

JANUARY 23, 2024

The 2024-25 Budget: Overview of the Governor's Budget

PRESENTED TO:

Assembly Committee on Budget
Hon. Jesse Gabriel, Chair



LEGISLATIVE ANALYST'S OFFICE

The Current Landscape

Why Does the State Face a Budget Problem? In June 2023, the Legislature solved a \$27 billion shortfall for 2023-24 and anticipated a \$14 billion deficit in 2024-25. Since then, however, tax collections have been far lower than expected.

How Prepared Is the State to Address a Budget Problem? This year, the state has a number of tools to address the budget problem, including tens of billions of dollars in reserves and one-time spending that can be reduced without significant impact to the state's ongoing core service level.

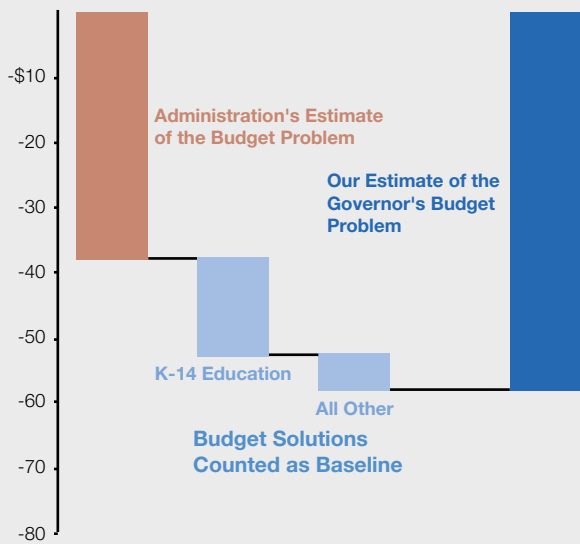
What Is the Budget Outlook for Future Years? The state faces significant structural shortfalls—around \$30 billion each year—under both our and the administration's forecasts for 2025-26 through 2027-28. The state will have fewer tools available to address these shortfalls. As such, the Legislature likely will face more difficult decisions, such as revenue increases and ongoing spending reductions to balance the budget in future years.



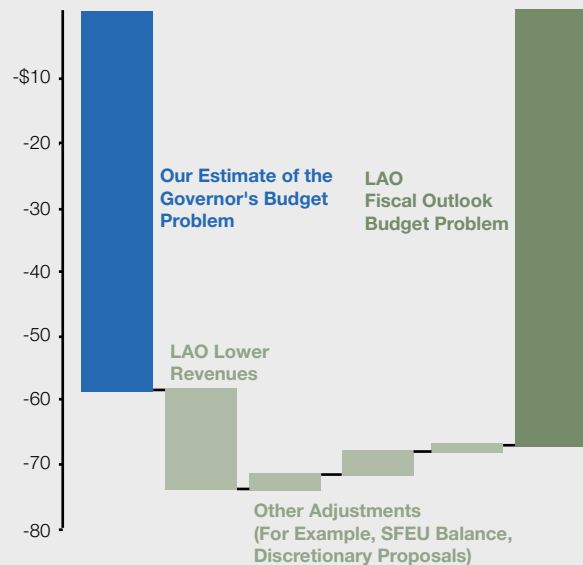
How Big Is the Budget Problem?

We Estimate the Governor Solved a \$58 Billion Budget Problem...

(In Billions)



...Roughly \$10 Billion Lower Than Our Fiscal Outlook Estimate



SFEU = Special Fund for Economic Uncertainties.

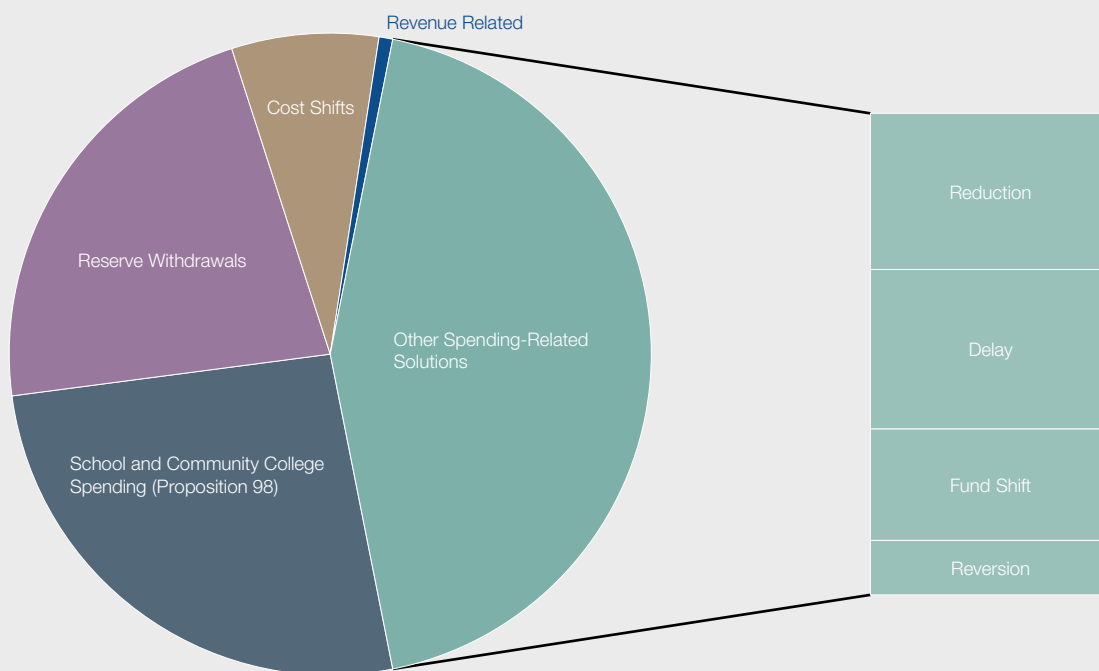
LAOA

- The actual difference is not quite as large as the headline numbers would suggest.
- The main difference between our estimate and the administration's estimate is related to revenues. In our view, the administration's revenue forecast is optimistic, but plausible.



How Does the Governor Propose Addressing the Budget Problem?

How the Governor Addresses a \$58 Billion Budget Problem



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- The proposed reserve withdrawals are generally reasonable.
- The administration lacks a plan for implementing some of the proposed reductions to school and community college spending.
- The other spending-related solutions are warranted, but some pose challenges.



Crafting the Legislature's Budget

Crafting the Legislature's Budget

- ✓ Plan for lower revenues
- ✓ Maintain a similar reserve withdrawal
- ✓ Develop a plan for school and community college funding
- ✓ Maximize reductions in one-time spending
- ✓ Apply a high bar for any discretionary proposals
- ✓ Contain ongoing service level

- We recommend the Legislature develop this year's budget with a focus on future years.
- Our recommendations would mitigate some of the need for even more difficult decisions in the future, such as reductions to core services and/or revenue increases.

