
MEMORANDUM

To: Orange County Sanitation District
From: Townsend Public Affairs
Date: June 5, 2024
Subject: State Legislative Monthly Report

STATE LEGISLATIVE UPDATES

The month of May included numerous statutory deadlines for the State Budget and Legislature. In early May, Governor Newsom released the May Revision of the State Budget. At the same time, the Legislature worked through two major legislative deadlines that measures must pass in order to advance to the second house: the Appropriations Committee's Suspense File hearings, and the House of Origin deadline.

On May 10, Governor Newsom released his 2024-25 State Budget May Revise, ahead of the May 14 deadline. The May Revise reflects an update to the Governor's proposed Budget in January 2024, which reflects changes to tax returns, inflationary pressures, and federal monetary policy that could result in additional spending cuts or the restoration of spending programs.

On May 16, the Assembly and Senate Appropriations Committees considered legislation that originated in the first house that had a fiscal impact to the State. This process serves as a "fiscal filter" for active bills before they are sent to the floor for final consideration. Typically, any bill with a fiscal impact drawing on State budget resources is placed on the fiscal committee's "Suspense File." The appropriations suspense process was borne out of a desire for fiscal prudence and essentially serves as a filter for the hundreds of bills introduced each year that are deemed to have a significant fiscal impact on the State's finite resources.

During this process, measures may be held under submission for a number of reasons. Their structure may be duplicative of existing budget spending proposals, bill authors may have identified other bills within their portfolio as having a greater priority, or a bill may be deemed politically unfeasible for several reasons. Given the budget constraints this year with an anticipated deficit, legislators were more inclined to halt the progression of bills with big price tags.

The following week featured daily floor session proceedings as both houses raced to consider bills to meet the House of Origin deadline on Friday, May 24. The House of Origin deadline marked the last day for any bill introduced in the Senate or Assembly to pass their respective floor and into the second house for consideration. Both houses considered hundreds of bills throughout the week.

Below is an overview of pertinent state actions from the month of May.

STATE BUDGET

May Revise Released

In his May Revise presentation, the Governor estimated **a remaining \$27.6 billion deficit this year, as well as ongoing deficits of around \$30 billion per year beginning in 2025**. The total deficit has fallen following the enactment of the “Early Action” budget package the Legislature and Administration worked on to solve approximately \$17 billion of the total shortfall. The Early Action budget package included cuts to undisbursed one-time spending programs across the previous three budgets. The revised spending proposal totals **\$288 billion**, which is significantly smaller than the \$310.8 billion budget signed into law last year.

Throughout his presentation, the Governor attributed the shortfall to the State’s “volatile” progressive tax structure that largely relies on the financial performance of high-income earners. Earlier this year, during the Governor’s January Proposed Budget, the Governor attributed the shortfall to the substantial decline in the stock market that drove down revenues in 2022 and the unprecedented delay in critical income tax collections. Additionally, the 2023 Budget Act experienced a budget shortfall of approximately \$32 billion which became exacerbated by the IRS’s tax filing and payment delay which generated a budget without an accurate depiction of revenues. Once additional tax receipts for 2022 were received in late November 2023, the 2022 revenues were lower than projected when the 2023 Budget Act was adopted. Similar to the 2023-24 budget cycle, the FY 24-25 continues the deficit trend with a total shortfall of \$44.9 billion.

Budget Committees in both houses resume hearings with consideration given to the proposals incorporated into the May Revise. The next statutory budget deadline is the Legislature’s passage of a balanced budget by June 15. After the June 15 statutory deadline, the Governor should approve a final 2024-25 spending plan before the new budget year begins on July 1.

While the Budget Act must pass by June 15, the State’s spending will see numerous amendments and additional details emerge through the introduction of ‘Budget Trailer Bills’ and “Budget Bill Jr.”. These measures provide implementation language, details on core (and often contentious) accounts, and amendments to the overall structure of the preliminary Budget Act.

Joint Legislative Budget Proposal Released

On May 29, Senate and Assembly leadership released their outline of a [joint proposed budget](#) to counter the Governor’s May Revise proposal. As the proposal is in preliminary stages, additional details on all items, and other actions that make up the Legislature’s Budget Plan, will be released in upcoming public hearing agendas for the Assembly and Senate Budget Committee hearings.

Overall, the Legislature’s proposed budget solves a similar deficit and reserve spending problem. This includes the approval of the Governor’s proposal to suspend Net Operating Loss deductions and cap various business tax credits for three years. However, the Legislature’s Plan starts the three-year period earlier than the Governor so that the suspension and cap will be in place for tax years 2024, 2025, and 2026.

In addition, the Legislature proposes reconfiguring or rejecting a number of proposed cuts initially incorporated into the Governor’s proposal that could potentially have some funding benefits for OC San. These include:

- Fund shifts \$144.9 million General Fund from 23-24 to Greenhouse Gas Reduction Fund for Water Recycling/ Groundwater Cleanup; cuts the remaining \$29.8 million.
- Approves partial fund shift of \$228.5 million General Fund to Greenhouse Gas Reduction Fund for Drinking Water/ Wastewater Infrastructure, cuts the remaining \$124 million General Fund.
- Maintains cuts \$101.6 million for Per- and polyfluoroalkyl substances (PFAS) support (Governor’s Budget).

Additional information and technical details are anticipated to be released soon, as negotiations continue to ramp up.

STATE LEGISLATURE

Appropriations Committees Consider the Fate of Hundreds of Bills

On May 16, the Assembly and Senate Appropriations Committees considered legislation that originated in the first house that has a fiscal impact. This process serves as a “fiscal filter” for active bills before they are sent to the floor for final consideration. Typically, any bill with a fiscal impact drawing on state budget resources is placed on the fiscal committee’s “Suspense File.”

Suspense File hearings are done at a rapid speed, with Appropriations Chairs reading through the outcomes of hundreds of bills. Traditionally, the first suspense hearings of a legislative session happen in May, when lawmakers and their staff have a better idea of the budget picture for that year. Given the recent budget projections of an increasing budget deficit, lawmakers exercised prudence in moving forward bills with big price tags.

Of the 668 bills considered during the Assembly Appropriations Committee’s Suspense File hearing, 65 percent passed, and 35 percent were held and deemed inactive for the remainder of the Session. Similarly, the Senate Appropriations Committee’s Suspense File Agenda featured 341 total bills – 74.5 percent of which were passed, and 25.5 percent were held and deemed inactive. In total, there were 1,009 bills in the Suspense Files between both Committees; 689 passed to their House Floors, with 320 measures held in committee. Notably, many of the measures passed onto the floor received substantial amendments.

Most notably to OC San, SB 903 (Skinner), the legislation banning the non-essential use of PFAS, failed to pass this major deadline.

Assembly and Senate Move Bills Out of the First House Prior to Deadline

Following Appropriations Suspense File Hearings in both houses, the week of May 20 – May 24 featured another major legislative hurdle for bills – the May 24 House of Origin deadline. During this time, both houses held daily floor session proceedings as they raced to consider bills to meet the House of Origin deadline on Friday, May 24. The House of Origin deadline marks the last day for any bill introduced in the Senate or Assembly to pass off of the floor and into the second house for consideration.

Looking forward, policy committees will resume hearings with a quick pace in late May through July. Policy committees will have little over a month to hear and pass measures from the opposite house out of their policy committee, prior to the July 3 statutory deadline, which also marks the beginning of the Legislature's Summer Recess.