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California's budget deficit is worse than anticipated — and much worse than Newsom projected

BY ANDREW SHEELER AND LINDSEY HOLDEN

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The California Legislative Analyst's Office, a nonpartisan agency, projects a \$73 billion deficit — significantly more than the \$38 billion projected by Gov. Gavin Newsom on Jan. 10, 2024.

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The tug-of-war between California Gov. Gavin Newsom and the nonpartisan Legislative Analyst's Office over the state's projected budget deficit took a new turn Tuesday, when the LAO [announced a revised shortfall](#) of \$73 billion — \$15 billion more than previously forecast, and significantly more than [the \\$38 billion gap](#) that Newsom has estimated.

The LAO reported that recent revenue collection data “reflect even further weakness” for the state's financial outcome.

“All else equal, this means the budget problem is likely to be higher” when the governor gives his revised projection of the state's finances in May, the LAO said in a Tuesday update.

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The LAO said that the actual budget shortfall will depend on a variety of factors, such as mandatory Proposition 98 spending on schools and community colleges.

“Roughly, a \$24 billion erosion in revenues corresponds to a \$15 billion increase in the budget problem. This would expand the \$58 billion estimated deficit to \$73 billion under our updated revenue forecast,” the LAO report read.

That means lawmakers are going to have to find “new budget solutions” to ensure a balanced budget for the 2024-25 fiscal year. The LAO said solutions could include increasing revenue, reducing either — or both — one-time and ongoing spending, and exploring the possibility of cost shifts or dipping into reserves.

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The LAO listed several areas of one-time and temporary spending where cuts can be made, totaling nearly \$16 billion. Categories of cuts include business and labor, criminal justice, education, health and human services, housing and homelessness, resources and environment and transportation.

H.D. Palmer, a spokesman for Newsom's Department of Finance, emphasized the state is still forecast to see more than \$51 billion in income and corporate tax receipts.

"No one can say today with certainty how those numbers may change the budget estimate of a \$38 billion shortfall," Palmer said in a statement. "A responsible step would be for the Legislature to act now on the early action budget measures needed for \$8 billion in solutions to help close this gap."

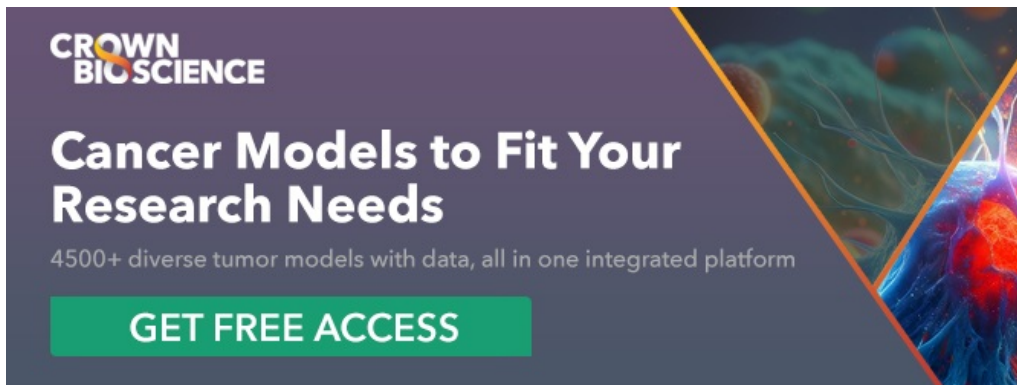


Newsom during his January budget presentation [suggested this move](#), which would mean opening up last year's budget to make changes to the existing funding plan.

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help fund a Medi-Cal expansion for undocumented immigrants. Health insurers pay the MCO tax, and the federal government must approve any increases.

Senate Republicans on Tuesday afternoon released a statement expressing concern about how Newsom and the Democratic-controlled Legislature are handling the budget.



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“Democratic legislators and the governor’s continued fiscal irresponsibility is troubling, as evidenced by their unchecked spending and the alarming growth of the state’s budget problem,” said Sen. Roger Niello, R-Fair Oaks, in a statement.

Niello vice-chairs the Senate Budget and Fiscal Review Committee. He called for “a course correction” and a “renewed commitment” to a responsible budget.

Senate Minority Leader Brian Jones, R-Santee, blasted Newsom for “trying to fool the public that the deficit is \$38 billion.”



“How are we supposed to balance the budget when our governor can’t even admit the true size of the deficit his administration racked up?” Jones said in a statement.

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The Assembly Democratic Caucus has been meeting to develop strategies to deal with the spending shortfall, and Rivas emphasized budget negotiations are still in their early stages. Cynthia Moreno, Rivas's press secretary, later said conversations about early legislative budget action are already underway.

“The governor’s budget has been more optimistic than the LAO,” Rivas said. “And I sure hope that the governor is right. We would all like to be wrong when it comes to the deficit. And that’s why I firmly believe that it’s always better to plan for the worst.”

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