

## CA's Budget & Nonprofits: Part Four

05.25.23 | Linda J. Rosenthal, JD



It's crunch time for determining what's in and what's out of the California state budget for the new fiscal year that begins on July 1, 2023.

This is a big deal.

The constitutionally prescribed budget process, a "... several months' long, high-stakes dance involving the governor and both chambers of the legislature..." expressly includes a seat at the table for "citizen input." That means the nonprofit community – as a whole as well as through the voices of individual organizations and coalitions of interest groups – has one more shot, for the next few weeks only, to have a say in how the world's fourth, largest economy divvies up a \$300-billion+ budget pie.

More particularly, since we're dipping into deficit territory for the first time in a while, our sector can and should chime in on how best to close the (now) almost \$32-billion gap. There will be winners and there will be losers. We can watch from the sidelines or we can engage.

Although California is a deep blue state, with a Democratic governor and supermajorities in both the Assembly and the Senate, that's no guarantee that an expansive wish list of progressive goodies will get fully or even partially funded. The famous old quip of humorist Will Rogers remains true almost one hundred years later: "I am not a member of any organized political party. I am a Democrat."

### ***A Recap***

Getting any measure over the legislative finish line and signed into law in California is akin to herding cats. Thankfully, the passage of a constitutional amendment in 2010 – Proposition 25 – reduced the vote approval threshold for budget bills from two-thirds to a simple majority.

The months-long, high-stakes dance of the annual California budget process begins by January 10th of each year: several months ahead of the July 1st start date of the upcoming fiscal year. See The

*Budget Process: A Citizen's Guide to Participation*, California Senate.

In *Part One* (January 18, 2023) of our current budget series, we linked to Governor Gavin Newsom's January 10th Proposed Budget and related explanations and summaries. In *Part Two* (January 23, 2023), we added a sampling of reaction and analysis including from some nonprofit organizations.

After the governor releases the proposed budget, the constitutionally prescribed activity then shifts over to the California Legislature until the middle of May. During these late winter and early spring months, the Senate and Assembly budget committees and their policy-specific sub-committees invite the Department of Finance and State Departments to present the Governor's January Budget to those committees...."

In addition, the legislative bodies "also allow for stakeholders to provide public comment on the Governor's proposals as well as present their own 'stakeholder proposals.'" The committees do not take any action, however, on either the Governor's budget proposals or on the stakeholder proposals but "hold them open" until the Governor submits the required "May Revision." It's an updated budget that replaces the January estimated revenue numbers for the actual figures from the first several months of the calendar year.

So "... the truly important negotiations tend to start after Newsom releases" the required May Revision and "revised fiscal outlook."

### ***May Revision and Beyond***

In *CA's Budget & Nonprofits: Part Three* (May 18, 2023), we linked to Governor Newsom's *May Revision* as well as his budget office's detailed summary and analysis. Reiterating that, as expected, California was returning from the heady days of huge surpluses to more normal revenue cycles, the governor laid out a thoughtful plan to cover the deficit for FY 2023-2024. Estimated in January 2023 at about \$22.5-billion, the gap had grown at least some \$9-billion larger. "The Governor's budget closes a projected \$32 billion budget shortfall while protecting key investments in the issues that matter most to Californians, including education, health care, housing and homelessness, public safety, and climate action."]

The Sacramento budget folks emphasize that California leaders had in past years prudently planned for future revenue volatility. For better or worse, California's revenue depends in large part on how well the 1% do. (Of course, 2022 was a challenging year for the uber-rich.) Recent legislatures and administrations created substantial reserves as well as a "Rainy Day Fund." The proposed gap-closing measures of the May Revision largely avoid dipping into these emergency funds.

In Part Three, we linked as well to the first review of the May Revision by the Legislative Analyst Office (LAO), "the California Legislature's nonpartisan fiscal and policy advisor." See *Initial Comments on the Governor's May Revision – The 2023-24 Budget* (May 15, 2023) The May Revision "... solves a \$28-billion budget problem," the LAO wrote, but it may have been "predicated on optimistic estimates." The worry is that the Newsom Administration may not have adequately considered (or plugged into the revised figures) the possibility of further deterioration of both revenue and expense numbers. The LAO points to the possibility of a recession coming soon down the pike, coupled with continued inflationary pressures and more Federal Reserve rate increases.

Another element of uncertainty, raised by the LAO and various other observers, arises from the extension of the federal and state tax-filing deadlines on account of recent weather emergencies. The delay from the usual April 15th filing and payment date to October 15th means that the actual revenue figures for 2022 will not be available before the June 15th deadline for the Governor and the Legislature to agree on a final budget for FY 2023-2024.

### ***Crunch Time***

Attention now shifts to the legislative branch, tasked with coming up with a final budget bill that can be agreed to by both the Assembly members and the Senators as well as Governor Gavin Newsom. Hopefully, it will also reflect the carefully considered input from the general public including the nonprofit sector that relies so heavily on government money.

In [\*Governor Newsom's May Budget Proposal Urges Fiscal Prudence in Uncertain Times\*](#) (May 15, 2023) McKay S. Carney, Esq., et al., Manatt Phelps & Phillips LLC, the authors present not only valuable summaries and analyses of what's in the Governor's May Revision, but also some interesting perspective on how this budget process may play out in the next few weeks.

The May Revision "is always worthy of special attention." But Governor Newsom's revised budget proposal "... is getting extra attention this year because of the roughly \$32-billion deficit for FY 2023-2024 as well as predictions that deficits will continue for at least two more years.

This is the first budget deficit in California in nearly a decade." But, the Manatt Phelps attorneys point out that for "...nearly two decades, governors of both parties' respective May Revision budgets generally survived the legislative budgeting process intact."

Among the helpful analyses of what's in and what's out of the May Revision are articles by Cal Matters and the CA Budget & Policy Center.

#### *Cal Matters:*

This group is a "nonpartisan and nonprofit news organization bringing Californians stories that probe, explain and explore solutions to qualify of life issues while holding our leaders accountable."

In [\*California budget deficit: Newsom's plan to cover California's ballooning budget deficit\*](#) (May 12, 2023) Alexei Koseff cites Governor Newsom's confidence that "...his plan to cover a budget shortfall that has grown by \$9 billion protects investments in education, health care and housing." But Mr. Koseff notes that the revised budget relies " ... on some additional fiscal maneuvers – including shifting funding sources and internal borrowing." And it "does not include what advocates wanted for child care and public transit."

Another reason for caution is that "...monthly tax revenues came in billions of dollars below forecasts this spring, and fears of a recession continue to loom, which Newsom [acknowledges] could reduce state revenues by tens of billions of dollars even in the mildest scenario."

#### *CA Budget & Policy Center:*

This is a "nonpartisan research and analysis" nonprofit. See [\*Statement on Governor Newsom's 2023-24 May Revision\*](#) (May 12, 2023) ["Proposal Protects Progress, Mostly Maintains Reserves, But

Rejects Raising Revenues to Better Support Californians”].

“Despite the growing shortfall, the governor’s revised budget proposal manages to protect and maintain much of the progress made in prior years to help improve economic security and opportunities for Californians with low incomes, including investments in health care and behavioral health, safety net and cash assistance programs, homelessness and housing, and cradle-to-career education.”

However, “... the governor’s proposal misses an opportunity to consider additional revenues, as outlined in the state Senate’s budget plan.

### ***Legislators’ Perspectives***

So what do California’s senators and assembly members think about the May Revision? And what’s up with the “state Senate’s budget plan” mentioned by the CA Budget & Policy Center?

Right now, the Budget subcommittees and Full Budget committees of both chambers should be meeting to consider and “either approve or reject the Governor’s and stakeholders’ proposals. The Legislature and the Governor will then negotiate to produce a final budget.”

This year, the Democratic coalitions and leadership in the Legislature have already had quite a bit to say about the new deficit reality and how to address it. (Not to put too fine a point on it: while the Republican members have also voiced opinions, their votes are not needed for passage of this budget measure.)

#### **Senate**

The Senate Democrats published their own proposed budget a few weeks ago, which notably recommends passing new revenue measures. See *Protect Our Progress Detailed Senate Budget Plan* (33 pp. PDF) (April 26, 2023). So, ahead of the release of the May Revision, they have doubled down on a strategy somewhat different than that taken by Governor Newsom for this year’s budget negotiations.

In their May 12, 2023, *Overview of the May Revision*, members of the Senate Committee on Budget and Fiscal Review, chaired by Sen. Nancy Skinner, comment: “The Governor’s May Revision is another good step toward reaching a budget agreement for the 2023-24 fiscal year. The Governor’s updated proposal reflects key Senate priorities, such as a new Climate Bond, and follows our “Protect Our Progress” approach to the budget in several important ways, which include avoiding ongoing cuts to core programs, preserving the Rainy Day Fund, and expanding responsible borrowing and fund shifts to avoid cuts to climate and other infrastructure investments.”

However, the senators add: “While there is much to appreciate in the Governor’s updated proposal, the May Revision does not” come around completely to the upper-chamber lawmakers’ approach to “responsible budgeting” and “fiscal leadership.” Most notably, he excludes a strategy of mitigating the budget woes “by spreading out lucrative tax breaks for successful businesses and partially reversing the Trump tax cuts for the top 1 percent of big corporations.”

The Senate Democrats now “... plan to update the ‘Protect Our Progress’ budget plan to take into account the latest economic data, and remain committed to preserving transit, broadband, and other

infrastructure investments, and addressing our long-term child care and homelessness needs....”  
They “are confident that we will be able to deliver a responsible, equitable budget by June 15.”

#### **Assembly**

The Assembly Democrats have their own response; see [\*Highlights of Governor’s Proposed 2023-2024 May Revision\*](#) (May 12, 2023), Assembly Budget Committee, Phil Ting, Chair. These lawmakers are particularly concerned about the lack of final revenue numbers until the extended tax return due dates in October and worry about the increasing likelihood of a recession.

In a [\*Statement\*](#), Assembly Speaker Anthony Rendon notes: “Public transit is the vanguard of California’s fight against climate change, and it will be important to restore the transit capital funding the Governor and Legislature approved last year. The Assembly also prioritizes improving rates for child care providers...which helps children and the economy....” Separately, Budget Chair Phil Ting said he concurs in these priorities, while noting that the [\*state’s robust general fund and rainy day fund\*](#) “have positioned our state well to weather downturns.”

#### ***Nonprofits Chime In***

A simple Google search of “May Revision Governor Newsom” will yield many responses, observations, and opinions by California’s nonprofit sector. Notably, they go deeper into the weeds of specific budget line items than the more general summaries and analyses.

It’s not unfair to observe that – generally – they express relief that Governor Newsom did not respond to the growing budget deficit by grabbing a machete and slashing programs indiscriminately left and right.

See a few representative examples:

##### *Environmental Defense Fund:*

In [\*May budget from Gov. Newsom has yet to meet the moment for all Californians\*](#) (May 12, 2023) [\*edf.org\*](#), this organization says it appreciates “...that Gov. Newsom is striving to avoid additional cuts to climate priorities, especially as California continues to face difficult financial circumstances. But unlike the governor’s investment proposal, the impacts of climate cannot be delayed to future years .... See also the response by another environmental group, California Environmental Voters: [\*EnviroVoters Statement on the 2023-2024 May Revision Budget Proposal\*](#) (May 12, 2023).

##### *Catalyst California:*

Formerly known as Advancement Project California, this group “advocates for racial justice by building power and transforming public systems.” See [\*Press Statement: Governor Newsom’s Revised 2023-24 Budget Must Continue March Toward Equity, Not Exacerbate Disparities\*](#) (May 12, 2023). “We applaud the Governor for proposing a state budget that commits to transforming education, advancing equity, and addressing disparities facing communities of color despite the grim economic realities the state is currently facing.”

They add: California is heeding the lessons learned from the Great Recession over a decade ago. Rather than implement spending cuts that will once again harm our most vulnerable communities, we

must safeguard our progress, explore other avenues, and ensure an equitable future where every Californian can thrive.”

*EdSource:*

This organization provides “timely, useful and accurate information to key education stakeholders and the larger public.” See [\*Gov. Newsom’s May revisions protect education priorities, cut \\$4.3 billion in one-time funding\*](#) (May 12, 2023) [“Funding for schools, community colleges would be \$4 billion less than two years ago”]. But it acknowledges that the governor explained this decision on the basis of his advisors’ recommendation to cut the learning recovery grant in order to maintain funding for other initiatives, including \$4 billion to establish community schools and \$1.5 billion to provide universal school lunches and breakfasts.” Also, “the nearly \$1 billion dedicated to arts instruction, which voters approved by passing Proposition 28 in November, will offset that cut.”

See also response by Early Edge California: [\*2023-24 California State Budget May Revise Summary: Early Learning and Care Investments\*](#) (May 18, 2023).

### ***Conclusion***

This is uncharted territory for the present-day crop of legislators in California because of term limits.

Today’s assembly members and senators were not around for the catastrophic budget woes during the Great Recession of 2008. While there may be fresh perspectives and ideas, what’s missing is the important institutional knowledge and experience from those darker days.

It’s all the more important, then, that the nonprofit community step up to the plate right now to offer our unique perspectives.

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