

State and Federal Budget Update **Attachment I**

State Budget

On January 10, 2025, Governor Newsom released his proposed budget for FY2025/26. Although the Governor's proposed budget is balanced, it did forecast operating deficits of \$13 billion in FY2026/27, \$19 billion in FY2027/28, and \$15 billion in FY2028/29. Since the Governor's budget was released during the Southern California wildfires, impacts from this disaster will be reflected in the May Revision. In addition, any cuts to health care funding or other programs as proposed by the federal administration will have significant impacts on State revenues and may be unknown as of the May Revision.

During March and April, the Legislature's budget committees will begin to consider various budget proposals presented by the Governor. Although the Governor's proposed budget contained minimal cuts to major policy areas such as housing programs and social services, it is unlikely that any new General Fund commitments, especially ongoing, will be feasible. If revenues decline significantly in the near future, it is possible that the May Revision will contain proposed cuts that will impact the County. In addition, as the State identifies the long-term fiscal impact of the Southern California wildfires in combination with forecasted deficits, it is possible that the Legislature will need to reduce spending in the in the next three fiscal years. As the State works to address theses deficits, County programs may be impacted.

Federal Budget

Congress failed to pass a federal budget for the fiscal year that began October 1, 2024. To avoid a government shutdown, Congress approved a series of continuing resolutions to extend federal spending through March 14, 2025. Congress has until that date to either pass another stop-gap budget measure or an omnibus spending bill that funds the entirety of the federal government through September 30, 2025. If Congress is able to negotiate a final fiscal year (FY) 2025 appropriation package, it is expected to include an earmark of \$1.184 million for the County's Radio Infrastructure and Interoperability Improvements project.

Any appropriations package is subject to the filibuster and will require bipartisan support. Unfortunately, a new long-term budget looks increasingly unlikely as Congress has been unable to agree on a topline funding limit or allocation. Also complicating negotiations is the administration's aggressive, current funding freeze of which in some cases are currently subject to several court challenges.

Although there has been minimal progress on the FY2025 spending bills, congressional Republicans are advancing a separate fiscal plan referred to as the "budget reconciliation," which allows the majority party to pass legislation in the Senate without a threat of a filibuster. Congressional Republicans have been unable to achieve consensus on the best strategy to advance their priorities through a budget reconciliation. President Trump favors the House's budget blueprint, which provides funding for the administration's key domestic priorities such as the border, defense, and energy in conjunction with an extension of the 2017 tax cuts.

The House budget resolution directs multiple committees to produce at least \$2 trillion in spending cuts in combination with \$4.8 trillion in new spending between FY2025 and FY2034. If these

committees are unable to achieve a minimum of \$2 trillion in cuts to mandatory spending programs such as Medicare, Medicaid, and SNAP, the \$4.8 trillion in new spending will be reduced by a commensurate amount. In late February, the House approved the FY2025 budget resolution authorizing the committees to reduce federal spending by the agreed-upon target of \$2 trillion.

Separately, Senate Republicans are advancing their own budget reconciliation through a two-bill approach: the first addresses funding for President Trump's domestic priorities and the second extends the 2017 tax cuts. As of late February, Senate Republicans passed the first part of their two-bill strategy which authorizes \$350 billion in new spending on defense and border security over ten years. It is expected that the spending plan will be fully offset with cuts to other programs. The Senate budget resolution does not specifically indicate which programs would be cut, but it does establish a deficit reduction for the Senate committees overseeing SNAP and Medicaid.

County staff in conjunction with State and federal legislative advocates will be monitoring ongoing State and federal budget developments closely. Any known impacts that emerge in the coming months will be incorporated into the FY2025/26 Recommended Budget and staff will return to the Board with updates, as necessary.