

GOVERNOR NEWSOM'S REVISED 2024-25 STATE BUDGET

A Balanced Budget that Cuts Spending, Makes Government Leaner, and Preserves Core Services — Without Proposing New Taxes on Hardworking Californians

KEY TAKEAWAYS:

A BALANCED BUDGET OVER TWO YEARS



The Governor is solving two years of budget problems in a single budget, **tightening the state's belt** to get the budget back to normal after the tumultuous years of the COVID-19 pandemic. By addressing the shortfall for this budget year — and next year — the **Governor is eliminating the 2024-25 deficit and eliminating a projected deficit for the 2025-26 budget year** that is \$27.6 billion (after taking an early budget action) and \$28.4 billion respectively. This approach will set California on a sound and fiscally responsible path. By making tough and responsible decisions now, the state is projected to have a positive operating reserve balance over the next two fiscal years.

CUTTING SPENDING, MAKING GOVERNMENT LEANER



Governor Newsom's revised balanced state budget **cuts one-time spending by \$19.1 billion and ongoing spending by \$13.7 billion** through 2025-26, including through a nearly 8% cut to state operations and a targeted elimination of 10,000 unfilled state positions, improving government efficiency and reducing non-essential spending — without raising taxes on individuals or proposing state worker furloughs. The budget makes **government more efficient**, **leaner**, **and modern** — saving costs by streamlining procurement, cutting bureaucratic red tape, and reducing redundancies.

PRESERVING CORE SERVICES & SAFETY NETS



The budget maintains service levels for many key housing, food, health care, and other assistance programs that Californians rely on while addressing the deficit by pausing the expansion of certain programs and decreasing numerous recent one-time and ongoing investments.



NO NEW TAXES & MORE RAINY DAY SAVINGS

Governor Newsom is balancing the budget by getting state spending under control — **cutting costs**, <u>not</u> proposing new taxes on hardworking Californians and small businesses — and reducing the reliance on the state's "Rainy Day" reserves this year.

HOW WE GOT HERE:

The budget shortfall is rooted in two separate but related developments over the past two years:

#1: REVENUE PROJECTIONS

California's revenue is highly dependent on personal income taxes, including taxing capital gains — the taxing of profits when individuals buy or sell stocks. In 2021, the stock market (especially tech stocks important to California's economy) boomed and the state collected significant tax revenue. Following a 2022 market downturn, the state collected significantly less taxes than projected. And while the market bounced back by late 2023, the state continued to collect less tax revenue than projected in part due to something called "capital loss carryover," which allows losses from previous years to reduce how much an individual is taxed.

#2: IRS DELAYS

Under typical circumstances, market declines would become evident as tax receipts were received, but following extreme winter storms across the state in 2023, the Internal Revenue Service (IRS) extended the tax filing deadline for 99% of all California taxpayers. The delayed tax receipts, coupled with the ways the pandemic upset economic indicators, made it difficult to accurately predict revenues. Once processed after the federal delay to November 16, key tax receipts were 22% lower than projected. Without a delay, the revenue drop would have been incorporated into last year's budget and the shortfall this year would be significantly smaller.

BIGGER PICTURE:

LONG-STANDING VOLATILITY

California's revenues are highly dependent on personal income tax, including capital gains, which significantly fluctuate based on economic and stock market conditions. As a result, California's budget conditions, relying on fluctuating revenue, have always been volatile — across both Democrat and Republican administrations.

CALIFORNIA REMAINS STRONG

The Governor's revised balanced budget sets the state up for continued economic success. California's economy remains the 5th largest economy in the world and for the first time in years, the state's **population is increasing** and **tourism spending** recently experienced a record high. California is #1 in the nation for new **business starts**, #1 for access to venture capital **funding**, and the #1 state for **manufacturing**, **high-tech**, and **agriculture**.