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2024-25 Governor's Budget Overview and Reaction

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“Good News”

- Fully funded COLA
 - Much smaller than previous years at 0.76%
 - Corresponds with lower year-over-year inflation estimates
- Student housing commitment continues
 - Yet not solved, so could be cost pressures
 - Believed it would be further along at this point
- School facilities bond appears to be supported
 - Primarily depends if UC/CSU are included
 - Debate will be resolved in the next few months

“Bad News”

- Revenue forecast is going from bad to worse
 - Early January - Governor’s Budget solves for \$58 billion problem
 - Late January - LAO believes there is a, additional \$3 billion gap
 - Early February - Speaker believes there is an additional \$6 billion gap
 - Mid February - LAO updates forecast to project an additional \$24 billion gap
- Main solution for P98 reduction in 2022-23 is unclear
 - “The budget proposes statutory changes to address roughly \$8 billion of this decrease to avoid impacting existing school and community college district budgets”
 - Unclear how legislature and stakeholder community will react
- Using one-time solutions for ongoing budget problems
 - \$722 million of reserves used to fund SCFF (about 8% of SCFF)

Proposition 98

● 2022-23

- June 2022 (Budget Act) - \$110.4 billion
- June 2023 (Budget Act) - \$107.4 billion
- January 2024 (Governor's Budget) - \$98.3 billion
- February 2024 (LAO Analysis) - \$98.3 billion

● 2023-24

- June 2023 (Budget Act) - \$108.3 billion
- January 2024 (Governor's Budget) - \$105.6 billion
- February 2024 (LAO Analysis) - \$99.8 billion

● 2024-25

- January 2024 (Governor's Budget) - \$109.1 billion
- February 2024 (LAO Analysis) - \$105.9 billion

What Could Be Next?

- Adjust/reject Governor's Budget spending
 - COLA on SCFF and/or categorical programs, nursing grant, etc.
- Clawback recent one-time grants or programs
 - Grants related to pandemic recovery, deferred maintenance, etc.
- Re-consider recent ongoing program expansion
 - Recently increase in special population programs
- Further reduce the P98 rainy day fund
 - Used \$5.7 billion, but still has \$3.9 billion remaining
 - Using reserves while in strong economic times is questionable
- Payment deferrals
 - Borrowing issues now, and stagnant growth later

*Likely scenario will be a combination of many concepts

Comment or Questions?