



^{1/} Excludes \$7.1 billion transfer in from the Rainy Day Fund.

The state’s sales and use tax projection generally aligns with the City’s/HdL estimates given the City’s relatively flat revenue in FY 2024/25 and a projected comparable year-over-year increase (FY 2024/25 to FY 2025/26) in the City’s 2024-2026 adopted biennial budget.

The Governor's Budget does, however, note there are additional potential risks in 2025 that come from stated policy changes by the incoming federal administration that could negatively impact California's economy – especially in the areas of international trade and immigration, as well as in health care. There could also be risks to these projections related to impacts from the recent wildfires.

Below are proposals and information included in the FY 2025/26 State Governor's Budget that may be of most relevance to the City's finances:

Budget Reserves and Gann Limit Reforms

The Governor's Budget proposes reforms to laws related to state's budget reserves and the Gann Limit, which restricts government spending by capping the amount of tax revenue that can be appropriated annually, adjusted for inflation and population growth. Specifically, it proposes to increase the cap on deposits to state reserves from 10 percent to 20 percent, and to exclude transfers to reserves from the Gann Limit expenditure calculation. These reforms would require voter approval through a state ballot initiative.

These proposed reforms could provide a policy window to also address local Gann limit issues. For example, currently, local government transfers to reserves also count towards the Gann limit and extending the reserve transfer exclusion to local governments can also help alleviate Gann Limit expenditure caps.

Housing and Homelessness

The Governor's Budget proposes to establish a new California Housing and Homelessness Agency to create a more integrated and effective administrative framework for addressing the state's housing and homelessness challenges.

The Governor's Budget highlights the Governor's commitment to working with the Legislature to advance policies that reduce housing costs and enhance accountability for local jurisdictions to meet their state housing obligations. The Administration intends to propose policies to enhance the Department of Housing and Community Development's ability to recycle funding, update housing programs to promote affordability, and expand existing California Environmental Quality Act streamlining tools to accelerate infill housing production.

The Governor's Budget also includes \$100 million in the General Fund for Encampment Resolution Fund grants, as committed to in the 2024/25 Budget. However, it notes that any future homelessness funding for local governments must incorporate stronger accountability policies, such as requiring local governments to have a compliant Housing Element and a local encampment policy, consistent with state guidance. The Administration also plans to increase accountability efforts of local governments around the implementation of previously appropriated homelessness funds.

Climate Bond

The Governor's Budget proposes \$2.7 billion for the first year of a multi-year expenditure plan to implement the \$10 billion Climate Bond (Proposition 4) authorized by voters in November. This proposal includes funding for programs and projects that support safe drinking water, flood, water reuse/recycling, wildfire and forest resilience, extreme heat mitigation, biodiversity and nature-based solutions, climate smart agriculture, outdoor access to parks, and clean air/energy.

This funding will provide additional grant opportunities that entities, including local governments, can apply to in addressing climate issues.

Climate Bond Expenditure Plan
(\$ in Millions)

Investment Category	Bond Allocation	Proposed 2025-26	Out-Years	Pending Allocation
Safe Drinking Water, Drought, Flood & Water Resilience	\$3,800	\$1,074	\$2,716	\$10
Wildfire & Forest Resilience	\$1,500	\$325	\$1,086	\$89
Coastal Resilience	\$1,200	\$173	\$1,027	\$0
Extreme Heat Mitigation	\$450	\$102	\$348	\$0
Biodiversity & Nature-Based Solutions	\$1,200	\$286	\$813	\$101
Climate Smart Agriculture	\$300	\$134	\$106	\$60
Outdoor Access	\$700	\$286	\$183	\$231
Clean Air & Energy	\$850	\$275	\$252	\$323
Total	\$10,000	\$2,655	\$6,531	\$814

Economic Forecast

The Governor’s Budget also includes an economic forecast for the state. Major highlights include the following:

- The forecast projects U.S. real GDP to grow at an annual rate of 1.5 percent to 2 percent in every quarter of the forecast window, starting with the fourth quarter of 2024.
- The annual average state inflation rate in 2025 is projected at 2.3 percent compared to 2.6 percent in May 2024, with the downward revision due mainly to base effects from declines in gasoline prices in late 2024.
- Projected job growth in the forecast is 0.1 percentage point higher on average between 2024 and 2027 compared to the May 2024 forecast, due to stronger-than-expected job growth and resilient labor market conditions.
- Projected average wage growth in the forecast is 0.5 percentage point faster on average than in May 2024, due to the significant wage growth in the first half of 2024 in the information and professional and business services sectors.
- Personal income growth is projected to slow from 6.7 percent in 2024 to 4.2 percent in 2025 before settling at 4.6 percent to 4.7 percent over the rest of the forecast window through 2028.
- Projected total housing permits in the forecast are, on average, lower than the May 2024 estimate by nearly 8 percent throughout the forecast period, due to subdued permitting in 2024.

STRATEGIC PLAN ALIGNMENT:

The reporting and presentation of the state budget supports **Strategic Priority 5 – High Performing Government** and **Goal 5.3** - Enhance communication and collaboration with community members to improve transparency, build public trust and encourage shared decision making.

Reporting on the state budget aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – Presentation of state budget impacts provides a transparent view and communication of state finances and policies that can potentially impact the City in a forum that accommodates community engagement.
2. **Equity** – The report is available to all members of the public via the City website, and the presentation of the report in a public forum accommodates community engagement from all members of the public.
3. **Fiscal Responsibility** – The report demonstrates the City's commitment to monitoring state budget and programs that can impact the City to support responsible management of the City's financial resources.
4. **Innovation** – The report provides information that can lead to future action by the City to seek funding or policy changes to benefit the City which demonstrate innovative management of City finances.
5. **Sustainability & Resiliency** – The report and insights on potential impacts to the City identified by staff demonstrate the City's commitment to the long-term fiscal health of the City and the preservation of City services.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

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Attachment: Presentation