



December 7<sup>th</sup>, 2023

TO: State Association of County Retirement Systems  
FROM: Edelman Gilbert Robson & Smith, LLC  
RE: **Legislative Update – December 2023**

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The independent Legislative Analyst's Office (LAO) released its fiscal outlook report for the 2024-2025 budget. The report is based on final 2022-23 tax collections in November that were collected late due to the 2023 winter storms that impacted California. The LAO estimates that the Legislature and Governor will need to close an overall \$68 billion deficit to adopt a balanced budget on June 30, 2024.

The deficit, in large part, is a result of much lower 2022 income taxes collected in 2023 which are expected to continue with 2023 tax returns that will be collected in 2024.

The LAO identifies several actions the Legislature can take to address the deficit:

1. Use Budget Reserves: The Constitutionally required budget reserves exist for this exact purpose. However, the Governor and Legislature must be judicious in the use of reserves in case the budget problem and slow economy persists for several years.
2. Reduce School Spending: The state is spending more on K-12 education than is constitutionally required by Proposition 98. The state can also use Proposition 98 reserves to backfill this reduced spending.
3. Reduce One-time, Temporary and Unspent Money from Previous Budgets: This could include withdrawing funding for billions of dollars in legislator-directed spending for civic projects and local non-profits whereby symbolic checks were already presented by individual legislators.
4. Borrow and Shift Costs from Special Funds: This could affect operations of numerous programs that are self-funded through user fees.
5. Raise Revenues. The LAO does not recommend nor specify taxes to raise or tax credits to reduce. However, with a three-quarter supermajority, some Democrats in the Legislature will certainly propose raising taxes to close the deficit.



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## **Next Steps**

The Governor will release his proposed budget for 2024-25 on January 10, 2024. His budget will make its own assumptions and forecast that may differ from the LAO, though it will certainly acknowledge a multibillion-dollar deficit. More importantly, his January budget will need to propose actual solutions to close the deficit. This will be difficult for both the Governor and the Legislature. Governor Newsom has had the luxury of proposing and adopting budgets that always anticipated higher revenue and more spending and there are only a handful of legislators currently in office who were in office during a time of budget cuts and/or budget austerity.

Of interest to SACRS, is the fact that when state budget revenues are down, Republican members of the Legislature and certain advocacy groups take interest in spending obligations related to government employee compensation, pensions, and retiree health.