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CALIFORNIA LEGISLATURE

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February 16, 2024

Mr. Joe Stephenshaw, Director
Department of Finance
1021 O Street, Suite 3110
Sacramento, California 95814

Dear Mr. Stephenshaw:

In a letter dated January 19, 2024, you notified the Joint Legislative Budget Committee, pursuant to Item 2100-011-0001, Provision 1 in the *2023 Budget Act*, of a request from the Department of Alcoholic Beverage Control (ABC) to transfer \$20.5 million in General Fund to the ABC Fund. According to the letter, without any transfer, the ABC Fund is projected to be insolvent with a negative balance of \$1 million in 2023-24 and \$10.1 million in 2024-25.

The Legislative Analyst's Office (LAO) informs me a reduced amount from the General Fund can keep the ABC Fund solvent and maintain a sufficient balance. Specifically, based on a projection provided by the Administration, a transfer of \$15.5 million—or \$5 million less—will maintain a balance of \$14.5 million in 2023-24, \$5.4 million in 2024-25, and—at the lowest—\$3.5 million in 2025-26. According to the LAO, the Administration's projection shows that the ABC Fund's revenues start to exceed expenditures in 2026-27. Assuming ABC continues to use its statutory authority to increase licensing fees by the Consumer Price Index—as the department has done in the past—and expenditures grow as projected, the fund's balance will grow after 2026-27.

While I understand that transferring the entire \$20.5 million in General Fund will help cover any potential uncertainty in revenues and expenditures, it is not warranted at this time for two reasons. First, as you know, the state is currently experiencing a budget problem and reducing the amount transferred will generate savings that can help solve the budget problem. Second, the LAO informs me that ABC has options to reduce expenditures in the event that the department prefers a larger fund balance. For example, ABC reduced the Alcohol Policing Partnership grant program from \$3 million to \$1.5 million

in 2021-22 and 2022-23 during the COVID-19 pandemic. The LAO estimates that a similar reduction in 2024-25 and 2025-26 would further increase the fund balance to \$6.9 million and \$6.5 million, respectively, and ABC can return to fully funding the grant program once revenues cover expenditures and there is a sufficient balance.

For the reasons above, I request that you reduce the General Fund transfer by \$5 million—from \$20.5 million to \$15.5 million. This amount will maintain the fund’s solvency and provide some General Fund savings. In addition, ABC has flexibility to take steps to reduce expenditures if the department desires a higher fund balance, including a temporary reduction of the Alcohol Policing Partnership grant program.

Sincerely,

A handwritten signature in black ink that reads "Scott Wiener". The signature is written in a cursive, flowing style.

Scott Wiener
Chair

cc: Members of the Joint Legislative Budget Committee