipitously in time of recession — an event not too far off given the historic pattern of the ten recessions that have occurred since 1945. During a moderate recession, revenue losses to the General Fund will easily total \$55 billion over three years.

That is the nature of our California economy and our state tax system. It's the reason why the Legislature unanimously placed Proposition 2 on the ballot and why the people approved it by nearly 70 percent.

Given the wide disparities that exist in our state and the millions who struggle in one form or another, understandably there will be proposals to fund a variety of worthwhile programs. But it would be short-sighted in the extreme to now embark upon a host of new spending only to see massive cuts when the next recession hits. In view of the \$27 billion deficit of just five years ago and the much larger one in 2009, it is clear that fiscal restraint must be the order of the day. It also goes without saying that we should be chipping away at the \$72 billion unfunded liability that weighs down our retiree health system.

I look forward to working with you to enact a timely and prudent budget.

With respect,

Edmund G. Brown Jr.

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