
MEMORANDUM

To: Orange County Sanitation District
From: Townsend Public Affairs
Date: December 20, 2023
Subject: Monthly Legislative Report

STATE UPDATES

With the Legislature adjourned until January, the month of December largely focused on looking ahead to next year. The Legislature will be returning to Sacramento the first week in January to start the second year of the current two-year legislative session.

Looking to next year, there are over 1,240 measures that did not meet specified deadlines for passage in 2023 and were held as “Two-Year Bills.” These measures will be eligible for consideration in January of 2024 and may be re-integrated into the legislative process along with other measures introduced at the beginning of the new session. Legislators will be focused in January on advancing Two-Year Bills that did not pass out of their house of origin this year.

LAO Releases Comprehensive Fiscal Outlook

On December 7, the Legislative Analyst’s Office (LAO) released its Fiscal Outlook Report for the State’s 2024-25 upcoming budget cycle. The LAO’s annual Fiscal Outlook publication provides an independent assessment of the California state budget condition for the upcoming fiscal year, along with a forecast of the State’s longer-term fiscal condition. The key takeaway from the outlook report is a **projected \$68 billion budget shortfall in the 2024-25 fiscal year**, due mostly to the net effect of unexpected revenue changes in the 2022-23 and 2024-25 fiscal years.

The conditions surrounding the 2024-25 fiscal year outlook are atypical compared to recent years’ versions, which can largely be attributed to the unprecedented delay in tax return filings generated by the severe winter storms in early January 2023. The delay caused most high earners who contribute close to half of California’s personal tax income revenue to delay tax return filings until the last minute. This meant that the Administration and the Legislature had an incomplete picture of 2023-24 revenues when they passed the budget in June. The LAO approximates that the State overallocated close to \$26 billion in the enacted 2023-24 budget.

While the budget outlook recommends fiscal prudence over the next few years, the LAO reports that the Legislature has a number of tools at its disposal to address the scope of the deficit, including \$24 billion in reserves, cost shifts, reductions in one-time spending, and reducing spending on schools and community colleges.

Looking ahead, the Governor and the Department of Finance will continue to make their own assessments of the State's fiscal condition in preparation for the release of the January budget framework proposal. As is the case with most years, the status of the State's spending plan is subject to fluctuations and could change throughout 2024 once additional tax return filings are collected and accounted for.

This could mean that the State will pull back from competitive grant programs or budget allocations to specific projects in the 2024-2025 budget cycle.

Department Of Finance Letter Directs to Immediate Budget Reduction Actions

On December 12, the California Department of Finance released a budget letter to California State Agency Secretaries regarding a current year expenditure freeze to reduce current-year General Fund expenditures. The letter cites ways to limit expenditures including limiting new goods and services contracts, reducing information technology costs, limiting vehicle replacements, limiting office supply purchases, reducing non-essential travel, cancelling some leave buy-back programs, and deferring funding requests to the State's Architecture Revolving Fund. The budget letter was released about a week after the 2024-25 Fiscal Outlook Report by the Legislative Analyst's Office (LAO) was published, which forecasts the State's upcoming budget cycle and projected \$68 billion budget shortfall in the 2024-25 fiscal year.

However, the letter does include exemptions for emergency and essential spending by authorizing agency secretaries and cabinet-level directors to make exemptions in limited instances. Which include addressing a declared emergency, providing 24-hour medical care, avoiding significant revenue losses, or achieving significant net cost savings.

Tax Ballot Measure Heads to California Supreme Court

On November 29, the California State Supreme Court granted a hearing request from Governor Gavin Newsom and Democratic Legislators to remove the Taxpayer Protection and Government Accountability Act from the November 2024 ballot. While the request to have the measure immediately removed from the ballot was denied, the Court requested written arguments from election officials and measure sponsors proving why the measure should go before the voters. The written arguments are due to the Court in mid-February 2024, which could allow for a hearing in early Spring.

The Taxpayer Protection and Government Accountability Act seeks to raise vote threshold requirements for the passage of state and local tax measures and imposes a stringent burden of proof standard that local governing bodies must meet when modifying or increasing all taxes and fees by justifying their use, need, and duration. The measure is sponsored by the California Business Round Table and its affiliates. If enacted by voters, it would make it extremely difficult for local governments to maintain existing tax and fee revenues and modify them in the future.