

California's Fiscal Outlook Summary

The [Legislative Analyst's Office \(LAO\) has released its 2024-25 Budget Fiscal Outlook](#), which takes the new revenue estimate announced last week, “plus estimates of lowered 2021-22 revenues (“entering fund balance”), and makes an initial estimate of the amount of corrective actions needed to balance the June 2024 budget.”

Of note, California Faces a \$68 Billion deficit and an unprecedented prior-year revenue shortfall creates unique challenges. However, the Legislature has multiple tools available to address the budget problem. According to the LAO, “the state has nearly \$24 billion in reserves to address the budget problem. In addition, there are options to reduce spending on schools and community colleges that could address nearly \$17 billion of the budget problem. Further adjustments to other areas of the budget, such as reductions to one-time spending, could address at least an additional \$10 billion or so. These options and some others, like cost shifts, would allow the Legislature to solve most of the deficit largely without impacting the state's core ongoing service level.”

Therefore, the LAO suggests, “the Legislature immediately begin evaluating past spending to find monies that have been committed but not yet distributed. These could be pulled back to help address the budget problem.” The LAO also suggests, “the Legislature exercise some caution when deploying tools like reserves and cost shifts. The state’s reserves—which total \$24 billion—are unlikely to be sufficient to cover the state’s multiyear deficits—which average \$30 billion per year under our estimates,” and “as a result, preserving a substantial portion—potentially up to half—of reserves would provide a helpful cushion in light of the anticipated shortfalls that lie ahead.”

Jason Sisney, Budget Advisor to Assembly Speaker Rivas also had the following to say, “while LAO estimates typically calculate the budget problem by bringing Proposition 98 school funding close to its constitutional minimum, this LAO report notes that the unusual delayed nature of 2022 revenues results in \$17 billion of potential school funding deficit impacts that the Legislature could consider, in addition to \$51 billion of other, more typical deficits connected mainly to the lower revenues. The LAO report also identifies that state spending is several billion dollars below prior estimates, offsetting a bit of the negative effects of the lower projected revenues.” Also, “as of November 30, the state treasury retains more than \$91 billion of available “cash on hand” (formally

referred to as “unused borrowable resources”). This incredibly strong cash position persists despite the deep tax revenue shortfalls of October and November.” We will know more after the Governor releases the administration’s independent estimates and budget proposals on or before January 10.

Earlier in the week, the \$68 billion deficit prompted Governor Newsom’s Department of Finance to send a letter to state agencies urging them to save costs. According to the press, the letter directs all entities under the Governor’s direct executive authority to take immediate actions to reduce current-year General Fund expenditures. The letter also instructed Departments to take measures to ensure more prudent spending from other state funds given the fiscal outlook.

Upcoming Important Deadlines

- January 1 - Statutes take effect.
- January 3 - Legislature reconvenes.
- January 12 – Last day for policy committees to hear and report fiscal committees fiscal bills introduced in their house introduced in the odd-numbered year.
- Week of January 15 - the Appropriations Committees will consider 2-year bills.
- January 15 - Martin Luther King, Jr. Day.
- January 19 - Last day for any committee to hear and report to the Floor bills introduced in that house in the odd-numbered year.
- January 19 - Last day to submit bill requests to the Office of Legislative Counsel.
- January 23 - Last day to notice intent to remove a bill from the Inactive File for purposes of amending the bill by the January 25 amendment deadline.
- January 24 - Last day to submit amendments to the Desk (by 5 p.m. or before adjournment) if an author wishes to amend by January 25.
- January 25 - Last day to amend measures on the Floor prior to January 31.
- January 29 - Last day to amend measures on the Floor prior to January 31.
- January 31 - Last day for each house to pass bills introduced in that house in the odd-numbered year.
- February 16 – Last day for bills to be introduced.