

FEBRUARY 29, 2024

Crafting Climate, Resources, and Environmental Budget Solutions

PRESENTED TO:

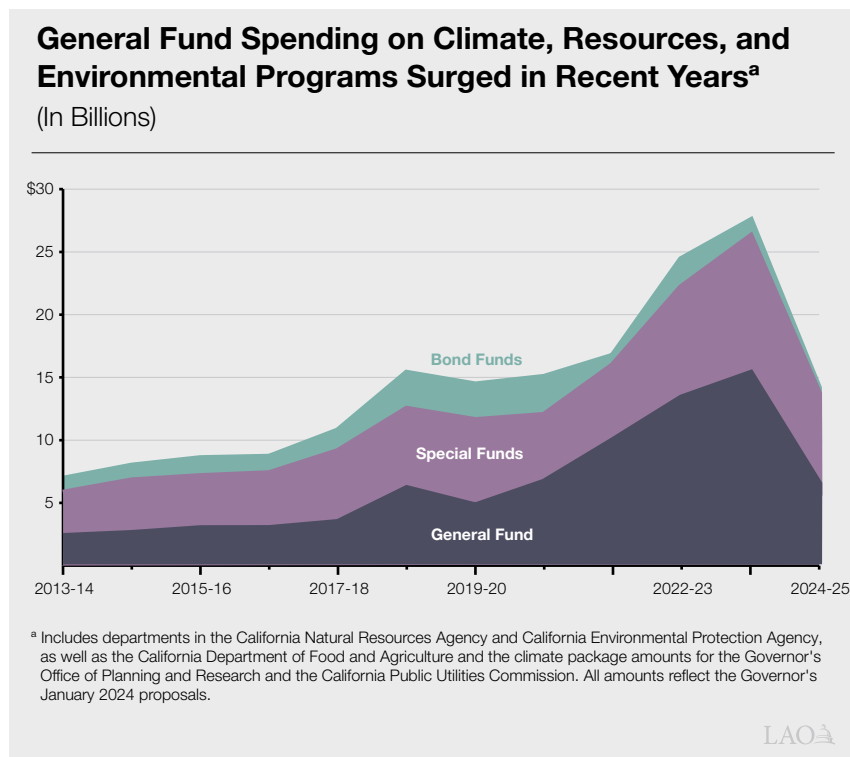
Senate Budget and Fiscal Review Subcommittee
No. 2 on Resources, Environmental Protection and
Energy
Hon. Josh Becker, Chair



LEGISLATIVE ANALYST'S OFFICE

Recent Budgets Included Significant General Fund Augmentations

- 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 agreement made some adjustments to these plans, including a net programmatic reduction of \$2.8 billion, maintaining \$36 billion (93 percent of original planned amount).
- Even with these changes, the budget plans maintain unprecedented levels of General Fund for these types of programs, enabled by the significant tax revenue surpluses the state received (and expected to receive) over the past couple of years. Many of these programs historically have been supported with special funds or bond funds.



Governor's Proposals

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.

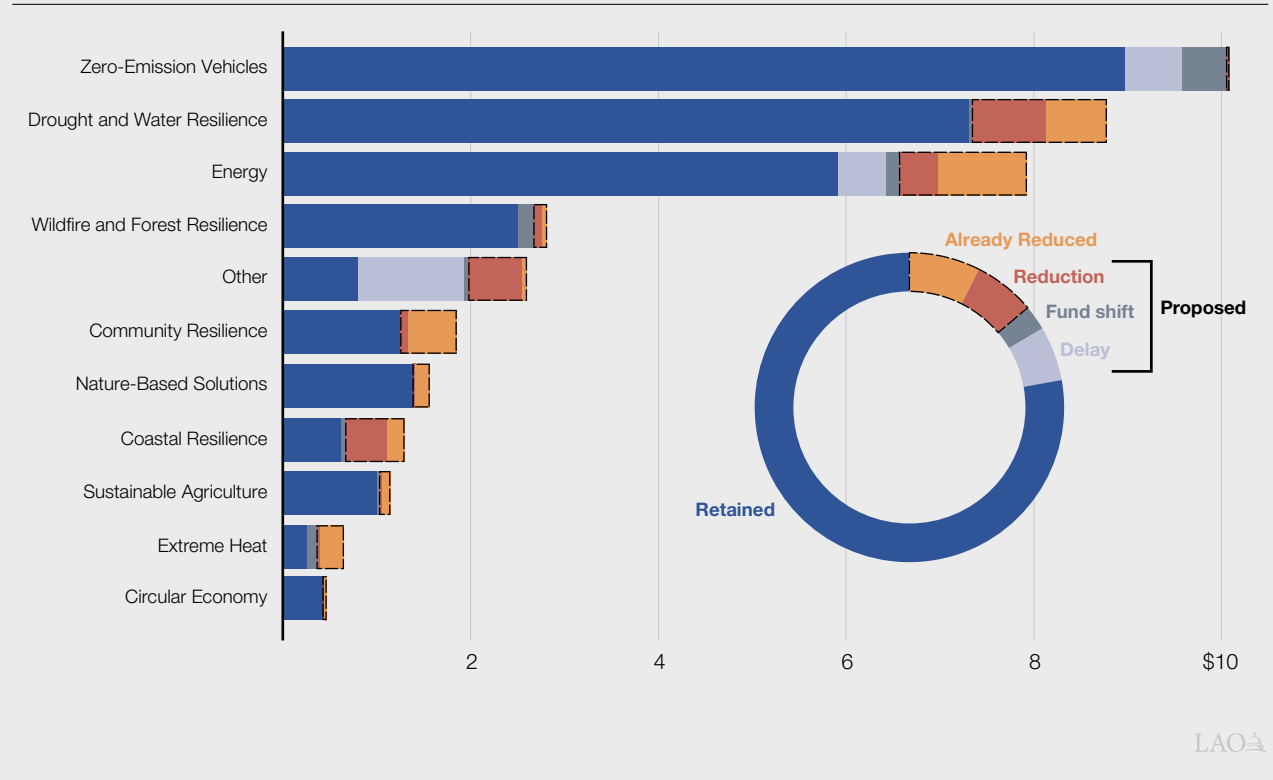
Net General Fund Savings Over Multiyear Period Totals \$3.6 Billion

- 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 Would Be Maintained

Governor's Proposal Would Retain Majority of Planned Multiyear Climate Funding
(In Billions)



LAO 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

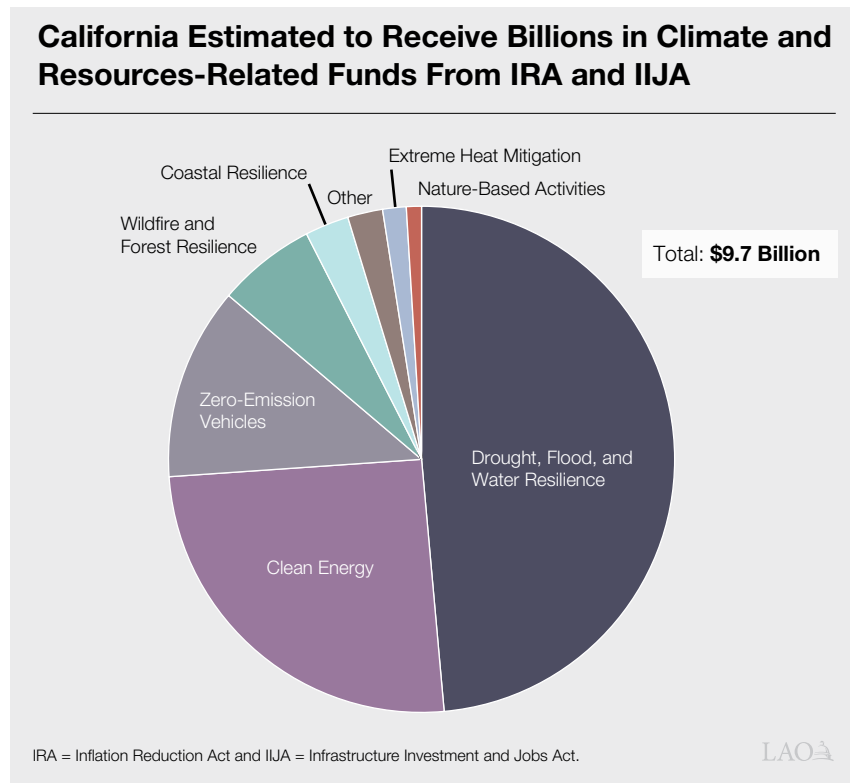
- Reduce remaining General Fund from 2024-25 and out-year plans.
- Reduce uncommitted prior-year and current-year funding. (This could require taking early action to pause program implementation and capture savings.)
- Use GGRF to preserve a different mix of priority programs.

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.

