



GOVERNOR
Gavin Newsom

January 10, 2024

Dear Members of the Legislature,

Over the last five years, we have worked together to pass budgets that have reflected our priorities—expanding access to education and health care, combatting crime of all kinds, getting tens of thousands of people out of encampments and into housing, building the infrastructure for California's clean future while creating jobs, and addressing the accelerating threats of global climate change. In that time, we have paid tens of billions toward the state's long-term debt, including the "Wall of Debt" and retirement liabilities, and set aside record reserves to help the state deal with its highly volatile, progressive tax system.

I am proud that California remains the home of innovation and extraordinary entrepreneurship and has so many high-income earners. We ask them to pay their fair share to a state that has provided so much for so many. But this tax system inherently creates swings in revenue. As we experienced in the past couple of years, our well-intentioned laws meant to create big reserves and budget resiliency actually end up limiting how much we can put away for rainy days—we should improve the rules governing how much we are able to save in the good times, so we can be even more resilient during the tougher times.

While we have worked together to be responsible fiscal stewards, this year, we must correct for more volatility than originally anticipated. Because the Internal Revenue Service delayed the tax filing and payment deadline for the majority of our state, our work last year was based on revenue projections that did not include essential cash receipts. We knew the risks of being forced to budget with a blindfold on. Now that the receipts are in, we must bring our books back into balance.

Thankfully, because of our approach over the last several years, we are in a strong position to close this budget gap. Together, we have emphasized one-time spending in strong budget years, limiting the expansion of ongoing programs. We shared the recent windfall with millions of Californians, returning more than \$18 billion in tax refunds over the last two years. And importantly, we set aside record budget reserves of almost \$38 billion.

This budget prioritizes the services and programs that Californians depend on most while making necessary adjustments to ensure long-term fiscal stability. And I am proud to present a balanced budget without any broad-based tax increases.

This January budget is based on projections of future revenues. As we learned last year, those projections can change dramatically based on global and national economic and financial trends. So as we begin our work together this year, we must be mindful of the remaining risks.

As always, I value the partnership we have enjoyed these last five years and look forward to continuing our work together to build a better future for California.

With respect,

/s/ Gavin Newsom

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