

CA's Budget & Nonprofits: Part Three

05.18.23 | Linda J. Rosenthal, JD



If the annual California state budget process were a baseball game, we would be getting up to stretch in the middle of the 7th inning for a rousing “Take Me Out To The Ballgame” before the action begins again. On May 12, 2023, Governor Newsom released the mandated May Revision to the proposed (estimated) budget for fiscal year 2023-2024 presented on January 10, 2023.

The way California determines its yearly budget is a “constitutionally mandated, several months’ long, high-stakes dance involving the governor and both chambers of the legislature...” as well as expressly authorized “citizen input.” See *The Budget Process: A Citizen’s Guide to Participation*. This dance “... starts each January 10th, when the chief executive issues a proposed budget for the next fiscal year beginning July 1st. All parties are required to agree on, vote for, and approve a final budget by June 15th.”

However, by mid-May, the Governor is required to submit revised figures based on *actual* rather than projected revenues from the first quarter.

Anything can happen before the final out at the bottom of the 9th. But it’s always better to be well ahead at this point. That’s the way it’s been for the past two years with record-setting surpluses. This year is different. This season, there is less joy in Mudville.

Current Numbers

In 2022, for instance, Governor Newsom was able to present a proposed estimated budget by the January 10th deadline with a whopping \$29-billion projected surplus. And the presentation of the “May Revision” added more great news. The *actual* figures for the first quarter added up to a real surplus three times the estimated amount. That’s a lot of pie to divide up as stakeholders, including the nonprofit community, pushed and shoved to lobby for a hearty slice. See *Nonprofits Reaching for Piece of CA Budget Pie* (April 11, 2022) and in *That CA Budget Pie?: Much Bigger Than Expected* (May 17, 2022) [\$97-billion: “That’s three times as much pie. Yum.”]

By contrast, the proposed budget for upcoming fiscal year 2023-2024, issued on January 10, 2023, included an estimated \$22.5-billion deficit. See [California's Proposed Budget & Nonprofits: Part One](#) (January 18, 2023). "...[W]e were warned repeatedly by officials and legislators last year, California's revenues fluctuate. This year's [initial budget projection](#) for fiscal year 2023-2024 shows a return to a more regular part of that cyclical pattern."

However, we offered this consolation: "There is still [lots of pie on this year's feast table](#). Perhaps not as many varieties as we enjoyed in 2021 and 2022; perhaps just pumpkin pie without whipped cream or second helpings. But pie is pie. We're not exactly in Oliver Twist ('Please, sir, [I want some more](#)') territory."

We now move into the final innings. The revised numbers show a \$31.5-billion deficit: a jump of \$9-billion since the January estimate. Everyone wants a piece of this year's smaller pie, and it all has to be sliced up by June 15th.

The Food Fight Intensifies

The January figures were included in [California's Proposed Budget & Nonprofits: Part One](#) (January 18, 2023) along with certain nonpartisan commentary and analysis. In [California's Proposed Budget & Nonprofits: Part Two](#) (January 23, 2023), we added reactions by a sample of nonprofit organizations.

"Keep in mind," that the Governor's January 10th initial budget is the beginning of the budget drama. "It represents a prelude to a prelude: the [truly important negotiations](#) tend to start after Newsom releases" the May Revision, reflecting "more solid actual numbers."

As with the January 10, 2023, Proposed Budget, the best information is from authoritative sources: abundant in fully-fleshed versions and sanctioned summaries of the May Revision along with comments by official nonpartisan observers.

Governor's Office/Administration

"Governor Gavin Newsom today released his May Revision proposal, a balanced budget plan that maintains critical investments to address our biggest challenges while preparing for continued economic uncertainty due to global economic issues." [Governor Newsom Releases Balanced Revised Budget Plan](#) (May 12, 2023) *Press Release, gov.cal.gov*. "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."

"Following two years of unprecedented growth," that document continues, "revenues have fallen short of monthly estimates since the 2022 Budget Act was enacted last June. California has planned for this potential shortfall, the Governor and Legislature paying down the state's prior debts, building unprecedented reserves and prioritizing one-time investments."

See the full [YouTube video of Governor Newsom's presentation](#) (2 hrs. 33 min.) on May 12, 2023.

The Budget Office

The Governor's Press Release indicates that "additional details on the May Revision can be found at www.ebudget.ca.gov: "The Department of Finance [welcomes you to the California Budget, 2023-24](#), Gavin Newsom Governor, State of California." This source includes a chart with links to the earlier entries for the January 2023 initial budget as well as for the May Revision.

The May Revision section begins: "Welcome to California's 2023-24 May Revision to the Governor's Budget REVISED ON MAY 12, 2023." The linked section for Budget Summary takes you to a 137-page PDF document: [Budget Summary May Revision](#).

The Introduction begins: "The last four budgets have emphasized California values while maintaining budget resilience and restraint. The Governor's May Revision continues the commitment to all Californians by emphasizing education, protecting the environment, preparing the state's workers for the next decade, readying the economy for the next made-in-California innovation, and maintaining tens of billions of dollars of investments in much needed infrastructure. The May Revision accomplishes these goals despite further revenue declines since the Governor's Budget and significant near-term risks. Due to prudent planning by the Administration and the Legislature, the May Revision holds the line without making significant reductions over the Governor's Budget. However, should broader economic risks materialize, deeper reductions will be necessary."

A subsection titled "Growing Risks" begins: "While there have been 'significant investments' made over the past few budget cycles, ... at the same time, California has recognized the importance of being able to withstand annual fluctuations in state revenues. As 2023 begins, risks to the state's economic and revenue outlook highlighted in the 2022 Budget have been realized—continued high inflation, multiple federal reserve bank interest rate increases, and further stock market declines."

That narrative continues: "This last risk is particularly important to California, as market-based compensation—including stock options and bonus payments—greatly influences the incomes of high-income Californians. Combined with a progressive income tax structure, this can have an outsized effect, both good and bad, on state revenues. Given these developments, the revenue outlook is substantially different than seen in the last two years."

Legislative Analyst's Office

The Legislative Analyst's Office is "the California Legislature's nonpartisan fiscal and policy advisor."

That Office's *Initial Comments on the Governor's May Revision, The 2023-24 Budget*, was issued on May 15, 2023, with the caveat that it is a first look only, and will be updated "in the coming days," as there is further analysis of the plan. It is "based on our best understanding of the administration's proposals as of May 13, 2023. In many areas of the budget, our understanding will continue to evolve as we receive more information."

"[W]hile the January Governor's budget focused primarily on spending solutions, the May Revision solves much of the additional budget problem by shifting more costs and increasing revenues. That said, spending solutions still represent about half of the total proposals. Total budget solutions proposed in the May Revision (including those maintained from Governor's budget) are: \$15.1 billion in spending reductions and delays, \$9.1 billion in cost shifts, \$3.7 billion in revenue increases and shifts, and \$450 million in reserve withdrawals."

The “Governor’s May Revision solves a \$28-billion budget problem,” but the Legislative Analyst’s Office’s “key takeaways” are:

- Although Revenues Are Always Uncertain, May Revision Predicated on Optimistic Estimates
- Adopting Administration’s Revenue Estimates Sets Up Difficult January.

Conclusion

In the next section, we’ll add in some additional commentary, particularly from various nonprofit organizations which have already posted their responses to the May Revision.

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