

FEBRUARY 8, 2023

The 2023-24 Budget: Overview of the Governor's Budget

PRESENTED TO:

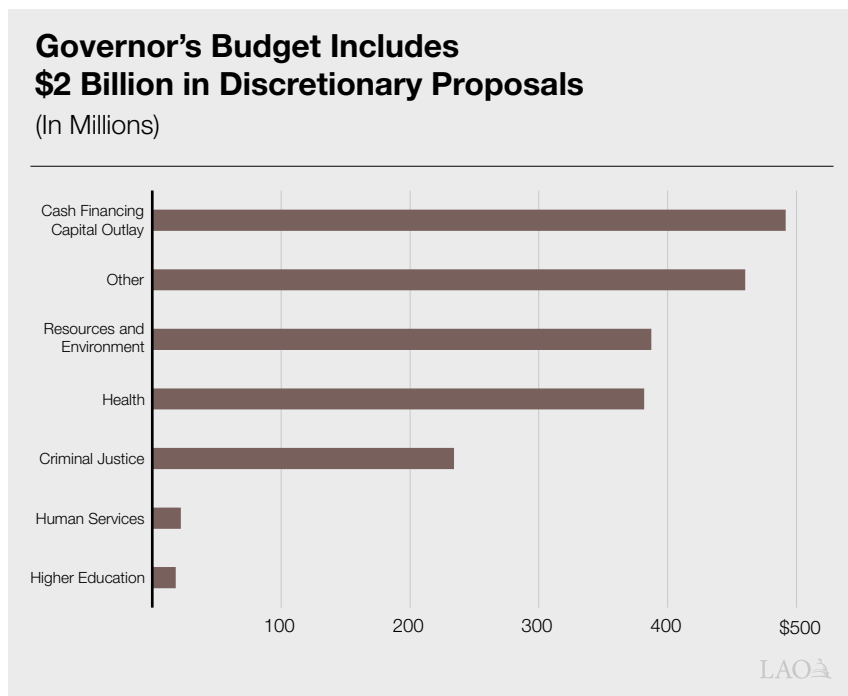
Assembly Committee on Budget
Hon. Philip Y. Ting, Chair



LEGISLATIVE ANALYST'S OFFICE

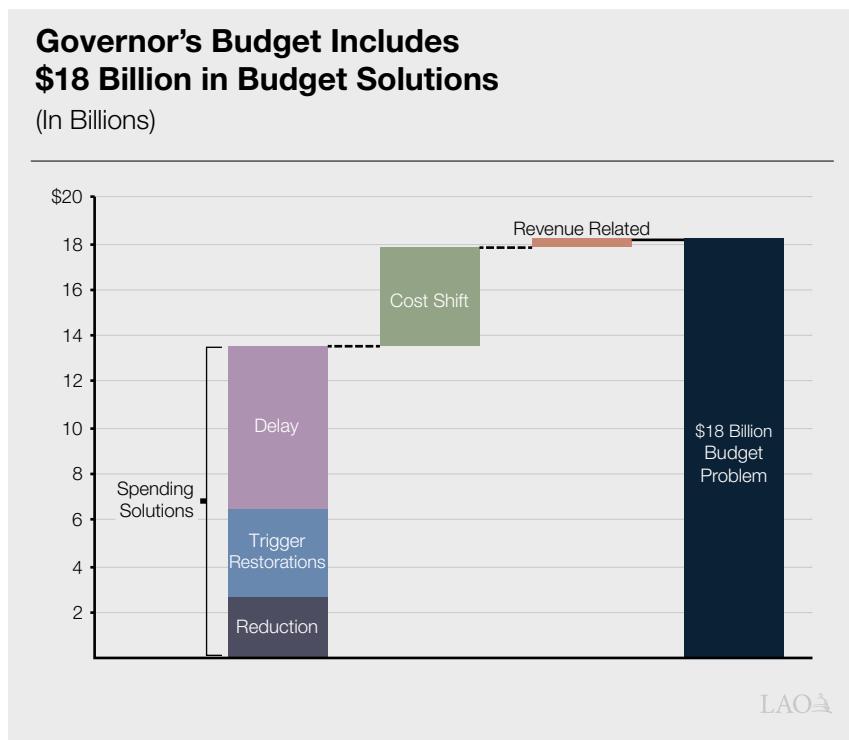
\$18 Billion Budget Problem

- Manageable budget problem, mainly driven by lower revenue estimates relative to the June 2022 budget.
- Slightly lower than administration's estimate of budget problem.
- New discretionary spending proposals add to budget problem.



Solving the Budget Problem

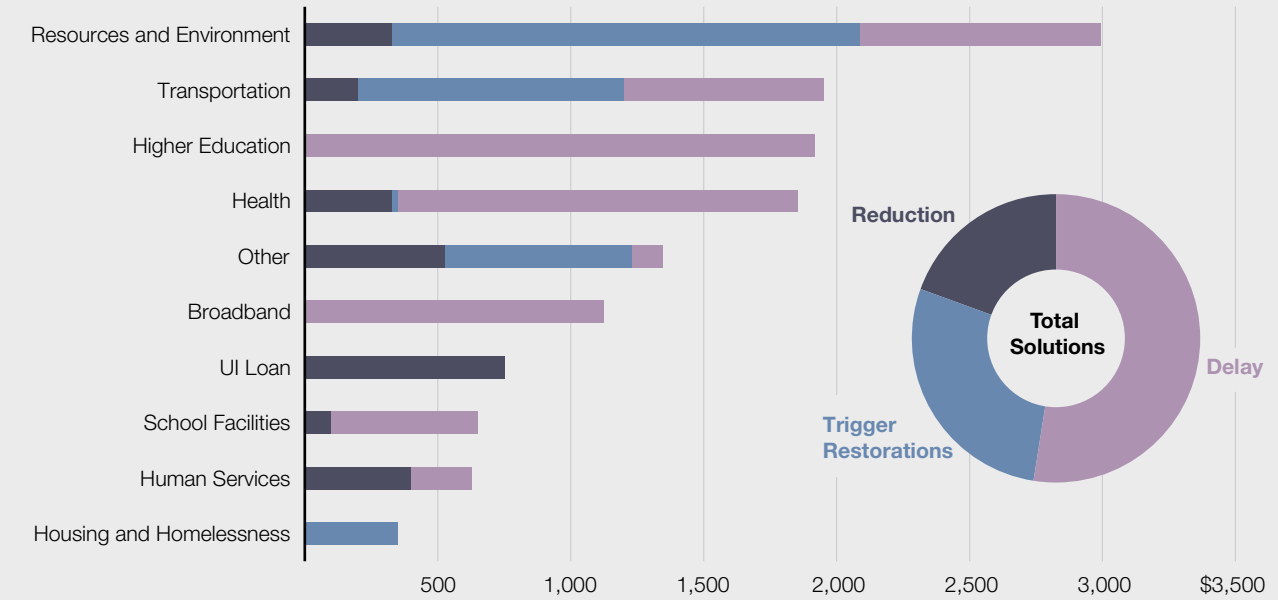
Administration proposes addressing the budget problem primarily through spending-related solutions.



Solving the Budget Problem

(Continued)

Most Spending Solutions Are Trigger Restorations or Delays



UI = Unemployment Insurance.

LAO



Budget Condition

General Fund Condition Summary

(In Millions)

	2021-22 Revised	2022-23 Revised	2023-24 Proposed
Prior-year fund balance	\$41,102	\$52,713	\$21,521
Revenues and transfers	233,891	208,883	210,174
Expenditures	222,280	240,076	223,614
Ending fund balance	\$52,713	\$21,521	\$8,081
Encumbrances	4,276	4,276	4,276
SFEU balance	48,437	17,245	3,805
Reserves			
BSA	\$19,867	\$21,487	\$22,398
SFEU	48,437	17,245	3,805
Safety net	900	900	900
Total Reserves	\$69,204	\$39,632	\$27,103

BSA = Budget Stabilization Account and SFEU = Special Fund for Economic Uncertainties.

- Governor does not declare a budget emergency.
- Administration plans for multiyear deficits of \$9 billion in 2024-25, \$9 billion in 2025-26, and \$4 billion in 2026-27.



School and Community College Budget

- The minimum funding requirement for schools and community colleges has decreased by \$3.4 billion in 2022-23 and \$1.5 billion in 2023-24 relative to the level enacted last June.
- Although overall funding is down, approximately \$6 billion is available for new commitments due to the end of various one-time initiatives and lower-than-anticipated program costs.
- The largest proposed augmentation is an 8.13 percent cost-of-living adjustment for school and community college programs.
- The budget uses \$1.4 billion in one-time funds to cover ongoing costs in 2023-24, which would create a small deficit for the following year if funding does not increase by a like amount.



Comments

Budget Year

- Governor's emphasis on spending solutions, instead of reserves, is prudent.
- However, Governor's new proposals require reductions to planned spending and some budget solutions are in areas where the Legislature has signaled clear priorities.
- Recommend the Legislature plan for a larger budget problem by identifying more spending reductions due to downside revenue risk.

Multiyear

- Although timing differs, LAO and the Department of Finance revenue estimates are very close.
- Recommend the Legislature's budget not include future deficits.



Criteria

The Governor's budget identifies one set of recent augmentations to reduce or delay in order to address the budget problem. The Legislature can select entirely different spending solutions.

Criteria for Evaluating Augmentations for Reduction or Delay

Recent One-Time and Temporary Augmentations That Do Not Meet These Criteria Could Be Considered

- The projects or activities are specific and address the Legislature's goal.
- The underlying needs have not changed.
- Early indications show that the projects or activities are meeting their goals.
- The involved entities have the capacity to administer the initiative.
- Pausing or delaying the appropriation would have significant negative distributional impacts on populations of concern.
- The augmentation does not duplicate federal or special fund activities
- The projects or activities primarily meet an acute need.

