



On January 10, 2024 the Governor proposed a state budget for the 2024-25 fiscal year, which identified a serious budget shortfall.

Since that time, both houses of the Legislature have worked intensely to craft a budget plan. This process has included dozens of public hearings, significant input from the public and stakeholders, an early action package that addressed much of the projected deficit from January, and most recently consideration of the Governor’s May Revision submitted just two weeks ago.

And now, Assembly and Senate leaders are proposing a responsible, balanced, and on-time budget plan. If approved, this plan would shape the upcoming legislative budget bill, which must be passed on or before Saturday, June 15, 2024. The budget bill, one or more “budget bills jr.” to amend that bill, and accompanying statutory “trailer” bills also will emerge as legislative negotiations with the Governor advance in the coming weeks.

(All figures in this document are preliminary and subject to final scoring in the coming days by the Department of Finance.)

### **Overall:**

***Balanced Budget.*** The Legislature’s Budget Plan is not only balanced through the 2024-25 budget year, but is also balanced through the 2025-26 budget year as well. All told, the Budget Plan addresses the administration’s budget year projected shortfall of about \$45 billion and the 2025-26 shortfall of over \$30 billion.

- The Budget Plan is balanced in 2024-25, with a \$3.6 billion Regular Reserve and \$23 billion in total reserves – similar to the May Revision proposal.
- The Budget Plan is balanced in 2025-26, with a \$1.3 billion Regular Reserve and over \$13 billion in total reserves – around \$2 billion higher than the May Revision.
- ***Budget Balancing Actions.*** The Legislature’s Budget Plan contains a total of \$46.9 billion in budget balancing actions for 2024-25 and \$29.3 billion 2025-26. The Budget Plan provides a balanced approach, with the balancing actions primarily coming from Program Reductions of \$16.6 billion and \$11.6 billion in 2024-25 and 2025-26, respectively, and Revenues of \$10.6 billion and \$7.8 billion in 2024-25 and 2025-26, respectively.

Here is a breakdown of the categories of budget balancing actions, in billions:

	<b>2024-25</b>	<b>2025-26</b>
<b>Reductions</b>	\$16.6	\$11.6
<b>Revenues</b>	\$10.6	\$7.8
<b>Delayed</b>	\$5.6	\$0.6
<b>Fund Shift</b>	\$7.2	\$1.8
<b>Deferral</b>	\$1.6	\$0.5
<b>Reserves</b>	\$5.3	\$7.4
<b>Total</b>	<b>\$46.9</b>	<b>\$29.8</b>

- **Summary of Reserves.** The Legislature’s Budget Plan uses less reserves on net than the Governor’s proposal over the next two years.
  - The Budget Plan uses \$12.2 billion of the Rainy Day Fund over the two fiscal years, the same total as the May Revision.
  - The Budget Plan uses \$450 million of the Safety Net Reserve, which is \$450 million less than the May Revision.
  - The Budget Plan, on net, uses about \$1 billion less of the Prop 98 Rainy Day Fund than the May Revision.
  - Here is breakdown of total reserves, in billions:

	<b>2024-25</b>		<b>2025-26</b>	
	<b>Leg</b>	<b>Gov</b>	<b>Leg</b>	<b>Gov</b>
Regular Reserve	\$3.6	\$3.4	\$1.3	\$0.7
Safety Net Reserve	\$0.5	\$0.0	\$0.5	\$0.0
Prop 98 Rainy Day Fund	\$1.1	\$0.0	\$1.1	\$0.0
Rainy Day Fund	\$17.9	\$19.4	\$10.5	\$10.5
<b>Total Reserves</b>	<b>\$23.0</b>	<b>\$22.9</b>	<b>\$13.3</b>	<b>\$11.2</b>

- **Responsible Budgeting Reforms.** The Legislative Budget Plan embraces important responsible budgeting reforms that will strengthen the state’s budget resilience in the future and help further avoid significant budget shortfalls. Details are still under discussion between the two houses and the Administration, but the basics include:

- Updating the state's Rainy Day Fund:
  - Increase the size of the Rainy Day Fund from 10 percent of the state budget to 20 percent.
  - Exclude deposits into the Rainy Day Fund from the state appropriations limit (Gann Limit) so that the budget is not constitutionally forced to allocate funds and can instead responsibly deposit funds into budget reserves to protect against future downturns.
  - The Assembly also has advanced the idea—originally included in bipartisan ACA 11 (as amended February 20, 2020), but stalled due to the pandemic—of expanding the Legislative Analyst's Office (LAO) as part of the reserve ballot measure in order to enhance independent analysis, oversight, and transparency of public finances. An expanded LAO could help policy makers provide needed oversight of the budget reserves, the state's fiscal health, and the effectiveness of state spending.
- Creating a new "Projected Surplus Temporary Holding Account":
  - This new fund will help avoid the problems the state has experienced since 2022. In that year, there was a significant surplus projected, and the budget allocated that surplus pursuant to constitutional requirements.
  - It turned out that the surplus was not as large as projected, but the budget had already allocated the surplus at the higher level.
  - Under this reform, a portion of any projected surplus will be deposited into Projected Surplus Temporary Holding Account where they will be held until a future year once it is clear whether the projected surplus of revenues actually materialized.

#### **Education:**

- **Overall Funding.** Funds Proposition 98 about \$1.9 billion higher than the May Revision, with some added revenues going to the Proposition 98 reserve.
- **Programmatic Funding.** Total program funding is roughly the same as the May Revision, but more is funded within the existing guarantee which result is less use of the Prop 98 Rainy Day Fund.
- **Updated Proposition 98 Proposal.** The Administration recently updated its Proposition 98 proposal, which would keep many aspects of their original proposal,

but also include a suspension of Proposition 98 in the 2023-24 fiscal year. The suspension will result in higher ongoing funding for schools in future years than the Governor's original proposal. The Legislature continues to examine the new proposal.

### **Higher Education:**

- ***UC and CSU Base Increase in 2024-25.*** Provides a net base increase to each system in 2024-25 by funding the 2024-25 five percent base increases for the UC and CSU, foregoing the 2024-25 base increase deferral from the early action agreement, and adopting the May Revision proposal. Instead, the 2025-26 base increases are deferred by one year.
- ***Key Institutes.*** Restores funding for the UC Labor Centers and the UCLA Latino Policy and Politics Institute.
- ***Financial Aid.***
  - Restores full funding for the Middle Class Scholarship program, which primarily benefits lower income students, rather than the May Revision proposal to dramatically reduce the program and force students into more student debt and hurt chances of thriving in the middle class upon graduation.
  - Implements a modified Cal Grant Reform which will benefit lower income students – particularly those at Community Colleges.
  - Provides \$20 million Proposition 98 General Fund one-time to assist community college financial aid offices with unexpected workload and circumstances due to FAFSA delays and to help support students who are still trying to complete the FAFSA.

### **Climate and the Environment:**

- ***Greenhouse Gas Reduction Fund Shift.*** Protects over \$5.2 billion in climate related investments by shifting the costs from the General Fund to the Greenhouse Gas Reduction Fund (GGRF).
- ***Protects Key Investments.*** Rejects cuts to Dam Safety and Offshore Wind Infrastructure and partially rejects cuts to Sustainable Agriculture, Water Recycling, Extreme Heat, Equitable Building Decarbonization, Watershed Resilience, Ocean and Coastal Protection, and the Habitat Conservation Fund.

## Health:

- ***MCO Health Investments.*** Rejects the May Revision proposal to permanently eliminate over \$2.4 billion in annual new health investments scheduled to take effect January 1, 2025. Instead, the new investments generally will be delayed one year until January 1, 2026, and there will be some modest Legislative adjustments to the new investments. Some added MCO rate enhancements will start in 2025 under the Legislature's Budget Plan.
- ***Public Health.*** Rejects the May Revision's proposed cuts to Public Health programs.

## Human Services:

- ***Developmental Services Rates.*** Rejects the proposal to delay the Developmental Services rate increase by one year.
- ***Child Care Slots.*** Restores funding for Child Care slots that have been recently offered, resulting in more than 11,000 funded slots than proposed in the May Revision.
- ***Program Protections.*** Rejects cuts to core programs, including CalWORKs, Forster Care, and In Home Supportive Services (IHSS).

## Tax and Fee Actions:

- ***Governor's Proposals.*** Approves the Governor's proposal to suspend Net Operating Loss deductions and cap various business tax credits for three years. But, the Legislature's Plan starts the three year period earlier than the Governor so that the suspension and cap will be in place for tax years 2024, 2025, and 2026. The Legislature's Plan also includes several other tax and fee proposals advanced by the Governor, including changes to the MCO tax, changes to oil and gas-related taxation, changes to corporate tax apportionment law, and others.

## Housing and Homelessness:

- ***HHAP.*** Provides \$1 billion to HHAP Round 6 to provide local governments continued funding to combat the homelessness crisis.
- ***Low Income Housing Tax Credits.*** Approves \$500 million for Low Income Housing Tax Credit program, as proposed by the Governor.

- **Affordable Housing.** Rejects proposed cuts to Multifamily Housing, Regional Early Action Planning (REAP) 2.0, and Housing Navigation and Maintenance Program.

#### **Transportation:**

- **Active Transportation.** Rejects the proposed cut to the Active Transportation Program, and shifts to the State Highway Account.
- **Rail.** Rejects the proposed cut to the Competitive Transit and Intercity Rail Capital Program.

#### **Public Safety and Corrections:**

- **Corrections Reductions.** Includes substantial new reductions to the Department of Corrections and Rehabilitation, including a modified version of the Governor's \$80 million proposal to deactivate unused beds and a \$170 million per year baseline cut in addition to the portion of the Governor's statewide administrative cuts that will affect the Department of Corrections and Rehabilitation. The Legislature intends for the administration to avoid cuts, as much as possible, to vital rehabilitation and family connection programs, among others.
- **Victims of Crime Act Funding.** Provides over \$100 million to backfill lost federal funds for the Victims of Crime Act program.
- **Non-Profit Security.** Provides \$80 million ongoing for non-profit security grants.
- **Program Protections.** Restores funding, in total in some cases, for key programs, including the Flexible Assistance for Survivors of Crime Grant program, the Public Defender Pilot Program, Adult Reentry Grant program, Court Reporters, Court Interpreters, and the Firearm Relinquishment program.

#### **Labor:**

- **Women in Construction.** Rejects the proposal to eliminate the Women in Construction Unit at the Department of Industrial Relations (DIR).
- **Program Protections.** Rejects cuts to California Youth Apprenticeship, California Youth Leadership Corps, and High Road Training Partnerships in Health and Human Services programs.
- **Workforce Education and Outreach.** Provides \$30 million in special funds for California Workplace Outreach Project (CWOP) at DIR.

## Statewide Savings:

- **State Operations.** The Legislature's Plan accepts the Governor's ambitious 7.95% cut to most departments' General Fund state operations budgets and sweep of funding associated with many vacant positions, which collectively total about 10% of General Fund state operations and about \$3 billion of 2024-25 savings. The Legislature expects to be kept informed of the administration's progress throughout the year to achieve these savings and address impacts on public services that result.