

MARCH 6, 2024

Overview of Proposed Climate and Transportation Budget Solutions

PRESENTED TO:

Assembly Budget Subcommittee No. 4 on Climate
Crisis, Resources, Energy and Transportation
Hon. Steve Bennett, Chair



LEGISLATIVE ANALYST'S OFFICE

Overall Budget Context

State Faces a Multibillion-Dollar Budget Problem

- State revenues have come in significantly lower than what was projected in June 2023. In January, our office estimated that the Governor addressed a \$58 billion budget problem. Based on more recent economic and revenue data, we now estimate the state has a \$73 billion budget problem to solve in 2024-25.

Significant Future Budget Deficits Projected

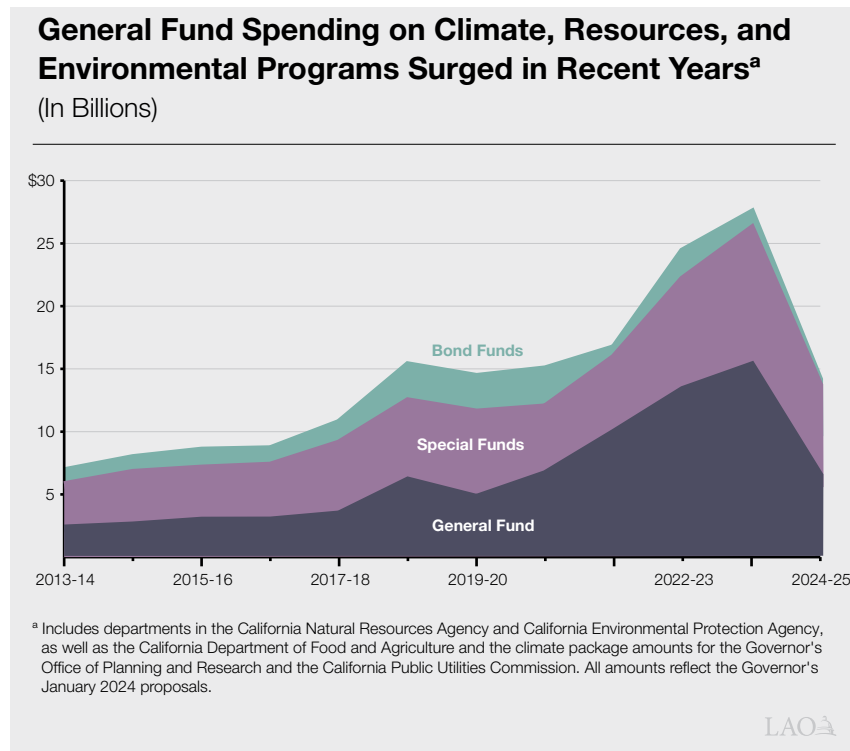
- Under the administration's spending and revenue projections, even after adopting the Governor's proposals, the state still would face annual operating deficits of between \$30 billion and \$40 billion in 2025-26 through 2027-28.

Reducing One-Time and Temporary Spending Is a Key Tool for Addressing Budget Problem

- Maximizing one-time spending reductions allows the Legislature to minimize the use of other budget tools—like reserves—that likely will be needed to address deficits in future years.
- This strategy will not be as readily available as time passes—once one-time funds are spent, they no longer are available to pull back, leaving fewer (and often more disruptive) options for balancing the budget, such as making cuts to ongoing programs.
- Given the change in the state's overall fiscal condition, making corresponding reductions to one-time spending that was dependent on the anticipated surplus is both reasonable and necessary—particularly for expenditures that were planned when the state had a different General Fund outlook but that have not yet been implemented.



Recent Budgets Included Significant General Fund Augmentations for Climate and Transportation Programs



Historic General Fund for Climate, Resources, and Environmental Programs...

- The 2021-22 and 2022-23 budget packages included agreements to provide a six-year total of about \$39 billion from various sources (2020-21 through 2025-26). The 2023-24 budget made some reductions but maintained a multiyear total of \$36 billion (93 percent).

...And for Transportation

- The 2022-23 budget package planned for \$10.9 billion over a five-year period through a Transportation Infrastructure Package (\$9.5 billion) and Supply Chain Package (\$1.4 billion). The 2023-24 budget made some adjustments to timing and fund sources but maintained the same overall level of intended funding.



Governor's Proposals for Climate, Resources, and Environmental Budget Solutions

Governor Proposes \$4.1 Billion in 2024-25 General Fund Solutions

- **Reductions (\$2 Billion).** Makes \$2 billion in program reductions across the budget window, plus \$543 million in the out-years.
- **Delays (\$1.1 Billion).** Postpones \$1.1 billion in planned expenditures from the budget window to a future year, plus \$635 million from 2025-26. Also delays \$600 million in planned Greenhouse Gas Reduction Fund (GGRF) expenditures from 2024-25 to 2027-28.
- **Fund Shifts (\$1 Billion).** Shifts \$1 billion in planned spending from the General Fund to GGRF. This includes \$557 million proposed for early action in the current year.

Net General Fund Savings Over Multiyear Period Totals \$3.6 Billion

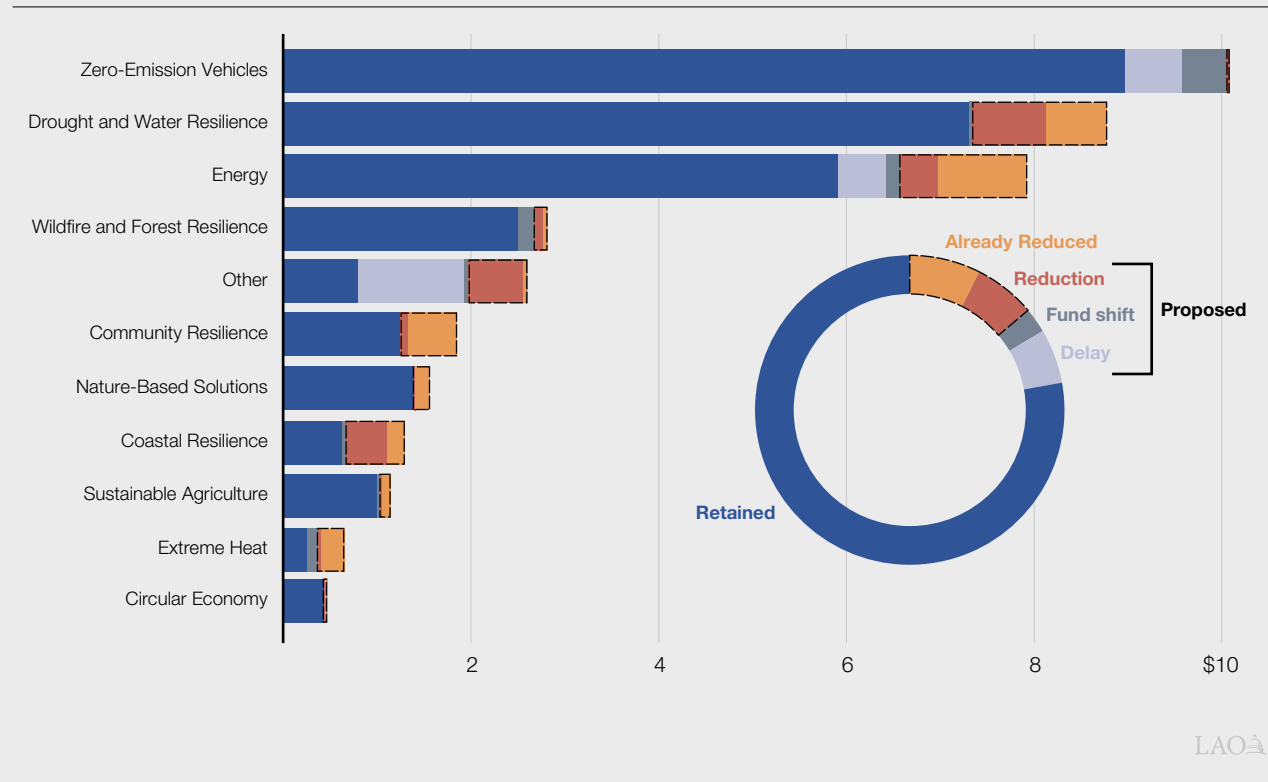
- This is the net result of the additional out-year reductions, which are more than offset by the costs associated with the resumption of the delayed expenditures.



Vast Majority of Intended Multiyear Funding for Climate and Environmental Programs Would be Maintained

Governor's Proposal Would Retain Majority of Planned Multiyear Climate Funding

(In Billions)



Governor's Proposals for Transportation Budget Solutions

Governor Proposes \$4.3 Billion in 2024-25 General Fund Solutions

- **Cash Flow Adjustments (\$2.8 Billion).** Reverts funding previously provided back to the General Fund (resulting in savings during the budget window), with the intention to reappropriate the funds in future years based on when the administration expects the money will be needed to cover project expenditures.
- **Delay (\$1 Billion).** Delays a portion of General Fund spending for the formula-based Transit and Intercity Rail Capital Program (TIRCP) from 2024-25 to 2025-26.
- **Fund Shifts (\$791 Million).** Shifts a share of expenditures for both formula-based and competitive TIRCP from the General Fund to GGRF in 2024-25.
- **Reductions (\$296 Million).** Reduces a portion of funding for two activities: \$200 million from the Active Transportation Program and \$96 million from funding provided for the Port of Oakland.

Net General Fund Savings Over Multiyear Period Totals \$1.1 Billion

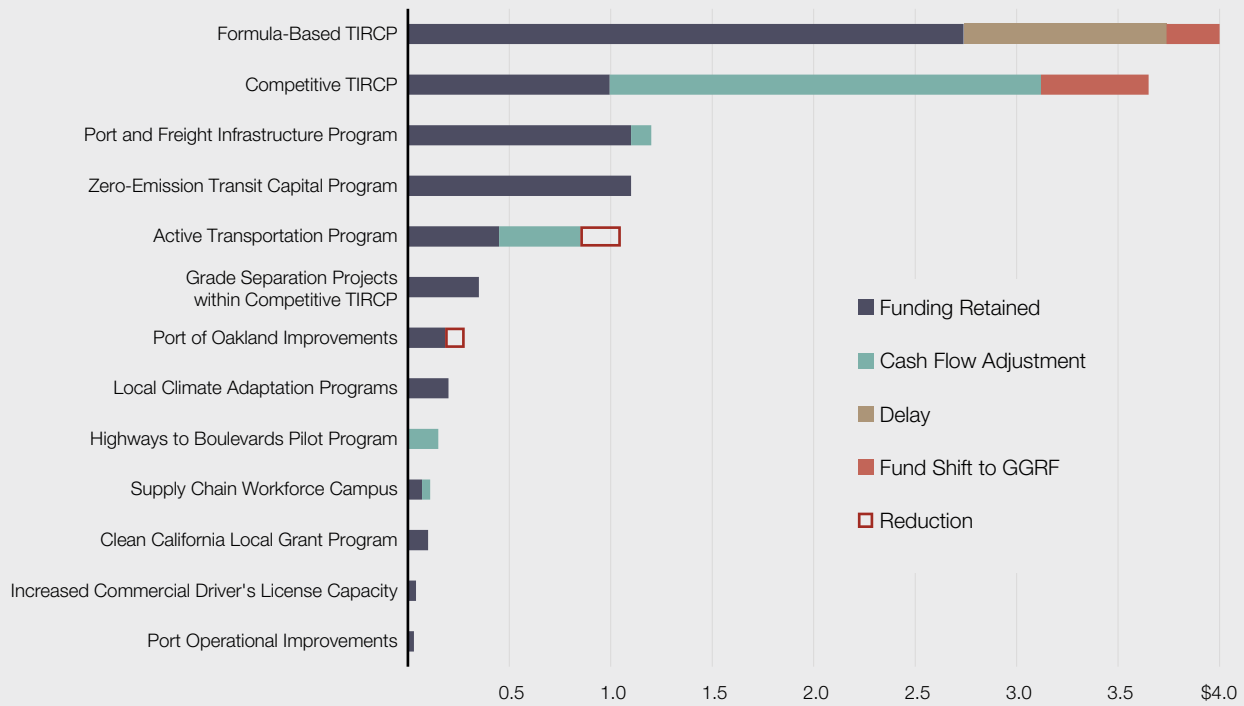
- This is the net result of the resumption of costs from postponed and delayed expenditures.



Nearly All Intended Multiyear Transportation Funding Would be Maintained

Governor's Proposed Transportation Budget Solutions

2021-22 Through 2027-28 (In Billions)



TIRCP = Transit and Intercity Rail Capital Program and GGRF = Greenhouse Gas Reduction Fund.

LAO



LAO Overarching Comments on Governor's Proposals

Proposed Approach Has Several Merits

- Continues to fulfill most state objectives.
- Focuses reductions on recent one-time augmentations.
- Does not reduce funding that has already been committed to specific projects.
- Utilizes available funds to sustain activities.
- Eliminates most planned General Fund for 2024-25 and the future.

Certain Proposals Will Complicate Future Budget Decisions

- Proposed delays worsen out-year budget deficits, set expectations that may be hard to keep.
- Reliance on out-year GGRF makes assumptions about future priorities and revenues.

Legislature Has Options for Additional or Alternative Budget Solutions

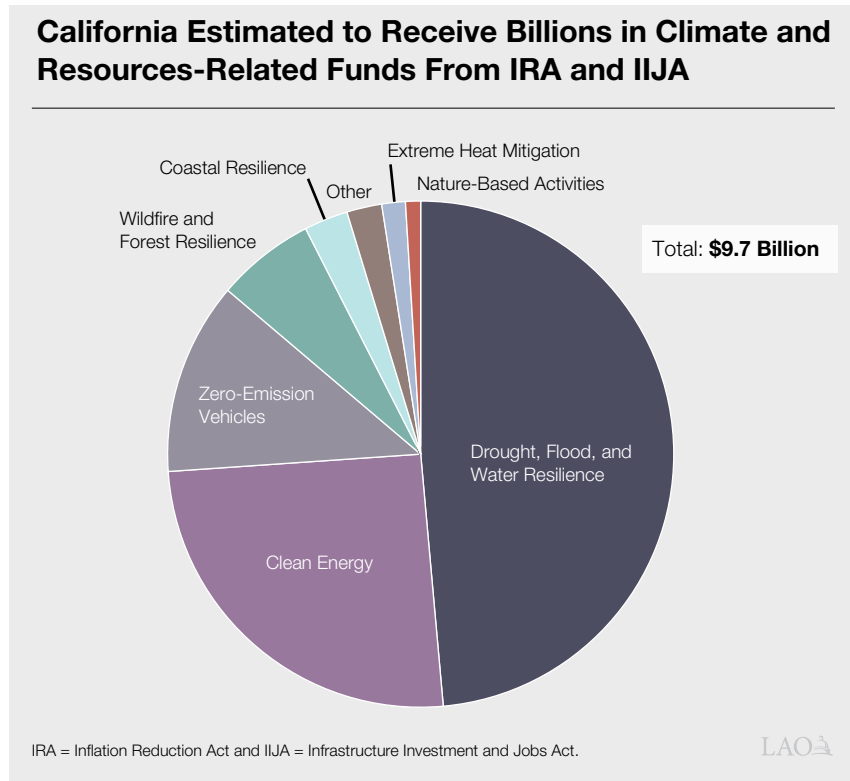
- Reduce remaining General Fund from 2024-25 and out-year plans.
- Reduce uncommitted prior-year and current-year funding. (This could require taking early action to pause program implementation and capture savings.)
- Use GGRF to preserve a different mix of priority programs.
- Use transportation special funds to replace General Fund.

Other Considerations

- Governor gives precedence to administration's initiatives over legislative priorities.
- Information on program effectiveness is limited.
- Significant federal funds coming to California for similar activities.



Update on Federal Funds



- Many of the federally funded activities are broadly similar to those supported by the state's programs.
- Federal programs typically do not provide an identical dollar-for-dollar replacement for state funds, as they may have different eligibility criteria or allowable uses.



LAO Overarching Recommendations

- Maximize General Fund savings by reducing significant one-time spending from the climate spending packages.
- Identify alternative and/or additional budget solutions.
- Consider taking early action to halt current-year spending and capture savings.
- Use GGRF to sustain the Legislature's highest-priority activities.
- Minimize out-year commitments for both the General Fund and GGRF.
- Conduct robust oversight of spending and outcomes, and consider program evaluations.

