



# California 2024-25 State Budget Overview of the Governor's January Proposal

## HIGHLIGHTS & REVENUE ESTIMATES

- Total state spending of \$291.5 billion, a 6.2 percent decrease from the 2023-24 enacted budget.
- The Department of Finance projects a \$37.9 billion deficit for the 2024-25 fiscal year (the projected difference between revenue and spending if no changes are made), while the Legislative Analyst's Office estimates a \$68 billion deficit for the 2024-25 fiscal year.
  - The difference is primarily attributable to the governor's more optimistic revenue assumptions (\$15 billion) and a difference in the characterization of whether some spending must be made under current law or would require legislative action (\$21 billion).
- The Department of Finance reports that preliminary general fund receipts for the first five months of the 2023-24 fiscal year were \$25.25 billion below the budget forecast. Revenue from the "big three" taxes for the first five months of the 2023-24 fiscal year:
  - Personal Income Tax: \$18.36 billion below projections.
  - Corporation Tax: \$7.57 billion below projections.
  - Sales and Use Tax: \$684 million above projections.
- Local property tax revenue growth – a primary source of local government funding – remains strong, with the State Board of Equalization reporting that the county-assessed property value for the 2021-22 fiscal year increased by 7 percent to \$7.6 trillion. Local governments collected \$83.1 billion in local property tax revenue during the 2021-22 fiscal year.

## KEY PROVISIONS

- **Net Operating Loss Conformity.** The governor proposes a \$300 million tax increase by conforming state law to federal law that limits NOLs carried forward from previous years to 80 percent of the subsequent year's net income.
  - Although characterized by the governor's administration as federal conformity, subsequent testimony from the Department of Finance indicated that the proposal would limit the utilization of NOLs to 80 percent for all tax years (detailed language is not yet available).



- **Elimination of Bad-Debt Deductions for Non-Retail Lenders.** The governor proposes eliminating the bad-debt deduction provided to non-retail lenders effective January 1, 2025, which is projected to cost taxpayers \$23.5 million in 2024-25 and \$50.6 million annually thereafter.
- **Elimination of Deductions and Credits for Oil and Gas Companies.** The governor proposes eliminating several deductions and credits for oil and gas businesses, including the immediate deduction for intangible drilling costs, percentage depletion rules for fossil fuels, and the enhanced oil recovery costs credit. The elimination of these business incentives is estimated to cost taxpayers \$22 million in 2024-25 and \$17 million a year thereafter.
- **Limits Charitable Conservation Easement Deductions.** The governor proposes conforming to federal law regarding the treatment of charitable conservation easement deductions, a deduction provided to property owners who elect to give up rights to develop certain land. Conformity would limit the deduction for owners of pass-through entities to 2.5 times the value of a taxpayer's investment and would disallow the deduction for participants who previously engaged in fraud.
- **Managed Care Organization Tax.** The governor proposes targeted rate increases on Medi-Cal providers, identified as an “early action” item, to increase last year’s MCO tax hike by approximately \$1.5 billion.
- **Funding Delays, Shifts, and Reductions.** The budget proposes a variety of spending reductions and delays:
  - **Funding Delays:** \$5.1 billion in funding delays across a three-year period, beginning in the 2025-26 fiscal year.
  - **Funding Reductions:** \$8.5 billion in funding reductions for the 2024-25 fiscal year.
  - **Fund Shifts:** \$3.4 billion in funding shifts and \$2.1 billion in funding deferrals to the next fiscal year.
  - **Borrowing:** \$1.5 billion of internal borrowing from special funds.
  - **Reserve Withdrawals:** \$13.1 billion withdrawal from the state’s reserve funds.

## ECONOMIC OUTLOOK

- **Unsustainable Budgeting Causes Multiyear Deficits.** The Legislative Analyst’s Office projects that the governor’s proposals – particularly shifting spending to future fiscal years – would create an unsustainable budget cycle for the state. The LAO estimates that the state will have ongoing deficits exceeding \$25 billion for the next four fiscal years, exacerbated by shifting spending to future budget years.



- **Population Decline.** California's population decline has slowed in recent years, with the state experiencing a 0.1 percent population decline for the 2022-23 fiscal year.
- **Recession Risk.** The Department of Finance reports that California's budget would face additional uncertainty if a recession were to begin. Failure of the Federal Reserve to slow inflation to its target rate of 2 percent, high interest rates, cautious lending practices, and international conflict could compound the state's budget problem. If a recession develops, the department projects it would begin toward the end of 2024, driven by high interest rates and declines in interest-sensitive spending.

## GROWTH OF STATE SPENDING SINCE 2018

Fiscal Year	January Proposal	May Revision	Enacted in June
2018-19	\$190.3	\$199.2	\$201.4
2019-20	\$209.1	\$213.5	\$214.8
2020-21	\$222.2	\$203.3	\$202.1
2021-22	\$227.2	\$267.7	\$262.5
2022-23	\$286.4	\$300.7	\$307.9
2023-24	\$296.9	\$306.4	\$310.8
2024-25	\$291.5		

*(In billions)*