

**EAST BAY REGIONAL PARK DISTRICT
LEGISLATIVE COMMITTEE
AGENDA STAFF REPORT**

DATE	January 10, 2024
TITLE	2024-25 Fiscal Year State Budget
DIVISION	General Manager's Office
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RECOMMENDATION

This is an information item only.

BACKGROUND

The California Legislative Analyst's Office, a non partisan government body which assesses policy for the Legislature, issued a report on December 7, 2023 estimating California could experience a \$68 billion budget deficit through fiscal year 2024-25. This is twice the size of the 2023-24 deficit. In contrast, the 2022-23 budget had a \$97.5 billion surplus. The Governor signed a \$310.8 billion dollar budget in June of 2023.

ANALYSIS

The possible \$68 billion dollar deficit should be viewed within the context of the overall growth in California's budget. The pre-Covid budget for 2019-20 was \$214.8 billion, nearly \$100 billion lower than 2023-24. The state also has nearly \$24 billion in reserves. The 2022-23 tax collection cycle was also challenging as Federal tax filing extensions were extended to November 16, 2023. This left state economic forecasters and the Franchise Tax Board without critical income tax revenue data. The \$68 billion dollar deficit has been estimated in light of weaker than expected tax returns.

On December 12, the Governor's Department of Finance issued a Budget Letter requesting spending freeze for state agencies. It calls on all state agencies to take action aimed at reducing expenditures, including a freeze on:

- New Goods and Services Contracts
- Information Technology (IT) Equipment
- Fleet Vehicles
- Office Supplies
- Travel
- Leave Buy-Back
- Other Costs including Training

The Governor is expected to announce his budget proposal on January 10. Some proposals to address the expected shortfall, in addition to possibly tapping the \$24 billion in reserves, include recalculating constitutionally-mandated funding obligations to schools and community colleges which

could produce a \$17 billion reduction over the next three years.

The California unemployment rate has edged up to 4.8% from 3.8%. In addition, wages are expected to increase potentially putting stress on hiring. The national trends, however, are encouraging. The Federal Reserve has indicated additional increases in interest rates may not be needed, inflation is down 5% from 2022 and the Dow Jones has hit record highs. The Federal Reserve is expected to consider a reduction in rates in 2024. This would be a boost to the California housing market making interest rates more affordable for home buyers and boosting property taxes as more properties would be re-assessed under Prop. 13. The Consumer Price Index for California Urban Consumers is down from 8% in June of 2022 to 3.1% in November 2023. This should make goods more affordable and increase sales taxes. The Dow Jones and Stock Market growth should increase investment by Californians and add more capital gains tax revenue to the state budget. For the short-term, there will be belt tightening in Sacramento, but in the long-term economic trends are becoming more favorable.

The Governor also may revive his support for a climate / resources bond during budget discussions. The bond could backfill some expected General Fund cuts to resources agencies. The legislature continues to maintain a commitment to climate investment with bond proposals AB 1567 and SB 867, both of which became two-year bills at the end of the last session. The bonds include money for regional parks, vegetation management programs, the Coastal Conservancy Bay Area program, the San Francisco Bay Area Restoration Authority, Conservation Corps, sediment removal, and language to expedite opening of Marsh Creek State Park. There could be as much as \$10 billion available with these bonds, although the Administration may tighten the overall amount. Momentum to move forward last year stalled due to the progress of a mental health bond for March 2024.

FISCAL IMPACT

State budget deficits always have the potential to impact agencies, grant programs and funding allocations which support the Park District. While no specific impactful cuts are identified as of this writing, staff will continue monitoring budget negotiations while seeking to protect agencies, programs and funding which impact the Park District.