

California Legislature aims to begin shrinking large deficit with early action budget cuts

By Eric He

04/23/2024 08:00 AM EDT

Faced with a budget deficit of between \$38 billion and \$73 billion, [depending on the estimate](#), the California Legislature passed an “early action” budget bill to shave \$17.3 billion off the figure.

The plan — captured in [AB 106](#) — features cuts, shifts and other measures. It was approved by the Assembly and Senate on April 11 and signed by Gov. Gavin Newsom, who negotiated with the Legislature on the deal. It would reduce California’s budget by around \$3.3 billion via measures impacting the current and past fiscal years — along with \$14 billion in the 2024-25 fiscal year.

Combined [with a projected](#) \$12.2 billion in use of the rainy day fund, the Golden State’s deficit would shrink to between \$8.4 billion and \$23.4 billion, according to a Senate summary.

The majority of the cuts would be included in future budget-related bills, because funds for the next fiscal year have not yet been appropriated. The bill would contain a provision calling for the Director of Finance to note the remaining cuts.

Some of the largest cuts are: \$762 million worth of vacant state worker positions (which is not included in the bill text), \$500 million to school facility construction grants and \$337 million in unspent CalWORKS funding.

Assemblymember [Jesse Gabriel](#) (D-Encino), chair of the Assembly Budget Committee, called the plan the Legislature’s “use it or lose it opportunity to capture savings” at a hearing for the proposal on April 8.

“What we are trying to do with early action ... is to take an important first step, a meaningful first step, a thoughtful and responsible first step in how we can address the budget shortfall,” he said.

WHAT’S IN THE BILL?

This Pro Bill Analysis is based on the [text of the bill](#) as amended on April 6, and the summaries from the [Assembly](#) and [Senate](#) budget committees.

The bill itself would only make a \$3.3 billion dent in the deficit — of the \$17.3 billion agreed to in the package. After its passage, the Director of Finance would provide to the Legislature a list of cuts to prior budget agreements, where the rest of the proposed cuts would come into play. The bill would also contain intent language for funding from the [Budget Stabilization Account](#) and Public School System Stabilization Account — which are both reserve accounts — to help with the budget shortfall (Sec. 77).

Under the proposal, the Director of Finance would also be able to freeze additional one-time funding included in the 2021, 2022 and 2023 budgets prior to June 30 (Sec. 74). The director would be able to reverse any proposed cuts before May 15, allowing for flexibility depending on the size of the budget shortfall prior to the Governor’s May revision (Sec. 70).

The bill would take effect immediately (Sec. 78).

The measure would cut prior approved funding that has not been spent due to lack of demand, priority, commitment or resources, including:

— \$2.2 million originally appropriated in 2019 for census workload because the 2020 census is largely complete (Sec. 3)

- \$96 million of \$250 million originally appropriated in 2021 for the Port of Oakland (Sec. 4)— \$8.8 million originally appropriated in 2022 for the California Volunteers Experience Corps (Sec. 8)
- \$9.8 million originally appropriated in 2022 for the Regional Climate Collaboratives (Sec. 8)
- \$45 million of unallocated funding originally appropriated in 2021 for building resilience efforts (Sec. 10)
- \$14.3 million originally appropriated in 2023 for construction of the Oxnard field office for the Department of Motor Vehicles (Sec. 15)
- \$22 million of \$90 million originally appropriated in 2022 for the Industrial Decarbonization Program. The program would still leverage \$90 million in federal funding from the Department of Energy (Sec. 16)
- \$18.8 million of \$65 million originally appropriated in 2022 for the Food Production Investment Program (Sec. 16)
- \$35 million of \$100 million originally appropriated in 2022 for the Hydrogen Grants Program (Sec. 16)
- \$50 million originally appropriated in 2021 for the Distributed Electricity Backup Assets Program, which would be delayed (Sec. 16)
- \$6.4 million of \$75 million originally appropriated in 2021 for the California Electric Homes Program (Sec. 16)
- \$9.3 million of \$25 million originally appropriated in 2021 for the Drayage Trucks and Infrastructure Pilot Project (Sec. 16)
- \$7.3 million of \$250 million originally appropriated in 2022 for Zero Emission Vehicle Manufacturing Grants (Sec. 16)
- \$7.3 million of \$100 million originally appropriated in 2022 for emerging opportunities within zero emission vehicles (Sec. 16)
- \$45.5 million originally appropriated in 2022 for the Biomass to Hydrogen Pilot Program (Sec. 17)
- \$2.9 million originally appropriated in 2022 for the Interagency Forest Data Hub (Sec. 19)
- \$2 million originally appropriated in 2022 for resource conservation investment strategies (Sec. 22)
- \$51.2 million originally appropriated in 2022 for Wildlife Conservation Board programs (Sec. 22)
- The unspent amount from \$75 million originally appropriated in 2022 for Statewide Parks Programs (Sec. 23)
- \$14.2 million of \$40 million originally appropriated in 2021 for the Drayage Trucks & Infrastructure Pilot Project (Sec. 30)
- \$2.7 million of \$10 million originally appropriated in 2021 for the Pesticide Notification Network (Sec. 31)
- \$6.7 million of \$8 million originally appropriated in 2022 for grant funding provided by the Compost Permitting Pilot Program. The remaining funding would support the research contract (Sec. 37)
- \$12.5 million in one-time funding originally appropriated in 2022 that includes funding for the Healthier At Home Pilot, due to local implementation issues (Sec. 38)
- \$9.7 million for clinical dental rotations originally appropriated in 2022 in underserved areas from the General Fund to the Prop 56 State Dental Account Fund reserves (Sec. 43)
- \$336.6 million in unspent money originally appropriated in 2022 for the 2022-23 CalWORKs Single Allocation (Sec. 45)
- The unspent amount from \$34 million originally appropriated in 2021 for the California Collaborative Connectivity Grant (Sec. 52)

- \$10 million originally appropriated in 2022 for the Displaced Oil and Gas Worker Fund, with \$30 million maintained for the program (Sec. 55)
- \$275 million of \$600 million originally appropriated in 2021 for the California Jobs First program (Sec. 55)
- \$38.5 million originally appropriated in 2022 for the Department of Technology (Sec. 61)
- An additional \$40 million originally appropriated in 2021 for the Healthy Soils Program (Sec. 66)
- \$6 million of \$15 million originally appropriated in 2021 to reduce water use on farms and provide agricultural technical assistance (Sec. 67)
- \$20 million of \$30 million originally appropriated in 2022 for the Capacity Building Grant Program (Sec. 68)

The measure would include the following delays:

- \$42 million in funding until 2025-26 for the Health and Human Services Innovator, originally appropriated in 2023 (Sec. 5)
- \$11 million originally appropriated in 2023 to fund five area offices for the California Highway Patrol. The funding would be shifted to lease revenue bonds (Sec. 13)
- \$2.5 million originally appropriated in 2023 for the El Centro Department of Motor Vehicles office. The funding would be shifted to lease revenue bonds (Sec. 14)
- \$550 million originally appropriated in 2023 for the Department of General Services for the Transitional Kindergarten and Full-Day Kindergarten Facilities program, along with a reduction of \$500 million for the School Facilities Aid program. The funding is not noted in the proposal, but the measure notes that no money would be given to support public school construction. Bond proposals on the November 2024 ballot could support the programs (Sec. 62)

The measure would include the following cuts and funding shifts:

- \$5 million of \$25 million originally appropriated in 2023 for Climate Adaptation and Resilience Planning grants (Sec. 6)
- \$5 million originally appropriated in 2023 for the Office of Community Partnerships and Strategic Communications (Sec. 7)
- \$12 million originally appropriated in 2023 for the Home Hardening program (Sec. 9)
- \$3.6 million originally appropriated in 2023 for Cal Fire’s Forest Legacy Program (Sec. 18)
- \$22.2 million originally appropriated in 2023 for the Wildlife Conservation Board to support resource conservation investment strategies and provide grants (Sec. 21)
- \$18 million originally appropriated in 2023 for the Department of Water Resources toward forming the California Water Plan (Sec. 26)
- \$27 million originally appropriated in 2022 for the Greenhouse Gas Reduction Fund (Sec. 27)
- \$625 million in funding originally appropriated in 2023 for Medi-Cal to a reserve fund from the Managed Care Enrollment Fund (Sec. 40, 41)
- \$29.2 million originally appropriated in 2023 for the Department of Corrections and Rehabilitation. This total would account for \$25 million for administrative purposes, \$2.2 million for security and \$2 million for parole operations (Sec. 47)
- \$11.9 million originally appropriated in 2023 for the Department of Corrections and Rehabilitation for the now-closed Deuel Vocational Institute (Sec. 48)
- \$5 million originally appropriated in 2023 for the Department of Corrections and Rehabilitation for Covid-19 workers’ compensation claims (Sec. 49)

— \$7.3 million in unspent funds originally appropriated in 2023 for the Recidivism Reduction Fund, back to the General Fund (Sec. 50)

— \$38.8 million originally appropriated in 2023 for the Department of Corrections and Rehabilitation for Covid-19 prevention, mitigation and response at state prisons that was not spent. The measure would maintain \$53.8 million for this item (Sec. 51)

— \$8 million originally appropriated in 2023 for the Commission on Peace Officers Standards and Training that was unspent. The funding was intended for the implementation of [SB 2](#) in 2021, which was related to decertifying officers (Sec. 63)

— \$2.9 million originally appropriated in 2023 for the Commission on Peace Officers Standards and Training for police officer trainings to reflect unused savings (Sec. 64)

— \$5.5 million originally appropriated in 2023 for the state’s Financial Information System for the CA State Payroll System Project, due to project delays and no longer needing the funding for contracting services (Sec. 69)

Further, the bill would provide:

— \$13.1 million in funding to the Department of Fish and Wildlife to repair damage at the Mendota Wildlife Area in Fresno County (Sec. 20)

— \$16.5 million to the Department of Water Resources, including \$13.5 million to repair levees in the Sacramento-San Joaquin Delta (Sec. 25)

— \$1.2 million for the Department of Toxic Substances Control (Sec. 32)

— \$200,000 to the Department of Resources, Recycling and Recovery for cleanup and debris removal from the 2022 McKinney wildfire in Siskiyou County (Sec. 34)

— \$625,000 to the Department of Health Care Services toward the Managed Care Organization tax (Sec. 39)

— \$4 million to the State Department of Public Health to support staffing audits in skilled nursing facilities (Sec. 42).

— \$92.4 million originally appropriated in 2021 and 2022 for the Department of Social Services for services at the border, to be reappropriated due to administrative complications and continuing needs. (Sec. 44, 46)

— \$3 million for the Employment Development Department for the disability insurance program from the unemployment compensation disability fund (Sec. 54)

— \$15.6 for the Department of Industrial Relations from the Labor and Workforce Development Fund for the Extreme Heat Action Plan. The bill would slash \$8 million in funding originally appropriated in 2023 for the plan that was provided to the department’s Division of Occupational Safety and Health (Sec. 57, 59)

— \$650,000 for the Department of Industrial Relations from the General Fund to the Labor Enforcement and Compliance Fund for an education program for California state workers on labor laws (Sec. 56, 58)

— \$44.8 million to the Department of Food and Agriculture. \$22.7 million would be used to repair damages from the March 2023 storm that caused severe flooding at the California Animal Health and Food Safety South Valley Laboratory, and \$22.1 million would be used to respond to infestations caused by exotic fruit flies (Sec. 65)

WHO ARE THE POWER PLAYERS?

The bill was negotiated by Gov. [Gavin Newsom](#), Senate Pro Tempore [Mike McGuire](#) (D-Healdsburg) and Assembly Speaker [Robert Rivas](#) (D-Hollister) — who [reached an agreement](#) in late March to cut between \$12 billion and \$18 billion. Both budget chairs in the Legislature are new this year: Sen. [Scott Wiener](#) (D-San Francisco) and Assemblymember [Jesse Gabriel](#) (D-Encino).

The early action deal was “primarily a subset of the Governor’s Budget solutions,” [according to the governor’s office](#). It adopted many of Newsom’s proposals, as highlighted in the [Senate’s summary](#) of the plan.

“I thank our legislative leaders for their partnership in taking this major step to address the shortfall with a balanced approach that meets the needs of Californians and maintains a strong fiscal foundation for the state’s future,” [Newsom said in a statement](#).

Rivas thanked his caucus for “their commitment to a transparent, deliberative budget process.”

“It’s the right way to come at closing such a massive shortfall, along with freezing some undisbursed, one-time spending to preserve more options in June,” Rivas said. “We expect the Governor to deliver challenging budget proposals next month to reduce the deficit in the long-term, and we’ll consider them carefully.”

[McGuire said that](#) when times are tight, people “buckle down and do what needs to be done.”

“That’s what the Golden State has to do right now too,” McGuire said. “The quicker we move, the quicker we’ll be able to reduce the deficit, and we know we have to move decisively because the budget shortfall is real and serious.”

The Republican Vice Chair of the Senate Budget Committee, Sen. [Roger Niello](#) (R-Fair Oaks), said at the Senate Budget Committee hearing on April 10 that his party was shut out of the discussions. The Democratic supermajority in the Legislature does not need Republican support to pass the measure.

“This is a proposal of the Assembly and the Senate along with the administration — it would be appropriate to just add the word ‘Democrats’ to that,” Niello said. “Because Republicans have been no part of that discussion, which we continue to complain about.”

WHAT’S HAPPENED SO FAR?

The package would [include roughly two-thirds](#) of the budget savings Newsom proposed in January to close a deficit that the Department of Finance estimated to be \$38 billion. However, the nonpartisan Legislative Analyst’s Office [put the estimated shortfall](#) at \$73 billion.

Wiener said that the early action plan is “not what we normally do.”

“We normally do the budget in one big action,” Wiener said at the budget hearing. “We could have simply waited and done it all in June, but we have decided that it’s important to take a strong step, so that we can then spend the next couple months focusing on some of the truly difficult decisions that we’re going to have to make in order to produce and pass a balanced budget.”

AB 106 would leave out many of the administration’s more contentious proposals — [such as housing and homelessness reductions](#) — but those could be approved after final budget negotiations in June. The size of cuts approved by Newsom and the Legislature over the summer will largely be determined by an updated deficit estimate from the administration, set to be announced in May.

The package would shift funding between state accounts and borrow from state special funds, along with deferring or delaying \$5.2 billion in spending to future budget years.

The legislation would also authorize the Newsom administration to freeze one-time funding that has yet to be disbursed by the state.

Gabe Petek, the legislative analyst, said at the hearing that the package “clears the deck” for the Legislature to take up tougher negotiations and decisions on a final budget deal because the cuts noted would eventually be included in the June proposal anyway. He was responding to criticism from Sen. [Catherine Blakespear](#) (D-Encinitas), who questioned why certain programs were being trimmed without reasoning.

“It seems scattershot,” Blakespear said. “It seems almost like it’s random. That’s obviously not what we hope for.”

Likewise, Assemblymember [Eloise Reyes](#) (D-Grand Terrace) said in a floor speech that she was “not happy about many of the reductions and delays, including programs that fund zero-emission technologies critical to fighting climate change and addressing public health in many of our communities.”

She added: “However, I absolutely understand our circumstances and that sacrifices must be made in order to preserve the financial health of California.”

Republicans [criticized a plan](#) — not noted in the bill text — to shift payroll costs by a day, from the end of the 2024-25 fiscal year to the start of the next one so that the \$1.6 billion in general fund costs would apply to the following year.

“State costs remain the same, but this deferral artificially reduces the budget by \$1.6 billion,” said [Vince Fong](#) (R-Bakersfield), vice chair of the Assembly Budget Committee, on the Assembly floor. “It should come as no surprise that in the private sector, businesses are not allowed to do this on their taxes. Papering over the massive budget hole and declaring victory does not make the financial problems go away. Instead of acting in the world of fiscal reality, the governor relies on gimmicks to delay the inevitable at the expense of future budgets.”

WHAT’S NEXT?

Both chambers of the Legislature passed the bill along party lines on April 11, and Newsom [signed it](#) on April 15.

Newsom will provide an updated deficit estimate and budget proposal in May, with the actions not highlighted in the bill and other cuts expected to be discussed prior to the Legislature passing the budget by June 15.

It’s possible that the delays noted in the proposal could eventually become cuts, according to Chris Ferguson, budget analyst at the Department of Finance.

This package does not include spending roughly \$12.2 billion in reserves, as the Legislature and governor have agreed in principle to do. That spending will be voted on once Newsom formally declares a fiscal emergency, something he must do by this summer in order to execute his budget plan.

WHAT ARE SOME STORIES ON THE BILL?

[Read POLITICO news on AB 106.](#)

Blake Jones contributed to this report.