

Budget and Policy Post

February 20, 2024

The 2024-25 Budget Deficit Update

Under LAO Revenue Update, Budget Problem Grows by \$15 Billion

The state already faces a significant deficit this year—we estimate it totaled \$58 billion <<https://www.lao.ca.gov/Publications/Report/4825>> under the administration's revenue forecast at the time the Governor's budget was proposed in January. However, recent revenue collections data <<https://lao.ca.gov/LAOEconTax/Article/Detail/777>> reflect even further weakness relative to those estimates. Specifically, our forecast is about \$24 billion below the Governor's budget across 2022-23 to 2024-25. All else equal, this means the budget problem is likely to be higher at the time of the May Revision. The actual increase in the state's budget problem will depend on a number of factors, including formula-driven spending changes, most notably Proposition 98 spending requirements for schools and community colleges. (Due to specific circumstances this year, changes in revenues are unlikely to have a significant effect on the state's other major formula-driven spending requirements, specifically related to Proposition 2.) Roughly, a \$24 billion erosion in revenues corresponds to a \$15 billion increase in the budget problem. This would expand the \$58 billion estimated deficit to \$73 billion under our updated revenue forecast.

Options to Address \$15 Billion in Additional Budget Problem

If the budget problem increases by \$15 billion, the Legislature will need to find a like amount of new budget solutions to ensure the budget is balanced for 2024-25. Budget solutions include, for example: revenue increases and spending reductions (on both a one-time and ongoing basis), as well as other tools, like reserves and cost shifts. As the Legislature considers how to address this increased budget problem, we have put together a set of tables identifying one-time and temporary spending that could be pulled back or reduced in order to achieve budgetary savings. Below, we explain why we set forth these amounts as a possible first option to addressing a larger budget problem and then walk through our method for estimating the amounts potentially available in more detail.

Why Reduce One-Time and Temporary Spending?

The Legislature will weigh the implications of each possible solution—including increasing revenues and spending reductions—against others and, ultimately, choose a mix of solutions based on its priorities. We recommend the Legislature start by reviewing whether recent augmentations for one-time and temporary spending could be pulled back or reduced. We recommend this approach for two key reasons. First, when this one-time and temporary spending was adopted, it was understood that doing so would provide a cushion for future budget problems. For example, the administration frequently displayed “operating surpluses” in its multiyear forecasts *excluding* this type of spending—implying that the administration understood that the state could not afford all of the commitments under its own projections, but the state could afford the ongoing budget.

Second, the more the Legislature reduces one-time and temporary spending this year, the more other tools it can preserve for future budget problems. Reducing one-time and temporary spending is a “use or lose” tool for addressing the budget problem—once the funds are disbursed to recipients, pulling them back becomes practically impossible. Other tools, like reserve withdrawals and cost shifts, also can be used only once, but at any time. Saving them to deploy in the future can help the Legislature avoid cuts to ongoing services—which involve very difficult decisions. For example, in the Great Recession, the programs with some of the largest expenditure reductions were in health and human services, including to Medi-Cal, which provides health coverage to low-income individuals and the

California Work Opportunity and Responsibility to Kids (CalWORKs) program, which provides income assistance to low-income individuals. Although the federal government has certain requirements for minimum state participation in these programs, California provides services well above these minimums. As a result, reductions tend to be concentrated in these areas because they are the ones where the state has the most flexibility to reduce spending without raising issues related to requirements imposed by courts, the voters, and the federal government. As such, maintaining other tools like reserves and cost shifts now could help mitigate reductions in these areas in the future.

Options Possibly Available to Reduce One-Time and Temporary Spending

State Allocated Large Shares of Surpluses to Temporary Purposes, Although Some Has Been Disbursed or Already Proposed for Reduction. Recent budgets allocated tens of billions of dollars in surpluses to one-time and temporary spending, including in 2023-24, 2024-25, and 2025-26. Some spending, most notably for 2023-24, has already been disbursed or encumbered. This means, for example, that grants have been awarded, funds have been transferred to other entities of government, and contracts or leases have been signed. (In some cases, funds have also been committed for 2024-25 and 2025-26, for example, through grant awards.) In addition, the Governor has already proposed pulling back much—but not all—of the undisbursed spending associated with these augmentations.

State Has Nearly \$16 Billion in Recent One-Time and Temporary Spending That Could Possibly Still Be Pulled Back or Reduced. After setting aside disbursements and Governor’s budget proposals, we estimate the state possibly could pull back and reduce one-time and temporary augmentations by as much as \$6.4 billion in 2023-24, \$4.1 billion in 2024-25, and \$5.1 billion in 2025-26. Figure 1 shows the distribution of these amounts by program area, while the Appendix includes a complete list of them. These figures represent our current estimates of the amounts for which the Legislature has broad authority to make reductions, which could help the state address a larger budget problem in May. (In some cases, however, further disbursements could occur between now and May, such smaller amounts would be available for reduction at that time.)

Figure 1

Summary of Possible Remaining One-Time and Temporary Spending

(In Millions)

	2023-24	2024-25	2025-26
Business and Labor	\$266	\$284	\$198
Criminal Justice	130	40	—
Education	602	1,195	1,109
Health and Human Services	867	301	701
Housing and Homelessness	1,599	—	260
Other	1,752	557	432
Resources and Environment	1,049	1,005	1,377
Transportation	146	739	1,000
Totals	\$6,411	\$4,121	\$5,076

Note: Amounts reflect one-time and temporary spending adopted in the 2021 and 2022 budget packages.

This Information Reflects Our Best Current Understanding. While these estimates reflect the best information we have available, in many cases we do not have perfect information from the administration about the current status of funds. As such, we would view this list as a starting place for the Legislature as it begins crafting the final budget package. For any specific reductions, particularly in 2023-24, the Legislature could ask the administration for detailed and up-to-date information on disbursements and encumbrances.

More Could Be Pulled Back From Earlier Years. For the purposes of this analysis, we only reviewed disbursements and encumbrances authorized for 2023-24 and later. There is, however, additional spending attributable to 2022-23 and earlier that has not yet been disbursed. The Legislature could ask the administration to provide information about the amount of unspent funds from these earlier years.

Appendix Tables

Appendix Figure 1**Possible Remaining One-Time and Temporary Spending:
Business and Labor***(In Millions)*

Department/ Program Area	Description	2023-24	2024-25	2025-26
EDD	New IT overhaul—EDDNext	\$99	—	—
GO Biz	California Competes Grants	10	—	—
HCAI	Health and home care workforce package	85	\$259	\$198
HCAI	Behavioral health workforce capacity	52	—	—
HCAI	Various other health care workforce initiatives	20	25	—
Totals		\$266	\$284	\$198

Note: This table includes allocations from the 2021 and 2022 budget packages that remain after accounting for Governor’s budget proposals and known disbursements and encumbrances, as of February 2024. In some cases our office does not have full information on disbursements from the administration, which means these estimates reflect our best understanding at this time.

Note: Amounts reflect one-time and temporary spending adopted in the 2021 and 2022 budget packages.

EDD = Employment Development Department; IT = information technology; GO Biz = Governor’s Office of Business and Economic Development; and HCAI = Department of Health Care Access and Information.

Appendix Figure 2

**Possible Remaining One-Time and Temporary Spending:
Criminal Justice**

(In Millions)

Department/ Program Area	Description	2023-24	2024-25	2025-26
BSCC	Adult Reentry Grant	\$20	—	—
CDCR	Expansion of community reentry centers	40	\$40	—
CDCR	Various capital projects at San Quentin Rehabilitation Center	20	—	—
OES	Nonprofit Security Grant Program	40	—	—
OES	Family Justice Centers	10	—	—
Totals		\$130	\$40	—

Note: This table includes allocations from the 2021 and 2022 budget packages that remain after accounting for Governor’s budget proposals and known disbursements and encumbrances, as of February 2024. In some cases our office does not have full information on disbursements from the administration, which means these estimates reflect our best understanding at this time.

Note: Amounts reflect one-time and temporary spending adopted in the 2021 and 2022 budget packages.

BSCC = Board of State and Community Corrections; CDCR = California Department of Corrections and Rehabilitation; and OES = Governor’s Office of Emergency Services.

Appendix Figure 3**Possible Remaining One-Time and Temporary Spending:
Education***(In Millions)*

Department/ Program Area	Description	2023-24	2024-25	2025-26
CSAC	Golden State Teacher Grants	\$91	\$128	\$1
CSU	CSU Dominguez Hills Dymally Institute facility	15	—	—
DGS	State share for school construction projects	472	994	485
DGS	Construction and renovation of transitional kindergarten, State Preschool, and full-day kindergarten facilities	—	—	550
OPR	California College Corps Program	—	73	73
UC	Cancer Research Relating to Firefighters	7	—	—
UC	UC Berkeley School of Journalism Police Records Access Project	7	—	—
UC	UC Los Angeles Ralph J. Bunche Center	5	—	—
UC	UC Davis Equine Performance and Rehabilitation Center	5	—	—
Totals		\$602	\$1,195	1,109

Note: This table includes allocations from the 2021 and 2022 budget packages that remain after accounting for Governor’s budget proposals and known disbursements and encumbrances, as of February 2024. In some cases our office does not have full information on disbursements from the administration, which means these estimates reflect our best understanding at this time.

Note: Amounts reflect one-time and temporary spending adopted in the 2021 and 2022 budget packages.

CSAC = Student Aid Commission; DGS = Department of General Services; and OPR = Governor’s Office of Planning and Research.

Appendix Figure 4**Possible Remaining One-Time and Temporary Spending:
Health and Human Services***(In Millions)*

Department/ Program Area	Description	2023-24	2024-25	2025-26
CalHHS	Health innovation accelerator initiative	—	—	\$43
CDPH	Carryover from certain one-time funds in previous years	\$268	—	—
CDPH	COVID-19 response	25	—	—
CDPH	Public health IT systems	9	—	—
CDPH	Public education and change campaign	—	\$40	5
Aging	Modernizing the Older Californians Act	—	37	37
DHCS	Behavioral Health Bridge Housing program	—	—	235
DHCS	Behavioral Health Continuum Infrastructure Program	—	100	381
DHCS	Evidence-based and community-defined behavioral health programs	—	109	—
DSS	CalFresh minimum nutrition benefit pilot	—	15	—
HCAI	Carryover from certain one-time funds in previous years	565	—	—
Totals		\$867	\$301	\$701

Note: This table includes allocations from the 2021 and 2022 budget packages that remain after accounting for Governor’s budget proposals and known disbursements and encumbrances, as of February 2024. In some cases our office does not have full information on disbursements from the administration, which means these estimates reflect our best understanding at this time.

Note: Amounts reflect one-time and temporary spending adopted in the 2021 and 2022 budget packages.

CalHHS = Health and Human Services Agency; CDPH = California Department of Public Health; Aging = Department of Aging; DHCS = Department of Health Care Services; DSS = Department of Social Services; and HCAI = Department of Health Care Access and Information.

Appendix Figure 5**Possible Remaining One-Time and Temporary Spending:
Housing and Homelessness***(In Millions)*

Department/ Program Area	Description	2023-24	2024-25	2025-26
BCH Agency ^a	Homeless Housing, Assistance, and Prevention Program (HHAPP)	\$1,100	—	\$260
BCH Agency	Encampment Resolution Grants	299	—	—
HCD	Portfolio Reinvestment Program	100	—	—
HCD	Multifamily Housing Program	75	—	—
HCD	Infill Infrastructure Grant Program	25	—	—
Totals		\$1,599	—	\$260

^aBy the time the HHAPP costs are incurred, the program will have transferred to from BCSH Agency to HCD.

Note: This table includes allocations from the 2021 and 2022 budget packages that remain after accounting for Governor’s budget proposals and known disbursements and encumbrances, as of February 2024. In some cases our office does not have full information on disbursements from the administration, which means these estimates reflect our best understanding at this time.

Note: Amounts reflect one-time and temporary spending adopted in the 2021 and 2022 budget packages.

BCH Agency Business, Consumer Services, and Housing Agency and HCD = Department of Housing and Community Development.

Appendix Figure 6**Possible Remaining One-Time and Temporary Spending:
Other***(In Millions)*

Department/ Program Area	Description	2023-24	2024-25	2025-26
CDT	Broadband infrastructure—increased middle-mile network costs	\$420	\$250	—
CPUC	Broadband infrastructure—last-mile projects	900	100	\$200
CPUC	Broadband infrastructure—Broadband Loan Loss Reserve Fund	175	150	175
GO-Biz	Fresno Infrastructure Plan	50	—	—
OPR	Establish new office of public outreach	60	57	57
SCO	California State Payroll System	147	—	—
Totals		\$1,752	\$557	\$432

Note: This table includes allocations from the 2021 and 2022 budget packages that remain after accounting for Governor’s budget proposals and known disbursements and encumbrances, as of February 2024. In some cases our office does not have full information on disbursements from the administration, which means these estimates reflect our best understanding at this time.

Note: Amounts reflect one-time and temporary spending adopted in the 2021 and 2022 budget packages

CDT = California Department of Technology; CPUC = California Public Utilities Commission; GO-Biz = Governor’s Office of Business and Economic Development; OPR = Governor’s Office of Planning and Research; and SCO = State Controller’s Office.

Appendix Figure 7

**Possible Remaining One-Time and Temporary Spending:
Resources and Environment**

(In Millions)

Department/ Program Area	Description	2023-24	2024-25	2025-26
CalEPA	Environmental Justice Initiative (Community Resilience Package)	\$5	—	—
CalFire	Post-fire reforestation and regeneration (Wildfire Resilience Package)	50	—	—
CalFire	Emergency surge (helitanker contract component)	45	\$45	—
CalFire	Forest Improvement Program (Wildfire Resilience Package)	13	—	—
CalFire	Tribal engagement (Wildfire Resilience Package)	10	—	—
CARB	FARMER program	75	—	—
CARB	Clean Cars 4 All (ZEV Package)	50	—	—
CARB	AB 617 (Community Resilience Package)	50	—	—
CARB	Equitable Building Decarbonization (Energy Package)	20	—	—
CEC	Clean Energy Reliability Investment Plan (SB 846)	100	400	\$500
CEC	Distributed Electricity Backup Assets (Energy Package)	100	25	25
CEC	Demand Side Grid Support (Energy Package)	95	—	—
CEC	Equitable Building Decarbonization (Energy Package)	—	53	92
CNRA	Water resilience projects (Drought-Water Resilience Package)	171	—	—
CNRA	Tribal nature-based solutions program (Nature-Based Solutions Package)	30	—	—
CPUC	Residential Solar and Storage (Energy Package)	—	50	100
DTSC	Brownfield cleanups	—	85	15

DWR	Flood and dam safety (Drought-Water Resilience Package)	53	—	—
DWR	Oroville Pump Storage (Energy Package)	4	10	20
DWR	American River flood project	—	27	—
DWR	Urban flood risk reduction	—	35	—
DWR	Strategic Reliability Assets (Energy Package)	—	75	75
DWR	Water conveyance, water storage (Drought-Water Resilience Package)	—	—	500
Go-Biz or CNRA	Diablo Canyon land use planning	—	—	50
IBank	Transmission Financing (Energy Package)	25	—	—
OPC	Ocean protection (Coastal Resilience Package)	13	—	—
OPC	Coastal resilience SB 1 implementation (Coastal Resilience Package)	1	—	—
OPR	Community-Based Public Awareness Campaign (Extreme Heat Package)	14	—	—
SWRCB	Water recycling, groundwater cleanup (Drought-Water Resilience Package)	17	—	—
SWRCB	Drinking water and wastewater projects (Drought-Water Resilience)	—	200	—
Various	Misc Nature-Based Solutions Package	9	—	—
Various	Misc Wildfire Resilience Package	5	—	—
WCB	Protect fish and wildlife from changing conditions (Nature-Based Solutions)	49	—	—
WCB	Various WCB programs (Nature-Based Solutions Package)	46	—	—
Totals		\$1,049	\$1,005	\$1,377

Note: This table includes allocations from the 2021 and 2022 budget packages that remain after accounting for Governor’s budget proposals and known disbursements and encumbrances, as of February 2024. In some cases our office does not have full information on disbursements from the administration, which means these estimates reflect our best understanding at this time.

Note: Amounts reflect one-time and temporary spending adopted in the 2021 and 2022 budget packages

CalEPA = California Environmental Protection Agency; CalFire = California Department of Forestry and Fire Protection; CARB = California Air Resources Board; CEC = California Energy Commission; CNRA = California Natural Resources Agency; CPUC = California Public Utilities Commission; DTSC = Department of Toxics and Substances Control; DWR = Department of Water Resources; Go-Biz = Governor’s Office of Business and Economic Development; IBank = California Infrastructure and Economic Development Bank; OPC = Ocean Protection Council; OPR = Governor’s Office of Planning and Research; SWRCB = State Water Resources Control Board; and WCB = Wildlife Conservation Board.

Appendix Figure 8

Possible Remaining One-Time and Temporary Spending: Transportation

(In Millions)

Department/ Program Area	Description	2023-24	2024-25	2025-26
Caltrans	Clean California	\$146	—	—
CalSTA	Transit and rail funding (Transportation Infrastructure)	—	\$739	\$1,000
Totals		\$146	\$739	\$1,000

Note: This table includes allocations from the 2021 and 2022 budget packages that remain after accounting for Governor’s budget proposals and known disbursements and encumbrances, as of February 2024. In some cases our office does not have full information on disbursements from the administration, which means these estimates reflect our best understanding at this time.

Note: Amounts reflect one-time and temporary spending adopted in the 2021 and 2022 budget packages.

Caltrans = California Department of Transportation and CalSTA = California State Transportation Agency.