

# Assembly Budget Committee

JESSE GABRIEL, CHAIR



## Preliminary Summary of Governor's Proposed 2024-25 May Revision

### Introduction

The Governor's 2024-25 May Revision—released in summary form on May 10, 2024, with more details to follow on the statutory deadline date of May 14—aims to address the recent state revenue shortfall that intensified after the Governor finalized his January 2024 budget proposal. The Governor's revised budget proposal would:

- Cut significantly into undisbursed one-time funding appropriated in recent years.
- Reduce state administrative costs by several percentage points.
- Cut planned Medi-Cal provider rate increases planned for next year and other health and human services programs.
- Reduce further planned expenditures on housing and homelessness programs.
- Reduce the proposed reliance on state rainy day funds for the 2024-25 fiscal year from \$12.2 billion to \$3.3 billion.
- Limit temporarily the use of net operating loss (NOL) deductions and most tax credits (including research and development tax credits) by medium-sized and larger businesses for up to three years beginning in 2025. (This is a tax change often employed by the state during times of fiscal stress.)
- Balance the budget, under the administration's revised revenue projections, both this year and next year. (Projected deficits reportedly would decline in later years as well, pending receipt of multiyear forecast information next week from the administration.)
- Maintains the January Budget proposal to shift Proposition 98 costs from the 2022-23 Budget Act above the revised constitutional guarantee calculation to the 2025-26, 2026-27, and 2027-28 Budget years. This cost shift is now estimated at \$8.8 billion. For the 2024-25 Budget Year, projects per-pupil funding remains relatively stable in the May Revision at a funding rate of \$23,940 per student. State TK-12 funding per student is proposed to be \$17,502 in 2024-25.

### \$27.6 Budget Problem Projected

There always have been multiple ways to estimate the size of the state's deficit for reference purposes.

- The Administration estimates that the deficit it pegged at \$37.9 billion in January shrunk by \$17.3 billion due to actions already approved by the Legislature in the "early action"

budget package in April 2024. (The early action package also tentatively approved the use of \$12.2 billion from rainy day funds to balance the General Fund budget, but as noted above, the May Revision proposes a smaller draw on the rainy day fund in the 2024-25 fiscal year.)

- With the state’s major tax revenue projections across the 2022-23, 2023-24, and 2024-25 now lowered by \$10.5 billion in the May Revision, the 2024 deficit grows by a net amount of \$7 billion after considering changes to the Proposition 98 minimum guarantee.
- **After the changes above, the Governor’s May Revision estimates the state must now address a \$27.6 billion deficit this year, as well as ongoing deficits of around \$30 billion per year beginning in 2025.**
- The Legislative Analyst’s Office (LAO) likely will report a larger 2024 deficit estimate, principally because it classifies a major Proposition 98 proposal as a “policy change” needed to balance the budget, rather than a “baseline” budget policy consistent with existing law and standard practice. In addition, the LAO’s most recent revenue estimates for 2022-23, 2023-24, and 2024-25 are somewhere around \$10 billion lower than those in the May Revision. Assembly budget staff expects the LAO may report that the May Revision solves for a remaining deficit problem of somewhere around \$50 billion—perhaps more than \$20 billion larger than the figure reported by the Governor.
- These “headline deficit” figures are a reference point only. They do not affect the actual budget balancing process in and of themselves. The budget is balanced based on the projected revenues and actual expenditure decisions embedded in the annual budget. The Legislature chooses the revenue estimate included in the annual budget act, which typically is provided by the administration in the May Revision.

### **Major Solutions Targets both 2024-25 and 2025-26**

In the May Revision, the Governor changes his approach to the budget to attempt to balance both the budget year and the year after, 2025-26. This new approach generated solutions targeted at both fiscal years, with significant ongoing expenditure reductions added. Overall, the May Revision has \$8.2 billion in additional solutions for the budget year and \$28.4 billion in solutions in the next year. To achieve this two year window, the Governor reprograms the planned use of the Rainy Day fund so that \$8.9 billion that was assumed to be used in 2024 would instead be projected to be used in 2025.

### **What is next?**

The Assembly Budget Committee typically releases a summary of the May Revision that includes detailed descriptions, by policy area, of policy changes proposed by the Administration. However, the information provided to the Committee at this time does not provide sufficient detail for that to be possible or comprehensive. Given this situation, the Committee intends to dedicate the first round of hearings next week towards a summary of the administration’s proposal and the public’s reaction to these items.

Assembly budget subcommittees have held dozens of hearings on the Governor's January budget proposals. In the coming days, they will complete their hearings, providing the public with a place to watch and listen and hear more about the May Revision. The public is encouraged to contact their legislators directly to let them know their views on the Governor's proposals. Upcoming hearings already scheduled in the Assembly Daily File (subject to future changes) include:

- **Wednesday, May 15:** Subcommittee No. 1 on Health (Asm. Akilah Weber, Chair).
- **Wednesday, May 15:** Subcommittee No. 4 on Climate Crisis, Resources, Energy, and Transportation (Asm. Steve Bennett, Chair).
- **Wednesday, May 15:** Subcommittee No. 6 on Public Safety (Asm. James Ramos, Chair)
- **Thursday, May 16:** Subcommittee No. 2 on Human Services (Asm. Corey Jackson, Chair)
- **Thursday, May 16:** Subcommittee No. 3 on Education Finance (Asm. David Alvarez, Chair).
- **Thursday, May 16:** Subcommittee No. 5 on State Administration (Asm. Sharon Quirk-Silva, Chair)
- **\*\*Friday, May 17:** Subcommittee No. 3 on Education Finance
- **Monday, May 20:** Subcommittee No. 1 on Health
- **\*\*Monday, May 20:** Subcommittee No. 3 on Education Finance
- **Monday, May 20:** Subcommittee No. 5 on State Administration
- **Monday, May 20:** Subcommittee No. 6 on Public Safety
- **\*\*Tuesday, May 21:** Subcommittee No. 3 on Education Finance
- **Wednesday, May 22:** Subcommittee No. 2 on Human Services
- **Wednesday, May 22:** Subcommittee No. 4 on Climate Crisis, Resources, Energy, and Transportation.
- **Wednesday, May 22:** Subcommittee No. 5 on State Administration
- **\*\*Thursday, May 23:** Subcommittee No. 3 on Education Finance
- **\*\*Friday, May 24:** Subcommittee No. 3 on Education Finance

*\*\* Hearing Upon Call of the Chair*

The Assembly and Senate aim to unite on a legislative budget plan in late May or early June, to facilitate passage of the constitutionally required legislative budget bill on or before Saturday, June 15. The Governor will have until Thursday, June 27, at the latest, to sign or veto the legislative budget bill. In late June, trailer bills to amend statutes to reflect the budget plan typically are passed. The 2024-25 fiscal year begins on Monday, July 1.