



CALIFORNIA SENATE REPUBLICANS

Highlights and Analysis of the 2021-22 Budget

October 12, 2021

SENATE REPUBLICAN
FISCAL OFFICE



Table of Contents

EXECUTIVE SUMMARY	2
OVERALL REVENUES, EXPENDITURES, AND RESERVES	9
PANDEMIC RESPONSE AND FEDERAL ASSISTANCE	14
TAX POLICY	17
WILDFIRE PREVENTION, RESPONSE, AND RECOVERY	19
HOUSING.....	22
HOMELESSNESS	26
HEALTH	29
HUMAN SERVICES	32
CHILD CARE PROGRAMS	36
DEVELOPMENTAL SERVICES	38
K-12 EDUCATION.....	40
HIGHER EDUCATION.....	45
BUSINESS, LABOR, AND WORKFORCE DEVELOPMENT	51
PUBLIC SAFETY AND JUDICIARY	55
RESOURCES & ENVIRONMENTAL PROTECTION.....	60
ENERGY AND UTILITIES.....	68
TRANSPORTATION.....	71
CANNABIS.....	74
GENERAL GOVERNMENT.....	76
LOCAL GOVERNMENT	80
STATE EMPLOYEE COMPENSATION AND RETIREMENT	82
STATEWIDE DEBTS AND LIABILITIES.....	84
APPENDIX I: “EARLY ACTION” BUDGET AND TRAILER BILLS	86
APPENDIX II: SUMMER 2021 BUDGET AND TRAILER BILLS	89
APPENDIX III: END-OF-SESSION BUDGET AND TRAILER BILLS.....	94
SENATE REPUBLICAN FISCAL STAFF ASSIGNMENTS	97

Executive Summary

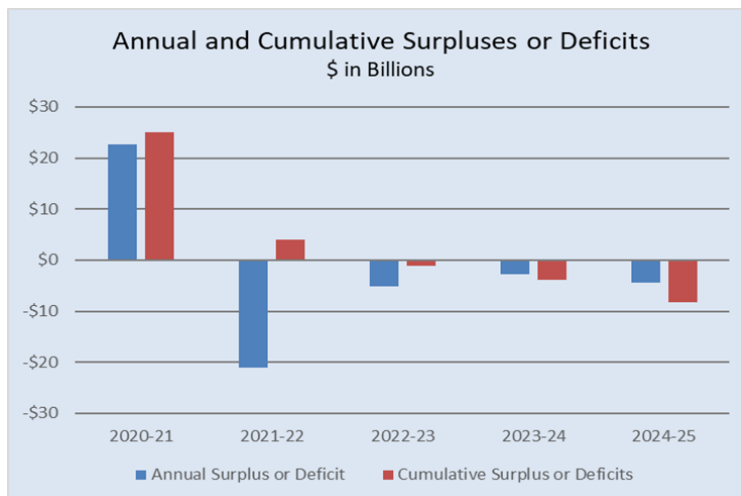
Overview: A Dramatic Short-Term Tax Revenue Surge Leads to Unsustainable Spending.

Revenues spiked dramatically in the just-completed 2020-21 fiscal year, surpassing pre-pandemic levels, but will grow only slightly for several years going forward. Spending is also skyrocketing, but outside some investments in critical areas such as education, wildfire, disabled services, and broadband, many of the more than 400 spending initiatives in the budget raise concerns about need and effectiveness. The high spending puts California on track for annual deficits each year going forward, and even Jerry Brown described state spending as “not sustainable.” The budget fails to reverse billions in now-unnecessary deficit actions from last year, and it fails to take any steps to address the massive unemployment insurance debt that will soon drive employer costs higher. This budget seems to be as much about writing headlines as it is about righting problems for Californians.

Tax Revenues Reach Windfall Levels, Exceed Pre-Pandemic Forecasts. The revenues reflected in the budget are dramatically higher than recent expectations, surpassing even pre-pandemic forecasts. Compared to the budget signed in June 2020, General Fund tax revenues are estimated to spike by \$54 billion (41 percent) in the just-completed 2020-21 fiscal year and then to slightly decline by \$5 billion (2.7 percent) to \$179 billion in 2021-22.

Expenditures Also Skyrocket. General Fund spending reaches nearly \$184 billion in the just-completed 2020-2021 year, increasing \$54 billion from the 2020 Budget Act, but declines slightly to \$179 billion in 2021-22. Spending from all state funds would reach \$263 billion in 2021-22, compared to \$202 billion in the 2020 Budget Act. Federal funds approved through various pandemic response bills add an astonishing \$277 billion to the state’s budget in 2020-21, raising the combined spending to over one-half trillion at \$513 billion for the just-completed year.

Deficits Projected for Years Following Initial Surplus. Despite the recent revenue surge and short-term surplus, the operating deficit exceeds \$21 billion in 2021-22, and additional deficits are projected for each year of the forecast, as shown in the chart below. While the state reserves could cover these deficits, the purpose of reserves should be to address unforeseen calamities, not foreseeable overspending.



Billions from Last Year’s Deficit Actions Remain in Place. Despite the surplus, the budget takes the ill-advised action to maintain a \$7.8 billion withdrawal from reserves approved last year and to leave billions in tax increases and other borrowing in place. All told, failing to reverse all of last year’s deficit-driven actions allows the Governor and Democrats to spend an additional \$15 billion in the short term.

One-Sided Changes to “Gann Limit” Make Room for Massive Spending. Several revisions to the calculations for the constitutional spending limit, or “Gann Limit,” make more room for the majority party’s spending spree. These changes create an additional \$16.9 billion under the cap over the two-year period of 2020-21 and 2021-22. Several of the changes appear to stretch the limits of the constitutional rules.

Improved State COVID-19 Response Funding Approach. Much of the spending for the state’s response to the COVID-19 pandemic in 2020-21 was unilaterally authorized by the Governor through the Disaster Response Emergency Operations Account (DREOA). Rather than further extend the DREOA authority, the budget instead appropriates \$1.7 billion General Fund to nine state agencies and grants authority for the Department of Finance to shift those dollars around after 10-day notification to the Legislature. This is an improved approach for transparency, but it still grants more authority to the Governor than a reasonable balance of powers would indicate.

Federal Funds Assist in Response and Recovery. Federal assistance will provide an astonishing \$621 billion to the state overall in response to the pandemic. About \$289 billion of this amount flows to or through the state budget, while the other \$332 billion has been or will be distributed directly to California residents, local governments, nonprofits, or businesses. The most recent federal assistance bill, the American Rescue Plan Act of 2021, provides \$27 billion to California for state fiscal relief, which can be spent through 2024.

Affordable Housing Production. The budget includes \$1.75 billion in federal funds to help support affordable housing projects that qualified for, but did not receive, low-income housing tax credits or tax-exempt private activity bonds. The funding would serve shovel-ready projects, which have successfully acquired Department of Housing and Community Development (HCD) funding, and could help expedite more than 6,300 units of affordable housing.

Eviction Moratorium Extension and Rental Assistance. Though not technically part of the budget package, AB 832 (Chiu) extended the eviction moratorium until October 1, 2021, and expanded the assistance program to provide up to 100 percent for rental and utility financial obligations, including both overdue and prospective payments. AB 832 and other recent budget actions provide for an additional \$2.6 billion in federal rental funds for the state and local governments, on top of an earlier allocation of \$2.6 billion.

Local Planning Grants. The budget provides \$600 million to help local jurisdictions meet required planning activities for housing and infrastructure needs, among other things. These grants would provide support for planning activities that give local governments necessary tools to support infill housing and infrastructure investments, improve overall housing compliance, and increase housing statewide.

Additional Funding to Local Governments to Combat Homelessness. The budget provides \$1 billion General Fund to the Homeless Housing and Assistance Prevention program, including \$240 million to Continuums of Care, \$336 million to each city with a population of 300,000 or more, and \$224 million to counties, and requires ten percent of the funds to be spent providing services to the state’s homeless youth. To be eligible for new funding, local governments will be required to develop and submit local homeless action plans.

Homekey Program. The budget provides \$1.5 billion for the Homekey program, which could include the purchase, conversion, and/or rehabilitation of properties (such as hotels, motels, and office and commercial buildings) to provide shelter and services to the state’s homeless population, including an

eight percent set-aside for homeless youth projects. The budget continues to restrict the funds for Homekey to only those projects that include prevailing wage contracts, thus increasing project costs and limiting the number of projects that can receive financial support. Additionally, the budget continues to provide an exemption from the California Environmental Quality Act (CEQA) for any Homekey project.

Homeless Encampment Resolution Grant Program. The budget provides \$50 million to establish a grant program that would partner with local governments and assist them with resolving critical encampment concerns and transition individuals into safe and stable housing.

In-Person Learning. In the spring of this year, the Legislature provided \$6 billion to schools as an incentive to reopen and deliver in-person learning as and begin addressing learning loss. The enacted budget continues to assume schools will offer in-person full-time instruction for the upcoming academic year while also requiring districts to offer a distance learning format for families that choose to have their children remain home. Additional funding of \$753 million one-time Proposition 98 General Fund is provided in the budget for expanded learning opportunities, which works in tandem with prior learning loss programmatic efforts.

Universal Meals. In the budget year, \$54 million Proposition 98 General Fund is provided for reimbursement of all meals served to students, including those who would not typically qualify. Commencing with the 2022-23 school year, the budget will require all schools to provide two free school meals each school day to any student regardless of need. The budget anticipates funding of \$650 million ongoing to cover the cost.

Universal Transitional Kindergarten. The 2021-22 budget outlines a plan for full implementation of Universal Transitional Kindergarten by 2024. The budget provides \$790 million one-time in a mix of funds for plan and implement of the program. However, not much beyond the funding provided in the budget is known about how the state plans to roll out the new program, how it will work with other preschool providers, or how the program will manage competition for teachers.

Golden State Stimulus Expansion. The budget provides \$8.1 billion General Fund to build on previous efforts and expand the Golden State Stimulus program, providing payments to middle-income families with an adjusted gross income of \$75,000 or less. Earlier this year, legislation established the Golden State Stimulus program, which provided \$600 one-time payments to millions of low-income Californians, at a General Fund cost of \$3.7 billion. The Golden State Stimulus II program is targeted at low- and moderate-income households.

Fails to Address Unemployment Insurance Debt. Despite tens of billions of dollars in surplus tax revenues, the budget fails to pay down the massive debt owed by the state's Unemployment Insurance (UI) Fund to the federal government. The EDD estimates that the debt will reach \$24.3 billion by the end of 2021. Paying down this debt will raise taxes on businesses by up to hundreds of millions of dollars per year beginning in 2023.

Belated Steps to Mitigate Employment Development Department Debacle. Governor Newsom failed to propose EDD fixes as part of his "early action" budget items that the Legislature addressed in January and February this year. The budget package belatedly includes more than \$300 million and several policy changes to address backlogs and other ongoing EDD problems.

Some Support for Selected California Businesses. The budget includes a number of new programs that will provide more than \$2 billion in additional financial support to California business owners and non-profits, including most notably \$1.5 billion in federal funds to expand relief to small businesses

through the California Small Business COVID-19 Relief Grant Program, bringing the total investment in that program to \$4 billion over 2020-21 and 2021-22.

Elective “Pass-through” Tax Could Increase State Taxes but Reduce Federal Taxes. The budget enacts the Small Business Relief Act, which temporarily creates a new tax structure for selected pass-through entities, such as S Corporations. This would help offset federal tax changes from 2017 that reduced allowable State and Local Tax (SALT) deductions to no more than \$10,000. For some individuals with pass-through income, electing to pay the new entity tax could increase state taxes but reduce the total federal tax liability of the individual, offsetting some of the SALT deduction losses.

Some State Recall Election Funds Raise Concerns. The budget provides \$279 million General Fund for state and county election activities for the September 2021 recall election. The Secretary of State would receive \$35 million, of which \$17 million is for various media and “outreach” purposes that are at risk for partisan abuse, similar to funds that the previous Secretary of State directed through a backdoor process to a partisan public relations firm prior to the November 2020 election.

Federal Funds for Local Government. The budget provides \$609 million from the federal Coronavirus Fiscal Recovery Fund for distribution to small cities and towns. A second allocation of \$609 million will be distributed June 2022. Allocations are based on a local jurisdiction’s share of the state population.

Local Projects Receive More Than \$1.3 billion in Special Allocations. The budget provides more than \$1.3 billion across program areas for various legislative priorities and local projects throughout the state, including \$389 million in program augmentations for a variety of uses, such as research and educational programs. A list of these projects and program allocations can be found in Control Sections 19.56 and 19.57 of SB 170 (Skinner).

Further Expansion of Medi-Cal to the Undocumented. This budget bill adds \$48 million General Fund for 2021-22 to expand full-scope Medi-Cal to an estimated 250,000 undocumented individuals age 50 and above. These costs will increase to more than \$1.3 billion General Fund annually. The addition of these individuals to Medi-Cal, which already serves more than a third of Californians, will continue to exacerbate access to care challenges due to the already-strained delivery system.

Addresses the Need for More Behavioral Health Treatment Beds. This budget creates a \$756 million grant program in 2021-22 to provide county behavioral health departments and non-profit community partners with funding to construct, acquire, or rehabilitate properties to increase treatment bed capacity. Another \$1.4 billion is scheduled for the 2022-23 fiscal year. The administration estimates that this funding will result in 15,000 new treatment beds statewide. These treatment beds are needed more than ever to meet our mental health needs, especially as the population of seriously mentally ill homeless has grown rapidly in California.

Children and Youth Mental Health Services. This budget includes \$1 billion General Fund in 2021-22 and \$1.4 billion General Fund planned for 2022-23 to implement a children and youth behavioral health initiative, which will increase preventive and early intervention behavioral health services, create a behavioral health virtual platform, develop a new school behavioral health counselor system and expand infrastructure for mental health facilities.

Phase-In of Overdue Payment Increases for Developmental Services. The budget includes \$90 million to begin a five-year phase-in of the remaining community rate increases documented by the 2019 DDS rate study. Although immediate implementation of the rate increases documented by the study would be preferable, a phase-in of the study is a step in the right direction.

Provides More Child Care Services. The budget expands child care access by adding over 145,000 child care slots over the next two years, and this amount would grow further to 200,000 new slots by 2025-26 should the state's economic condition support it. The budget includes \$292 million General Fund for Alternative Payment Programs, General Child Care, and Migrant Child Care slots to expand child care access. These funds prioritize General Child Care slots serving children who are 0 to 3 years of age. Additionally, the budget plan includes hundreds of millions of dollars more for future expansions, though these funds are not obligated.

Unnecessary Child Care Union Ascendency. The budget ratifies recent Child Care Providers United bargaining contracts, including funds for rate increases, provider licensing incentives, provider stipends, and \$289 million in one-time funds for provider supplemental payments. This may increase costs by the hundreds of millions to billions of dollars annually, which helps newly unionized employees, but it provides no assurance of actual improvements for children.

Assists Low-Income Individuals with Overdue Utility Bills. Provides nearly \$1 billion in federal American Rescue Plan Act Funds to cover low-income utility payment arrearages. The economic consequences of stay-at-home orders and precautionary quarantine measures not only increased home energy consumption for many California households but impacted many Californians' ability to pay their home energy bills. (The State Water Resources Control Board budget also includes nearly \$1 billion to pay for overdue water bills.) Republican Senators Grove and Nielsen had submitted a budget letter requesting this type of assistance.

Additional Resources for the Elderly and Disabled. Provides \$291 million General Fund in 2021-22 to increase grants for SSP, Cash Assistance Program for Immigrants, and California Veterans Cash Benefits. This action increases State Supplementary Program (SSP) grants to 2011 levels, which provides income support to eligible individuals who are aged 65 or older, blind, or disabled.

Addresses Complex Care Needs for Foster Youth. Provides \$139 million General Fund to assist counties with serving foster youth with complex needs and behavioral health conditions, within California, as well as youth that return from an out-of-state congregate placement. This provides necessary treatment options to keep youth in families to the greatest possible degree and to eliminate the placement of foster youth with complex needs in out-of-state facilities whenever possible.

Guaranteed Basic Income Could Assist Foster Kids and Others. Includes \$35 million in grants to local governments that would provide a guaranteed basic income for targeted individuals. These grants are supposed to prioritize individuals who age out of the extended foster care program at or after 21 years of age or who are pregnant, but the program would not be strictly limited to those populations—other unspecified groups could be targeted as well.

Coerces Counties to Sign In-Home Supportive Services Bargaining Agreements. The budget interferes in county operations by threatening to impose a seven percent penalty on counties that fail to reach an IHSS collective bargaining agreement. A seven percent penalty represents millions of dollars of realignment funds to large counties and up to hundreds of thousands of dollars in smaller counties. This fiscal penalty ignores the progress that has been made to date on IHSS collective bargaining and punishes counties that have properly balanced labor demands and fiscal stewardship of taxpayer dollars.

Relief for Overdue Water Bills. The budget appropriates \$1 billion in federal funds for residential and commercial customer arrearages and revenue shortfalls due to the pandemic. This funding is desperately needed to help forgive unpaid water bills and provide relief to water and wastewater systems from the economic impacts of COVID-19.

Billions in Natural Resources Funding. Provides over \$3 billion in programs and activities earmarked for climate, wildfire, and drought in the 2021-22 to support various natural resources packages, including for wildfire and forest resilience, water and drought, climate resilience, zero-emission vehicles, sustainable agriculture, and the circular economy.

Oil Fee Increase. Increases the oil spill prevention and administration fee on October 1, 2021, to \$0.085 per barrel of crude oil or petroleum products and expands the fee to include renewable fuels. Authorizes the fee to be annually increased or decreased by a specific inflation measurement.

Forest Health and Wildfire Prevention Package. The budget provides nearly \$1.5 billion across various departments in 2021-22. The funding supports plans to create resilient wildlands, support wildfire fuel breaks, advance science-based management and streamlined permitting, and support community hardening.

New Department of Cannabis Control. The budget includes \$154 million and 622 positions for a new Department of Cannabis Control (DCC). This reflects the consolidation of the cannabis licensing and enforcement functions of the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health into the DCC.

Local Jurisdiction Assistance Grant Program. The budget includes \$100 million General Fund for the Local Jurisdiction Assistance Grant Program to assist local entities with costs associated with processing local cannabis permits. These grant funds can be used by the local jurisdictions or passed on to provisional licensees to assess and mitigate environmental impacts. Grant allocations are based on the number of provisional licensees, legacy licensees, and level of CEQA compliance required in jurisdictions across the state.

Broadband Investment Brings Promise as Well as Questions. The budget includes \$4.4 billion to invest in broadband infrastructure. This includes \$3.25 billion for the California Department of Technology to build a state-owned, open-access middle-mile broadband network, \$1.1 billion for the California Public Utilities Commission to allocate for last mile broadband projects, and \$50 million to fund a loan loss reserve account.

Clean Energy Investments. The budget includes \$70 million General Fund for clean energy programs, but failed late-session negotiations result in deletion of \$400 million previously included in the June budget. The \$400 million was expected to be allocated among various energy priorities, including the Food Production Investment Program. Negotiations are expected to continue through the fall and the funding may be allocated in early 2022. Additionally, a \$335 million investment is planned for 2022-23, however, there is no binding obligation for the additional \$335 million.

Zero-Emission Vehicle (ZEV) Subsidies and Infrastructure Investments. Despite billions in subsidies and investments over the last decade, ZEVs have failed to gain an appreciable share of the vehicle market. At the end of 2020, only about 2 percent of registered light-duty (passenger) vehicles in California were ZEVs. This budget appropriates another \$2.3 billion for ZEV vehicle and infrastructure subsidies, including \$1.7 billion General Fund.

Funds Soft-on-Crime Policies Despite Recent Spike in Violent Crimes. The budget includes \$76 million to implement and expand recent measures designed to further reduce the consequences for committing crimes. This funding will be used to help convicted felons seeking to be resentenced under recently modified (reduced) criminal penalties and to automatically expunge arrest records for misdemeanors and realigned felonies from arrestees' criminal histories.

Transparent Use-of-Force Investigations Could Improve Trust in Police. The budget provides \$15 million for the Attorney General to assemble four regional task forces to investigate all officer-involved shootings resulting in the death of an unarmed civilian. If these investigations are seen as transparent and the process is kept free from political influence, the distrust of the police that has taken root in many communities could begin to be addressed.

Efforts to Curb Organized Theft Continue. The budget includes \$5.7 million to maintain the ongoing efforts of the joint CHP-DOJ regional property crime task force to crack down on organized retail theft.

Funding for Trial Courts Restored. The enacted budget restores a \$177 million baseline General Fund budget reduction for the trial courts that was included in the 2020-21 pandemic budget solutions. The budget also provides \$132 million in new trial court funding, including \$72 million in discretionary funds for trial court operations and \$60 million one-time to address case backlogs resulting from the pandemic.

Transportation Infrastructure. The budget includes \$2 billion (special and federal funds) for streets, roads and highways. Failed late-session negotiations result in the deletion of \$3.3 billion General Fund included in the June budget. While a substantial portion of the deleted funding supports Democrat priorities like active transportation and transit, absent this boost from the General Fund, transportation dollars will eventually fund these types of projects. The deleted funding included \$500 million for high-priority grade separations and grade crossing improvements, which are projects typically supported by Republicans. Negotiations are expected to continue through the fall and the funding may be allocated in early 2022.

Clean California Initiative. The budget includes \$329 million General Fund to clean up and beautify California highways, local streets, transit facilities, and other public spaces. It should be noted the budget indicates an additional \$1.2 billion will be provided over the next two years, for a total of \$1.5 billion. However, there is no binding obligation for the remaining \$1.2 billion.

High-Speed Rail Funds Noticeably Absent. This budget provides \$624 million for the High-Speed Rail Authority, including \$532 million from cap and trade revenues for infrastructure. Noticeably absent is the requested \$4.2 billion in remaining bond funding requested by the Authority and the Governor, which was not allocated before the end of the 2021 session.

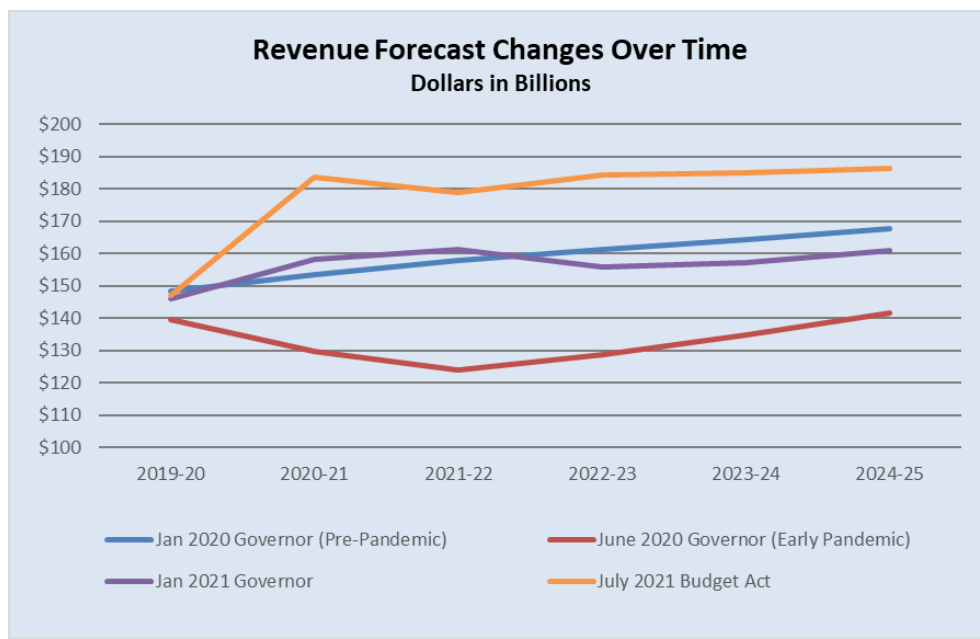
Three Waves of Budget-Related Bills. The state passed 34 budget and related bills in June or July, in addition to 17 bills passed from January through April as part of the “early action” steps to address various issues. The Democratic majority also delayed significant budget decisions until September, negotiated among themselves out of the public view, and then presented their decisions as a *fait accompli* in 16 more bills approved the final week of the legislative session with minimal public hearing. The three sets of bills are summarized in appendices at the end of this report.

Overall Revenues, Expenditures, and Reserves

Key Points

- **Revenues Reach Windfall Levels, Exceed Pre-Pandemic Forecasts.** The revenues reflected in the budget are dramatically higher than recent expectations, surpassing even pre-pandemic forecasts.
- **Fails to Reverse Billions in Last Year’s Deficit Actions.** Fails to reverse \$15 billion in previous deficit actions, including withdrawal of \$7.8 billion from reserves, despite surplus.
- **Deficits to Return and Persist for Years.** Despite the current revenue surge, operating deficits appear each year going forward in the forecast as Democrats overspend.
- **Changes to “Gann Limit” Make Room for Massive Spending.** Revisions to the calculations for the constitutional spending limit, or “Gann Limit,” free up room for the majority party’s spending spree.

Revenues Reach Windfall Levels, Exceed Pre-Pandemic Forecasts. The revenues reflected in the budget are dramatically higher than recent expectations. Compared to the budget signed in June 2020, General Fund tax revenues are projected to spike by \$54 billion (41 percent) in 2020-21, fueled in part by massive federal stimulus spending. These revenues would then slightly decline by \$5 billion (2.7 percent) to \$179 billion in 2021-22. In part this dramatic turnaround reflects the overly pessimistic expectations in place during last year’s budget process, which occurred right after the pandemic shutdown began. However, the revenues for 2021-22 also show a \$17.4 billion increase (10.4 percent) compared to the Governor’s January budget proposal, reflecting continued strong capital gains and the projected short-term effects of additional federal stimulus approved since January. The table below shows the revenue forecasts prepared at different points in time over the past 19 months, illustrating the rapidly changing outlook. The new forecast, shown by the orange line in the table, significantly exceeds even the pre-pandemic expectations.



Expenditures Also Skyrocket. Overall state expenditures are summarized in the table below. General Fund spending would reach nearly \$184 billion in the current year, an increase of \$54 billion from the 2020 Budget Act, but would decline slightly to \$179 billion in 2021-22. Spending from all state funds would reach \$263 billion in 2021-22, compared to \$202 billion in the 2020 Budget Act. While this would be a record for state funds, federal funds approved through various pandemic response bills will add the astonishing amount of \$277 billion to the state’s spending in 2020-21, raising the combined budget to over one-half trillion at \$513 billion in the current year. Federal funds decline in 2021-22 to \$194 billion, which is still significantly higher than normal. Use of federal funds for COVID response is described in the *Pandemic Response and Federal Assistance* section below.

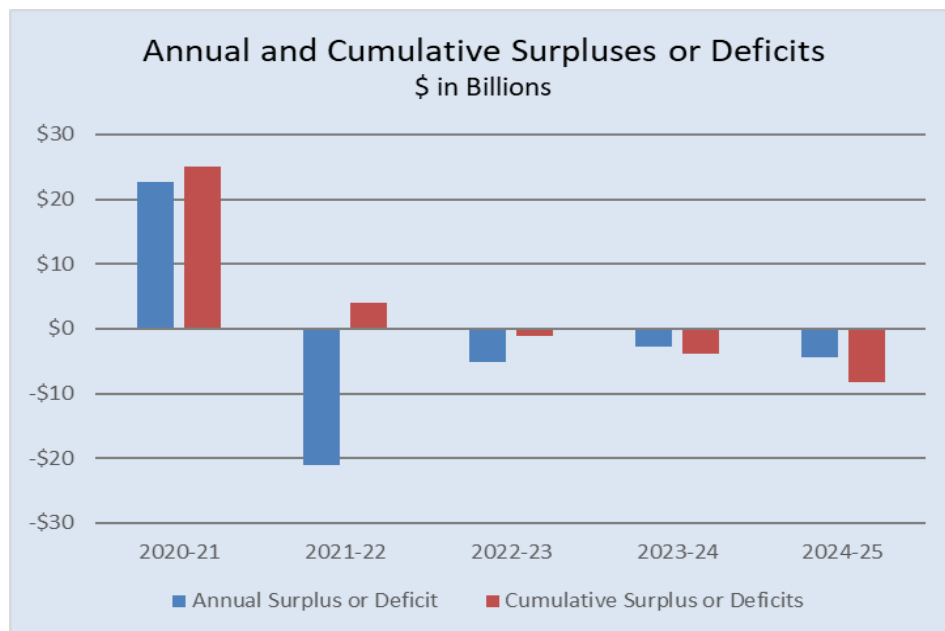
Revenues and Expenditures by Fund						
<i>Dollars in Billions</i>						
	June 2020 Budget Act 2020-21		June 2021 Revised 2020-21		June 2021 Budget Act 2021-22	
Revenues - General Fund	\$130		\$184		\$179	
<i>Change from 2020 Budget Act</i>			41.5%		37.6%	
Expenditures		% of Total		% of Total		% of Total
<i>General Fund</i>	\$134	37%	\$166	32%	\$196	43%
<i>Special & Bond Funds</i>	\$68	19%	\$70	14%	\$66	14%
Total, State Funds	\$202	56%	\$236	46%	\$263	57%
<i>Change from 2020 Budget Act</i>			16.6%		29.9%	
Federal Funds	\$160	44%	\$277	54%	\$194	43%
Total, All Funds	\$362	100%	\$513	100%	\$457	100%
<i>Change from 2020 Budget Act</i>			41.7%		26.2%	

Laundry List of Unfocused Spending Approved. Outside some major investments in key areas such as education, wildfire, disabled services, and broadband, the volume and type of spending in the budget raises concerns. The number of new programs approved in this budget is vast—the nonpartisan Legislative Analyst’s Office (LAO) counted roughly 400 new proposals in the May Revision, and the final budget total is likely somewhat higher than that. With such a smorgasbord of new spending authorized in such a short period of time, it is highly doubtful that all these new allocations are thoughtfully planned and carefully coordinated with similar existing programs. The Governor and legislative Democrats in some cases threw new programs into departments that have no expertise in that policy area, such as giving the Department of General Services \$253 million for a student pathways programs (see *General Government* section). Furthermore, the probability is slight that the majority party will engage in oversight after the fact to evaluate whether any funds were wasted. This budget seems much more about writing headlines than righting problems.

How Big Is the Surplus? Governor Newsom previously declared that the state has a “surplus” of \$76 billion. This claim is misleadingly high, since that figure did not yet account for mandatory spending adjustments for education under Proposition 98 and reserve and debt payment requirements established by Proposition 2. A more accurate account would indicate how much money the Legislature has discretion to spend on a wide range of programs. That amount is \$47 billion, according to the nonpartisan LAO, after accounting for new federal funds that freed up General Fund resources. This

surplus estimate is \$29 billion lower than the amount claimed by the Governor, but is still a major turnaround compared to expectations of deficits as of June 2020 when the state passed the last budget.

Deficits Projected for Years Following Initial Surplus. Despite the current revenue surge and short-term surplus, the operating deficit would exceed \$21 billion in 2021-22, and additional deficits are projected for each year of the forecast. The chart below illustrates this shift. Operating deficits indicate the state is outspending its annual revenues each year, and would potentially need to dip into reserves to cover the shortfalls. Reserves are intended to be available for unforeseen troubles, not for predictable deficits that will arise from spending beyond available revenues. Even former governor Jerry Brown opined recently that the state’s spending is not sustainable, stating “Money comes and money goes. The federal government is going deeper into debt, they are spending money wildly. The state is now spending money. It is not sustainable.”¹



Withdrawing from Rainy Day Fund Despite Surplus. It doesn’t take a Ph.D. in economics to recognize that there is no need to withdraw money from reserves when the budget is in surplus, but that is what the Governor and legislative Democrats have chosen to do. The budget fails to reverse withdrawals of \$7.8 billion from the Rainy Day Fund and \$450 million from the Safety Net Reserve that were approved in June 2020 when the state thought it faced a massive deficit. The LAO advised against this foolish approach of using reserves and borrowing to fuel additional spending during a surplus. Following this withdrawal, the Rainy Day Fund balance declines on net in 2020-21 before growing again, as illustrated by the blue bar in the chart on the next page.

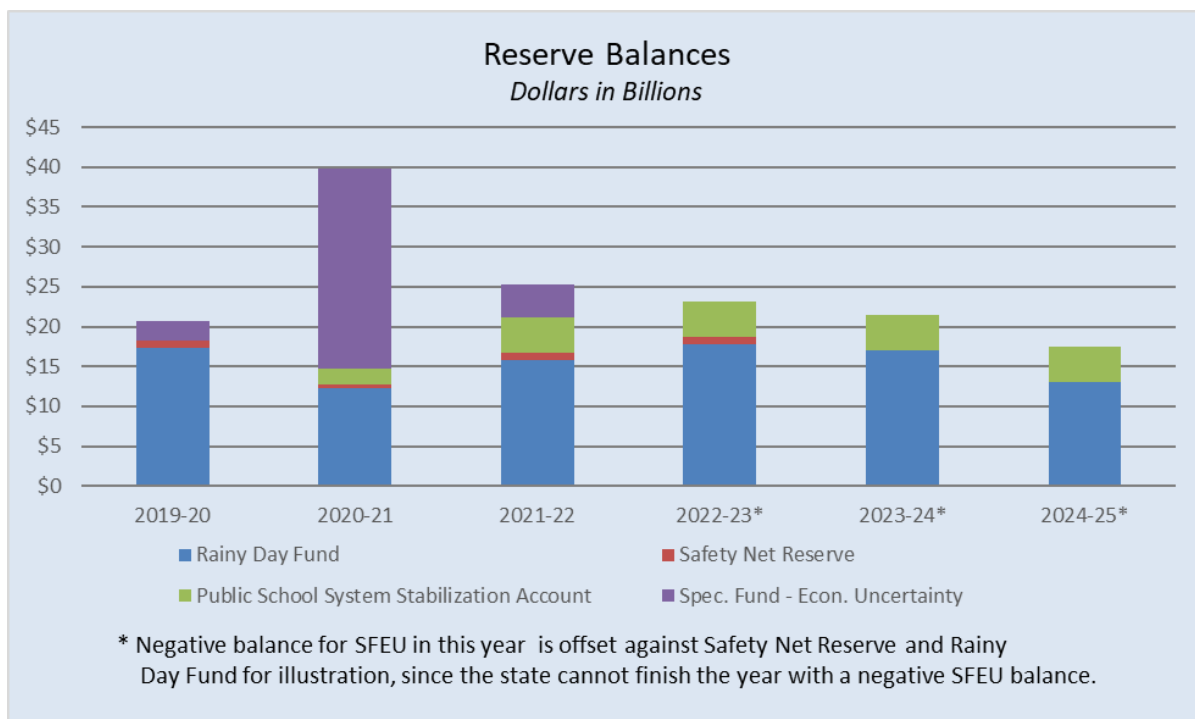
The Special Fund for Economic Uncertainties (SFEU), which may be thought of as the checking account balance that remains each year after spending and reserve deposits, grows to roughly \$25 billion in 2020-21 as revenues rise before the budget has authority to spend them. This balance then declines and turns negative in 2022-23 due to the operational deficits described above. For illustration, the chart offsets the negative SFEU balance against the Rainy Day Fund and the Safety Net

¹ NBC Los Angeles, July 11, 2021 [report](#).

Reserve (zeroing out that account) because the state cannot finish the year with a negative SFEU balance.

Under the rules of Proposition 2, the budget also makes a deposit into the Public School Stabilization Account beginning in 2020-21 (shown as the green bar in the chart). This balance would reach \$4.5 billion by the end of 2021-22, though use of this amount is limited to schools and does not help address broader General Fund deficits.

Overall reserves reach \$25 billion by the end of 2021-22, which is 12.4 percent of tax resources, including \$15.8 billion in the Rainy Day Fund and \$4 billion in the SFEU. However, reserves decline thereafter as the state incurs operating deficits, unless the budget reduces General Fund spending or increases taxes.



Other Deficit Solutions Remain. Beyond the ill-advised action to withdraw from reserves, the budget continues to needlessly tax businesses for more spending now, and fails to reverse other deficit solutions from last year. All told, failing to reverse these actions allows the Governor and Democrats to spend an additional \$15 billion in the short term. Deficit-driven actions that remain in place this year include:

- Increasing corporate taxes by \$3 billion for 2021-22, primarily through a cap on net operating loss deductions.
- Borrowing \$1.9 billion from state special funds
- Shifting \$1.7 billion in pension costs
- Roughly \$700 million to convert capital financing to lease-revenue bonds

One-Sided Changes Create More Room Under State Spending Limit. The constitutional State Appropriations Limit, or “Gann Limit,” caps the amount of revenues that can be appropriated, which serves to constrain state spending. Any excess revenues appropriated above the state’s limit over a two-year period must either be spent on exempt programs, as set out in the state constitution, or reallocated evenly between schools and taxpayer refunds. The budget package includes statutory changes that adjust categories of expenditures under both state and local limits.

The changes are partly consistent with options included in a recent report by the LAO. However, the majority party rejected changes that would have reduced spending room under the cap and selected only those that would increase spending room, thus making way for their spending spree. In all, the changes create \$16.9 billion in room under the cap for the two-year period of 2020-21 and 2021-22. Several of the changes appear to stretch or potentially violate the limits of definitions in the constitution.

Notable changes to the 2020-21 and 2021-22 Gann Limit calculations include the following:

- Counting realignment revenues (generated from vehicle license fee sales tax) of \$11.6 billion in 2020-21 and \$12.3 billion in 2021-22 toward local city and county appropriations limits instead of counting them towards the state’s limit, consistent with how Vehicle License Fee realignment revenues are accounted for currently.
- Excluding all Golden State Stimulus 2.0 expenditures of \$8.1 billion from the 2021-22 spending limit based on the dubious claim that these are “emergency expenditures,” which are exempt from the Gann limit, pursuant to SB 139, a 2021-22 budget trailer bill.
- Requiring state appropriations limit calculations to recognize school and community college spending limit room and reflect changes in state-local subventions since 1980.
- Providing budget authority for the Department of Finance to swap out federal funds with eligible General Fund expenditures in order to maximize the use of General Fund for exempt capital outlay projects if needed to keep the state within the Gann limit for the 2020-21 and 2021-22 fiscal years.
- Providing that certain information technology projects are fixed assets, thus allowing them to be exempt from the cap as qualified capital outlay projects.
- Providing that \$1.3 billion of elective pass-through entity payments are not proceeds of taxes.

Estimates for the 2020-21 and 2021-22 state appropriations limit calculations are not final, because final revenue and expenditure adjustments for the 2020-21 and 2021-22 fiscal years will not be determined until the Budget Acts of 2022 and 2023 respectively.

Pandemic Response and Federal Assistance

- **Federal Funds Assist in Response and Stimulus.** Federal assistance provides an astonishing \$621 billion to the state, local governments, businesses, and individuals.
- **Budget Allocates Latest Federal Stimulus.** Allocates \$27 billion in federal funds over next three years across a variety of programs, including broadband.
- **Improved State COVID-19 Response Funding Approach.** Approves a new approach to funding COVID response that improves upon last year’s “emergency” authority but still grants too much latitude to the Governor.

Federal Funds Assist in Response and Recovery. Federal assistance will provide an astonishing \$621 billion in assistance to the state, individuals, businesses, and local governments in response to the pandemic. About \$289 billion of this amount flows to or through the state budget, while the other \$332 billion has been or will be distributed directly to California residents, local governments, nonprofits, or businesses. The most recent federal assistance bill, the American Rescue Plan Act of 2021, provides \$27 billion for state fiscal relief, which can be spent through 2024. The table below summarizes the budget’s allocation of that \$27 billion.

Allocation of \$27 Billion Coronavirus State Fiscal Recovery Fund
(Dollars in Millions)

Coronavirus State Fiscal Recovery Fund Allocations	Amount
Address Public Health Impacts	\$1,804.8
COVID-19 Direct Response Costs	\$724.8
Behavioral Health Continuum Infrastructure Program	\$530.0
Community Care Expansion	\$450.0
Mental Health Student Services Partnership Grant Program	\$100.0
Address Negative Economic Impacts	\$12,224.8
Address Increased Homelessness and Housing Shortages	\$4,876.0
Relief for Unpaid Water and Energy Utility Bills and Arrearages	\$2,000.0
Child Savings Accounts to Address Equity Gap and Increase Opportunities for Higher Education	\$1,777.9
Small Business Grants	\$1,500.0
Community Economic Resilience	\$600.0
Training and Education Support for Displaced Workers	\$472.5
Economic Support for Ports	\$250.0
Emergency Financial Aid for Community College Students	\$250.0
Youth Workforce Development	\$185.0
Californians for All College Service Program	\$127.5
Revitalize California Tourism	\$95.0
Legal Aid for Renters	\$80.0
Federal Tracking, Accountability, and Cost Recovery	\$10.9
Replace Lost State Revenue	\$9,196.3
Broadband Infrastructure, Access, and Affordability	\$3,772.4
Reserve for Accountability and Oversight	\$18.6
Total	\$27,017.0

Source: Department of Finance

Some of the budget's uses of these funds are more supportable than others. A welcome part of this allocation is to use \$3.7 billion of the state's share to build broadband infrastructure, a key necessity advocated by Republican Senator Pat Bates in a budget request letter, among other Republican senators (see *Energy and Utilities* section for additional discussion).

Direct Pandemic Response. The administration estimates that "direct" COVID-19 response costs will total \$12.5 billion, including past spending beginning in Spring 2020 and continuing through 2021-22. After federal reimbursements, only \$1 billion of this would be paid by the state General Fund. The most recent update to this spending was to add \$122 million for the Governor's "Vax for the Win" lottery-style giveaways. A table from the Department of Finance summarizing the various response spending categories appears on the next page.

Improved State COVID-19 Response Funding Approach. To the great concern of those who value the separation of powers in government, much of the spending associated with the state's response to the COVID-19 pandemic in 2020-21 was unilaterally authorized by the Governor, using emergency spending authority pursuant to the California Disaster Assistance Act (CDAA). Following an emergency proclamation, the CDAA provides the Governor with nearly unfettered access to spend through the Disaster Response Emergency Operations Account (DREOA). This allowed the Governor to spend unilaterally, including hundreds of millions of dollars on no-bid contracts, with minimal notice to the Legislature, which often was left to learn details from reporters who filed public records requests.

One of the few limitations on DREOA spending authority is that it expires 120 days after the date of the initial emergency proclamation, but it may be extended a limited number of times. The Governor extended the DREOA spending authority following the initial March 4, 2020 COVID-19 emergency proclamation the maximum number of times, with no objections raised by legislative Democrats, until that authority expired on June 24, 2021.

Rather than further extend the DREOA authority, as the Governor had initially proposed in January 2021, the budget instead appropriates \$1.7 billion General Fund to nine state agencies and grants authority for the Department of Finance to shift those dollars around after 10-day notification to the Legislature. This is better than allowing the Governor to continue unlimited, unilateral pandemic spending. Both the nonpartisan LAO and the State Auditor raised concerns last year about the Governor's emergency spending, but legislative Democrats neglected to hold the Governor accountable. While the new approach at least requires 10 days' notice, it still grants the Governor too much latitude and goes too far in removing the Legislature from its proper role in directing spending.

COVID-19 Direct Response Cost Estimates

Cost Category	2021 May Revision Estimate	2021 Enacted Budget	Difference
State Response Operations	\$2,357,239,000	\$2,357,239,000	\$0
State Hospitals	\$153,873,000	\$153,873,000	\$0
Testing	\$47,204,000	\$47,204,000	\$0
Surge Capacity (Norwalk)	\$2,568,000	\$2,568,000	\$0
Other Staffing and Operational Costs	\$104,101,000	\$104,101,000	\$0
National Guard	\$112,780,000	\$112,780,000	\$0
Corrections and Rehabilitations	\$1,592,719,000	\$1,592,719,000	\$0
Community Supervision	\$45,667,000	\$45,667,000	\$0
Temporary Suspension of Prison Intake	\$316,933,000	\$316,933,000	\$0
Reentry Housing	\$15,000,000	\$15,000,000	\$0
Project Hope	\$2,006,000	\$2,006,000	\$0
Personal Protective Equipment	\$51,168,000	\$51,168,000	\$0
Medical Surge/Tents	\$145,157,000	\$145,157,000	\$0
Testing (Employee)	\$412,056,000	\$412,056,000	\$0
Testing (Inmate)	\$218,554,000	\$218,554,000	\$0
Cleaning	\$123,581,000	\$123,581,000	\$0
Other Staffing and Operational Costs	\$262,597,000	\$262,597,000	\$0
Other State Agency Response Operations Costs	\$497,867,000	\$497,867,000	\$0
Procurements	\$2,995,347,000	\$2,995,347,000	\$0
OES Masks Contract (Global Healthcare Product Solutions, LLC)	\$920,600,000	\$920,600,000	\$0
DGS and Other Procurements	\$2,074,747,000	\$2,074,747,000	\$0
Hospital and Medical Surge (to support 5,000 beds)	\$1,285,322,000	\$1,285,322,000	\$0
Staffing Costs	\$1,129,116,000	\$1,129,116,000	\$0
Facilities and Operating Costs	\$156,206,000	\$156,206,000	\$0
Hotels for Health Care Workers/Support Staff	\$277,951,000	\$277,951,000	\$0
Housing for the Harvest	\$24,259,000	\$24,259,000	\$0
Vulnerable Populations and Other Support Services	\$1,738,742,000	\$1,738,742,000	\$0
Project Roomkey	\$212,000,000	\$212,000,000	\$0
Food Banks	\$230,000,000	\$230,000,000	\$0
Immigrant Services	\$453,460,000	\$453,460,000	\$0
Support for Small Businesses	\$562,500,000	\$562,500,000	\$0
Great Plates Delivered	\$19,111,000	\$19,111,000	\$0
Other Program Allocations	\$261,671,000	\$261,671,000	\$0
Statewide Testing	\$1,855,645,000	\$1,855,645,000	\$0
PerkinElmer	\$1,126,297,000	\$1,126,297,000	\$0
Logistics Health, Inc. (Optum)	\$465,145,000	\$465,145,000	\$0
FedEx Specimen Transportation	\$15,838,000	\$15,838,000	\$0
Other Statewide Testing	\$248,365,000	\$248,365,000	\$0
Contact Tracing and Tracking	\$233,142,000	\$233,142,000	\$0
Vaccine Distribution and Administration	\$1,388,274,000	\$1,510,274,000	\$122,000,000
Supporting Vaccine Sites and Management of the Statewide Provider Network	\$1,100,658,000	\$1,222,658,000	\$122,000,000
Administering the Statewide Provider Network	\$202,500,000	\$202,500,000	\$0
Media Campaign	\$85,116,000	\$85,116,000	\$0
Community Engagement	\$193,340,000	\$193,340,000	\$0
Totals	\$12,349,261,000	\$12,471,261,000	\$122,000,000

Source: Department of Finance

Tax Policy

Key Points

- **Tax Increases Remain Even With Billions in Surplus Revenue.** Continues tax increases that will take \$3.3 billion away from California businesses in 2021-22.
- **Main Street Hiring Tax Credit.** Extends the Main Street hiring tax credit and authorizes an eligible small business to apply the credit against qualified sales and use taxes.
- **Expanded Film and TV Tax Credit.** Provides an additional \$90 million in tax credits for recurring or relocating television shows and \$150 million for a new tax credit that requires prevailing wage, use of skilled and trained labor.
- **Homeless Hiring Tax Credit.** Establishes a new homeless hiring tax credit for eligible taxpayers that employ a person who is homeless.
- **State Historic Tax Credit Extended.** Extends the sunset date to 2026 for the State Historic Tax Credit program, established via SB 451 (Atkins, Statutes of 2019).
- **New Elective Pass-through Corporation Tax.** Establishes a new elective tax option that allows an individual with pass-through income to pay an optional tax, reducing their total federal and state taxes.

Even with Billions in Surplus, Budget Continues Tax Increases. The state is in the midst of record revenues and record spending, with billions in “surplus” revenue that Sacramento Democrats have used to expand programs and increase base spending to unsustainable levels. More than \$3 billion of the surplus revenue comes from 2020 Budget Act changes that suspended net operating losses for medium and large businesses and temporarily limited business incentive tax credits. The 2020 tax increases were implemented to address the deficit projected at that time. Since that deficit shifted quickly to a surplus, it makes no sense to maintain those tax increases on California businesses, many of whom are still struggling to survive the recent economic downturn. Unfortunately, both the Governor and legislative Democrats chose to go on a spending spree rather than provide relief to California businesses, even though the state has tens of billions more revenue than expected.

Main Street Hiring Credit. The budget extends the Main Street hiring tax credit for each taxable year between January 1, 2021 and January 1, 2022, and authorizes an eligible small business employer to apply the credit against qualified sales and use taxes through April 30, 2027. Each eligible business can receive a credit of \$1,000 for each new job, not to exceed \$150,000 per employer. In addition, eligibility is restricted to firms that meet two conditions: 1) they have 100 or fewer employees and 2) their gross receipts dropped by at least half between the second quarter of 2019 and the second quarter of 2020. The budget caps the total amount of credits available to all businesses at \$70 million annually, and requires allocation on a first-come, first-served basis.

Film and TV Tax Credit. The budget provides a \$90 million expansion of the Film and TV tax credit (currently funded at \$330 million). The existing Film and TV Tax Credit Program provides tax credits for eligible films produced in California. The expansion of the credit includes \$75 million for recurring television series and \$15 million for television series that relocate from other jurisdictions. To be eligible for the credit, a business must submit a diversity plan and provide reporting data to the California Film Commission (CFC). The budget also provides CFC with authority to audit the final diversity report to determine the outcome of the stated goals.

New Studio Construction Tax Credit Tied to Prevailing Wage, Skilled Workforce. The budget includes \$150 million in tax credits for studios that build new sound stage infrastructure in the state. As with the expansion of the current Film and TV tax credit, eligible businesses must submit a diversity

plan and provide reporting data to the CFC. Additionally, however, the new studio tax credit program restricts participation to only those projects that certify the project pays the equivalent of prevailing wage and uses a skilled and trained workforce.

California Competes Tax Credit. The budget includes a one-time expansion of the CalCompetes Tax Credit by \$110 million to increase economic activity in California. CalCompetes currently allocates \$180 million in credits each year and is intended to attract or retain businesses that are considering making new investments in California but may be looking elsewhere. The credits are not refundable, but taxpayers may carry the balance forward for up to six years.

Donated Fresh Fruits or Vegetables Credit. The budget extends the Donated Fresh Fruit or Vegetables tax credit through January 1, 2027. The Donated Fresh Fruit or Vegetables tax credit is an income tax credit that allows a qualified taxpayer to receive a credit equal to 15 percent of the qualified value of the eligible donation items of fresh fruits or vegetables donated to a California Food Bank. The current credit ends on January 1, 2022.

Homeless Hiring Tax Credit. The budget establishes a new homeless hiring tax credit, beginning on January 1, 2022 and through January 1, 2027, for eligible taxpayers that employ a person who is homeless. The tax credit would be set at between \$2,500 and \$10,000 for each eligible individual, dependent upon the number of hours worked, not to exceed \$30,000 per taxpayer, per year. Verification of the homeless status of the employee would be provided to the Franchise Tax Board through a certification issued by a continuum of care or a community-based service provider. The maximum amount of tax credits would be capped at \$30 million annually.

State Historic Tax Credit Extended. The budget extends the sunset date to 2026 for the State Historic Tax Credit program, established via SB 451 (Atkins, Statutes of 2019). The state currently allocates up to \$50 million annually in tax credits for the rehabilitation of historic structures, administered by the Office of Historic Preservation and the California Tax Credit Allocation Committee.

Elective Pass-through Tax. The budget enacts the Small Business Relief Act, which, for taxable years beginning on or after January 1, 2021, and before January 1, 2026, creates a new elective tax for S Corporations, Limited Liability Companies, Limited Liability Partnerships, and Limited Partnership pass-through entities. The new elective tax would allow California Personal Income Tax (PIT) filers with income from these entities to pay an optional 9.3 percent tax at the entity level. In return, the filer would receive a nonrefundable credit of 9.3 percent that could reduce a filer's state tax liability.

These changes would help offset tax increases at the federal level that were implemented as a result of the federal Tax Cut and Jobs Act (TCJA) of 2017, which reduced allowable State and Local Tax (SALT) deductions to no more than \$10,000. For many individuals with pass-through income, electing to pay the new elective tax would reduce their total federal and state taxes, offsetting some of the SALT deduction losses. While most tax filers would receive a net tax benefit between federal and state tax liability, some filers could see an increase in state taxes owed if they are unable to utilize the entire 9.3% tax credit. The 2021-22 budget assumes a revenue gain of \$1.3 billion General Fund from those individuals that are unable to capitalize on the full benefit of the credit, but the actual revenue impact is difficult to project as the new elective pass-through tax is optional. Since the TCJA SALT changes would sunset in 2026, the new elective tax would also sunset in 2026.

Diapers and Personal Hygiene Tax Exemptions Continue. The budget extends indefinitely the sales tax exemption for diapers and menstrual products initially authorized by a past budget trailer bill, SB 92 (Statutes of 2019). The exemption results in a tax revenue loss of \$76 million annually, including the impact to both state and local governments.

Wildfire Prevention, Response, and Recovery

Key Points

- **Early Action Package.** The “early action” budget plan adopted in April (SB 85, 2021) provided \$536 million for various wildfire activities.
- **\$1 billion Forest Health and Wildfire Prevention Package.** The end-of-session budget package includes an additional \$1 billion across various departments to increase forest health activities' pace and scale to decrease fire risk.
- **No Long-Term Plan.** While the overall budget provides more funding than in past years, it is still insufficient for adequate forest management.

Early Action Boosts Overall Spending. In April 2021, SB 85 amended the 2020 Budget Act to fund and implement the 2020-21 wildfire package. It provided \$536 million (\$411 million General Fund and \$125 million Cap and Trade) for a broad set of investments supporting forest health and fire prevention activities. The early action plan included more significant funding than in past years for wildfire activities. Still, it was nowhere near the amount required to prepare for the current fire season, and it lacked longer-term wildfire and forest management strategies. While the wildfire funding in the early action budget was a step in the right direction, it depends on one-time General Fund spending. It is not a long-term solution to begin addressing the estimated 1 million acres annually in need of treatment to reduce fuel loads and fire risk adequately over the next decade. According to the administration, 85 percent of the early action funding has been allocated.

\$1 Billion Forest Health and Wildfire Prevention Package. The end-of-session budget package allocates \$988 million in additional wildfire and forest resilience projects and programs, totaling \$1.5 billion in 2021-22 when combined with the early action funds. Nearly 80 percent of this funding (\$758 million) is a one-time General Fund investment, while the remainder (\$230 million) depends on the Greenhouse Gas Reduction Fund (GGRF). Significant and long-overdue resources for wildfire mitigation, prevention, and response efforts represent the highest spending categories. However, the plan does not consider longer-term investments for wildfire prevention and forest management strategies. For example, the budget provides only a five-year funding extension for forest health and fire prevention activities under SB 901 (Dodd, 2018). While the \$200 million in Cap and Trade revenues for this extension would continue to support existing efforts, effective statewide wildfire mitigation requires an additional, ongoing funding source. The combined \$1.5 billion plan is a step in the right direction, but it mostly depends on one-time General Fund spending, and it is not a long-term solution.

The spending categories described below represent the most significant projects the package would support:

- **\$825 million for Forest and Land Management.** Funding would support a variety of landscape vegetation projects, including prescribed burning. The funding is also consistent with the state's Shared Stewardship Agreement with the United States Forest Service that establishes coordination between state and federal agencies to each meet a goal of treating 500,000 acres annually by 2025 (total of 1 million acres).
- **\$494 million for Wildfire Fuel Breaks.** This funding would allow CalFire and the California Conservation Corps (CCC) to complete at least 45 to 60 fuel breaks annually across the state in the next few years.
- **\$82 million for Science-Based Management.** The package included investments in pilot projects and new technologies, such as Light Detection and Ranging (LiDAR). LiDAR is an

active remote sensing system that can be used to measure vegetation height across wide areas. Reintroducing a similar LiDAR proposal from last year, the funding supports the remote sensing program and other research efforts to track forest health and monitor wildfire threats.

- **\$76 million for Forest Sector Stimulus.** The funds would establish a low-interest lending program within the Climate Catalyst Fund to invest in climate-friendly projects and workforce preparedness in the forest sector. The goal is to stimulate the wood product market to give timber companies incentives to thin more trees in fire-prone areas.
- **\$47 million for Community Hardening.** The funds in this area are anticipated to help leverage federal funds to support education programs and outreach for defensible space and basic home hardening retrofits.

A detailed chart on the next page provides an additional summary of the wildfire spending plan, and further details can be found in the Climate Resilience and Cap and Trade packages.

Not a Long-Term Solution. As mentioned above, proper and consistent forest management requires a continuous funding commitment, and the budget fails to prioritize projects that could provide measurable benefits to reduce wildfire threats immediately. The state should identify a sustainable and continuous funding source to achieve the greatest benefit from the state's investments in wildfire mitigation, such as the long list of shovel-ready wildfire prevention projects throughout the state awaiting funding, as advocated by Republican Senator Brian Dahle in the budget process. One option is shifting the 25 percent of Cap & Trade funds that currently go to High-Speed Rail to forest management. This would provide a consistent funding source to support forest management efforts, protect lives, prevent greenhouse gas emissions much faster, and create much-needed jobs in the forest sector.

2021-22 Governor's Budget
Wildfire and Forest Resilience Expenditure Plan
(Dollars in Millions)

Investment Category	Department	Program	Early Action 2020-21	Budget Year 2021-22	Total
Resilient Forests & Landscapes	CAL FIRE	Forest Health Program (GF)	\$5	\$20	\$25
		Forest Health (C&T)	\$65	\$80	\$145
		Forest Improvement Program for Small Landowners (GF)	\$0	\$40	\$40
		Forest Improvement Program for Small Landowners (GGRF)	\$10	\$0	\$10
		Forest Legacy & Reforestation Nursery (GF)	\$8	\$17	\$25
		Urban Forestry (GF)	\$10	\$13	\$23
		Tribal Engagement (GF)	\$1	\$19	\$20
	State Parks, Fish & Wildlife & State Lands Commission	Stewardship of State-Owned Land (GF)	\$19	\$123	\$142
Sierra Nevada & Tahoe Conservancies	Project Implementation in High-Risk Regions (GF)	\$21	\$61	\$82	
Wildfire Fuel Breaks	CAL FIRE	CAL FIRE Unit Fire Prevention Projects (GF)	\$10	\$40	\$50
		Fire Prevention Grants (GGRF)	\$50	\$80	\$130
		Prescribed Fire & Hand Crews (GF)	\$15	\$0	\$15
		Prescribed Fire & Hand Crews (GGRF)	\$0	\$35	\$35
	California Conservation Corps	Forestry Corps & Fuel Reduction Projects (GF)	\$0	\$15	\$15
		Forestry Corps & Fuel Reduction Projects (GGRF)	\$0	\$5	\$5
Department of Conservation	Regional Forest & Fire Capacity (GF)	\$25	\$60	\$85	
Community Hardening	Cal OES & CAL FIRE	Home Hardening (GF)	\$25	\$0	\$25
	CAL FIRE	Defensible Space Inspectors (GF)	\$0	\$6	\$6
	CAL FIRE & University of California	Land Use Planning & Public Education Outreach (GF)	\$0	\$7	\$7
Science-Based Management	CAL FIRE	Ecological Monitoring, Research & Adaptive Management (GF)	\$3	\$17	\$20
	Natural Resources Agency	Remote Sensing (GF)	\$0	\$15	\$15
	Air Resources Board & Water Board	Permit Efficiencies (GF)	\$0	\$4	\$4
Forest Sector Economic Stimulus	IBank	Climate Catalyst Fund (GF)	\$47	\$2	\$49
	CAL FIRE	Workforce Training (GF)	\$6	\$18	\$24
	Office of Planning & Research	Market Development (GF)	\$3	\$0	\$3
Total			\$323	\$677	\$1,000
Total (GF)			\$198	\$477	\$675
Total (GGRF)			\$125	\$200	\$325

Housing

Key Points

- **Spending Billions on Housing Reflects Failure of State Housing Policies.** Follows recent tradition by continuing to throw money at the housing crisis without reforms.
- **Eviction Moratorium and Renter Relief.** Recent legislation and the budget provide for eviction protections and distribution of \$5.2 billion for renter relief.
- **CA Dream for All Program.** Includes \$3 million for a feasibility study for a new state-funded first-time homebuyers' program, with the state potentially sharing in ownership of private homes as a "silent partner."
- **Affordable Housing Production.** Provides \$1.75 billion to support production of affordable housing projects.
- **Mortgage Assistance.** Provides more than \$1 billion for mortgage assistance and first time homebuyer programs.
- **Local Planning Assistance.** Provides \$600 million to help local jurisdictions meet required planning activities for housing and infrastructure needs.
- **Foreclosure Housing.** Provides \$500 million for a program that would inhibit the purchase of foreclosed residential properties by large corporate entities.
- **Maintaining Affordability Requirements.** Provides \$300 million in loans and grants to preserve the state's affordable housing.
- **Migrant Farmworker Housing.** Provides \$50 million for the Joe Serna Farmworker Housing program and \$30 million for repairs at state farmworker centers.
- **Local Grant Programs Intended to Boost Housing Production.** Provides \$95 million to support local governments in improving access to housing.

Spending Billions on Housing Reflects Failure of State Housing Policies. The 2021-22 budget follows recent tradition by continuing to throw money at the housing crisis, this time through tax credits, additional financing options, and billions in federal funds. Unfortunately, the budget also continues the tradition of failing to include significant housing reforms that could reduce the cost and increase the number of housing units built across California. The state is in need of broader policy changes that deal with the underlying cause of expensive housing. These include restrictive environmental reviews, extensive and cost-prohibitive zoning restrictions, and a host of excessive fees, which have raised the costs of building and slowed down the production of housing units. The housing crisis will continue until these cost-prohibitive requirements are addressed.

Eviction Moratorium and Rent Relief. SB 91 (Committee on Budget), enacted in January 2021, extended the state's eviction moratorium until June 30, 2021, and established the California COVID-19 Rent Relief Program to provide up to \$2.6 billion in federal rental assistance to low-income renters and landlords. In June, AB 832 (Chiu) extended the moratorium until September 30, 2021, and expanded the program to provide up to 100 percent in assistance for rental and utility financial obligations, including both arrearages and prospective payments. AB 832 also provides authority for the state to expend an additional \$2.6 billion in federal relief funds. These measures, as well as the budget, allow the state to maximize a total of \$5.2 billion in available federal Coronavirus Fiscal Recovery Fund for rental, utilities, and housing-related expenses.

CA Dream for All Program. The budget includes \$3 million and directs the State Treasurer’s Office to study in detail the creation of a state-funded first-time homebuyers’ program and present it back to the Legislature to be implemented through statute in 2022. The program is intended to address barriers to homeownership by allowing Californians to purchase a first home, with the state sharing the cost and potentially taking partial ownership of private homes as a “silent partner.” Such a program would represent a fundamental and highly problematic expansion of state control and involvement with privately owned assets.

Affordable Housing Production. The budget includes \$1.75 billion in federal ARPA funds to help support affordable housing projects that qualified for, but did not receive, low income housing tax credits or tax-exempt private activity bonds. The funding would serve shovel-ready projects that have successfully acquired Department of Housing and Community Development (HCD) funding, and could help expedite more than 6,300 units of affordable housing.

Mortgage Assistance. The budget provides \$1 billion in federal Coronavirus State Fiscal Recovery Funds for the California Housing Finance Agency (CalHFA) for additional mortgage assistance, principal reductions, and qualified housing-related charges, such as utilities, internet, and insurance, among others, that would provide housing stability. The budget also includes \$100 million General Fund to expand CalHFA’s First Time Homebuyer Assistance Program, which helps first-time homebuyers make a down payment, secure a loan, and pay closing costs on a home.

Local Planning Grants. The budget provides \$600 million to help local jurisdictions meet required planning activities for housing and infrastructure needs, among other things. These grants would provide support for planning activities that provide local governments with the tools necessary to support infill housing and infrastructure investments, improving overall housing compliance and increasing housing statewide.

Foreclosure Prevention Housing Preservation Program. The budget establishes the Foreclosure Prevention Housing Preservation program within HCD and provides \$500 million General Fund for implementation efforts. The program would inhibit the purchase of foreclosed residential properties by large corporate entities by requiring that mortgagees first offer foreclosed homes to potential owner-occupants before putting them on the open market, and by increasing the penalty for leaving vacant residential property unmaintained. The program would provide loans and grants to pay the acquisition costs and associated transaction costs of real property purchased through a trustee’s sale, subject to a pre-foreclosure intervention sale, or subject to a foreclosure risk intervention sale.

Maintaining Affordability Requirements. The budget provides \$300 million in federal ARPA funds to provide loans and grants to extend the long-term affordability of housing projects. As affordability covenants expire, previously state-funded affordable housing units risk becoming market-rate housing. The program provides funding to HCD projects, preventing them from converting to market-rate housing as their affordability requirements expire.

Infill Infrastructure Grant Program. The budget provides \$250 million General Fund and \$284 million in remaining Proposition 1 funds for the Infill Infrastructure Grant Program. The program would allocate \$160 million of those funds for selected capital improvement projects for large jurisdictions and \$90 million for capital improvement projects for small jurisdictions. The budget provides authority for HCD to administer the program in an over-the-counter manner and changes project eligibility rules, allowing smaller jurisdictions a more equitable chance to compete for the grant funds.

Accessory Dwelling Units. The budget adds an additional \$81 million in federal ARPA funds to expand CalHFA's ADU program, bringing the total program funding to \$100 million in available financing for ADUs. This program helps expedite low-cost production of housing as ADUs receive quicker local government approvals.

Migrant Farmworker Housing. The budget provides \$50 million General Fund for the Joe Serna Farmworker Housing program to help finance the new construction, rehabilitation, and acquisition of owner-occupied and rental units for agricultural workers. The budget also provides \$30 million General Fund for critical repairs at state Office of Migrant Services farmworker centers.

Moderate Income Multifamily Housing. The budget includes \$45 million General Fund to provide financing for low- and moderate-income multifamily housing projects. This will support CalHFA's Mixed-Income Program, which is an important tool for the development of affordable and mixed-income housing. Compared to other affordable housing programs, MIP projects cost \$119,000 less per unit on average, begin construction almost a year quicker, and create more units outside of areas of concentrated poverty.

Local Government Grants. The budget includes several grant programs intended to support local governments in improving access to housing, including the following:

- \$50 million to expand the Golden State Acquisition Fund program within HCD. The program would combine state funds with matching local funds to make up to five-year loans to developers for acquisition or preservation of affordable housing.
- \$30 million to expand the state excess sites program to incentivize further affordable housing development on state excess lands.
- \$10 million for a pilot program for grants to local governments to incentivize conversion of idle commercial property to affordable housing.
- \$5 million for the Housing Navigator program within HCD. The program allocates funding to counties for the support of housing navigators to help young adults aged 18 years and up to 21 years secure and maintain housing, with priority given to young adults in the foster care system.

Housing Funds from Existing Programs. The 2021 Budget Act includes \$1.3 billion from recent housing ballot measures and legislation that provides an ongoing source of funding for affordable housing and emergency shelter construction, as follows:

- \$716 million for the Veterans and Affordable Housing Bond Act of 2018 (SB 3, Proposition 1), which requires programs funded with bond proceeds to give preference to projects where all construction workers will be paid at least the general prevailing wage rate.
- \$400 million for the No Place Like Home program, approved in November 2018, which dedicates \$2 billion in bond funds to provide supportive multifamily housing for individuals experiencing mental illness who are homeless or at risk of homelessness.
- \$234 million from SB 2 (Atkins, 2017), which established a \$75 tax on real estate transaction documents to help pay for affordable housing.

Affordable Housing Programs and Funding. The table on the next page provides information by department on all state programs and funding available to support affordable housing development in

2021-22:

2021-22 Affordable Housing Funding
(Dollars in Millions)

<i>Department</i>	<i>Program</i>	<i>Total Funding</i>
Department of Housing and Community Development	American Rescue Plan Act (ARPA) - Recovery and Infrastructure Investments	\$845.0
	Veterans and Affordable Housing Bond Act Programs (Prop 1)	\$715.9
	Foreclosure Prevention and Preservation	\$500.0
	No Place Like Home Program	\$400.0
	Building Homes and Jobs Fund Programs (SB 2)	\$233.8
	Infill Infrastructure Grant Program Economic Recovery Investment	\$250.0 ^{1/}
	Federal Funded Programs for Housing	\$72.1 ^{2/}
	Veterans Housing and Homelessness Prevention	\$75.0
	Office of Migrant Services	\$35.6
Various	\$277.8	
California Housing Finance Agency ³	Single Family First Mortgage Lending	\$3,000.0
	Multifamily Conduit Lending	\$1,500.0
	Multifamily Permanent Lending	\$225.0
	Single Family Down Payment Assistance/Homebuyer Assistance	\$260.0 ^{4/}
	Accessory Dwelling Unit Financing	\$81.0 ^{5/}
	Mixed-Income Loan Program	\$88.0
	Special Needs Housing Program	\$20.0 ^{6/}
Tax Credit Allocation Committee	Low Income Housing Tax Credits (State)	\$625.0 ^{7/}
	Low Income Housing Tax Credits (Federal)	\$412.7 ^{8/}
	Farmworker Housing Assistance Tax Credits	\$4.2
State Treasurer's Office	CA Dream for All Study	\$3.0
Strategic Growth Council	Affordable Housing and Sustainable Communities	\$426.0 ^{9/}
Department of Veterans Affairs	CalVet Farm and Home Loan Program (Prop 1)	\$150.0
Judicial Council	Legal Assistance for Renters and Homeowners	\$40.0
Office of Emergency Services	Domestic Violence Housing First Program	\$23.0
	Transitional Housing Program	\$17.0
	Specialized Emergency Housing	\$10.0
	Domestic Violence Assistance, Equality in Prevention and Services, Human Trafficking Victim Assistance, North American Domestic Violence and Sexual Assault	- ^{10/}
California Department of Corrections and Rehabilitation	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	- ^{10/}
Department of Public Health	Housing Opportunities for Persons with AIDS (HOPWA)	\$14.0
	Housing Plus Program	\$1.0
	HIV Care Program	- ^{10/}
Total		\$10,305.1 ^{11/}

1/ The Budget Act also allocates an additional \$284 million from Proposition 1 funds for the Infill Infrastructure Grant Program, for a total investment of \$534 million.

2/ This amount reflects programs that receive federal funds, such as the Community Development Block Grant program.

3/ CalHFA is self-supporting and its single family and conduit lending programs do not rely on the state General Fund. Funding estimates are based on lending activities from 2019-20, available program resources, volume cap allocation, and multifamily lending pipeline projections.

4/ This includes \$100 million General Fund and \$160 million in existing CalHFA funds.

5/ This is in addition to \$19 million provided for ADU financing from the 2019 Budget Act.

6/ Funding estimate represents voluntary allocations of local Proposition 63 funds from 16 participating counties.

7/ This includes \$500 million state tax credit allocated in the Budget Act.

8/ This represents the estimated 9 percent tax credits to be allocated, estimated amount of 4 percent credits to be awarded based on current data and remaining bond cap, and new 9 percent federal disaster credits in 2021.

9/ The Affordable Housing and Sustainable Communities program amount reflects 20 percent of projected Cap and Trade revenues.

10/ The state provides a number of wrap-around supportive services through these programs including housing, which cannot be separated from the program's overall budget.

Homelessness

Key Points

- **Homeless, Housing Assistance, and Prevention Program.** Provides \$1 billion to support local efforts on homelessness. Requires submission of local action plans to participate.
- **Homekey Program Expands.** Provides \$1.5 billion General Fund and continues to tie prevailing wage requirements to an ongoing CEQA exemption for Homekey projects.
- **Encampment Resolution and Family Challenge Grants.** Provides \$90 million for two new grant programs targeted at family homelessness and cleanup of homeless encampments.
- **Assessment of Homelessness Programs.** Provides \$5.6 million for a statewide review of homelessness programs, including local, state, and federal funds.
- **Homeless Youth Emergency Service Projects.** Provides \$50 million to sustain existing projects in eight counties and to add projects in up to eight additional counties.
- **Legal Services to Prevent Homelessness.** Provides \$40 million for qualified legal services projects to help tenants avoid eviction and homeowners avoid foreclosure.
- **Homeless Services and Cal Expo Fairgrounds.** The budget provides authority for Cal Expo to continue to provide emergency shelter and supportive services for homeless individuals.

Homelessness Funding a Symptom of Poor State Policies. The 2021-22 budget provides billions towards state and local efforts to address homelessness across the state, as described in the paragraphs below. While many of these programs may be helpful under the circumstances, it must be remembered that the need for such enormous homelessness spending is a symptom of other failed state policies. Homelessness has a variety of root causes, but a clear contributing factor, particularly for family homelessness, is the incredibly high cost of housing in California. The ruling Democrats do little to reform the underlying problems, but then pat themselves on the back for their generosity in spending so much trying to treat the symptoms.

Additional Funding to Local Governments to Combat Homelessness. The budget provides \$1 billion General Fund to the Homeless Housing and Assistance Prevention program (HHAP), including \$240 million to Continuums of Care, \$336 million to each city with a population of 300,000 or more, and \$224 million to counties. The program requires ten percent of the funds be spent on providing services to the state's homeless youth. To be eligible for this new funding, local governments will be required to develop and submit local homeless action plans, detailing the size and scale of their homeless populations, who is being served, an inventory of local/state/federal funding available, and measurable goals. Failing to meet goals could result in a loss of flexibility for future HHAP funding, or in extreme cases, reallocation of a jurisdiction's funding. Local governments that meet or exceed targets will be eligible for bonus HHAP funding.

Homekey Program. The budget provides \$1.5 billion to the Department of Housing and Community Development (HCD) for the Homekey program, which could include the purchase, conversion, and/or rehabilitation of properties (such as hotels, motels, and office and commercial buildings) to provide shelter and services to the state's homeless population, including an eight percent set aside for homeless youth projects. The budget continues to restrict the funds for Homekey to only those projects that include prevailing wage contracts, thus increasing project costs and limiting the number of projects that can receive financial support. Additionally, the budget continues to provide for an exemption from the California Environmental Quality Act for any Homekey project.

Challenge Grants & Technical Assistance. The budget includes \$40 million, available over five years, for the Homeless Coordinating Financing Council (HCFC) to provide grants and technical

assistance to local jurisdictions to develop action plans that will address family homelessness. Grants will be used to accelerate local jurisdictions' rehousing efforts that coordinate across funding streams and systems.

Encampment Resolution Grant Program. The budget provides \$50 million within HCFC to establish a grant program that would partner with local governments and assist them with resolving critical encampment concerns and transition individuals into safe and stable housing.

Assessment of Homelessness Programs. The budget provides \$5.6 million for a statewide review of local homelessness programs, including local, state, and federal funds, which could provide the state with information that could help determine if state investments are being utilized in an effective and efficient manner. While an analysis of both funding and services is long overdue and a welcome addition to the budget, it would be of greater value to the state if the analysis was expanded to include a regional local gaps-and-needs analysis, which could allow for greater accountability and evaluation of state and local homelessness services.

Homeless Youth Emergency Service Projects. The budget provides \$50 million General Fund through the Office of Emergency Services to sustain existing homeless youth emergency service projects in eight counties (El Dorado, Fresno, Los Angeles, Orange, San Bernardino, San Diego, San Francisco, and Santa Clara) and to add projects in up to eight additional counties. The projects must provide, at a minimum, food and shelter, counseling, outreach, drop-in facilities that link homeless youth with services, screenings and referrals for basic health needs, stabilization planning for long-term placement, and follow-up services to ensure that the placement is stable.

Legal Services to Prevent Homelessness. The budget includes \$40 million for the Judicial Council to allocate to qualified legal services projects and support centers to provide eviction and other tenant defense assistance in landlord-tenant rental disputes, or services to prevent foreclosure for homeowners. There is a risk that nonprofit organizations funded through this program are likely to favor tenants over landlords in any dispute, irrespective of the facts of a situation.

Cal Expo and Homeless Services. The budget provides authority for the city and county of Sacramento to continue to provide homeless services, as well as emergency and interim housing, within Cal Expo Lot Z. The budget prioritizes placement of homeless individuals within Cal Expo to those camping along the American River Parkway.

The chart on the following page provides information on all state programs and funding available to support homelessness efforts in 2021-22:

2021-22 Homelessness Funding
(Dollars in Millions)

Department	Program	2021-22	2022-23	Two Year Total
Department of Housing and Community Development	Continued Homekey Acquisitions	\$1,450	\$1,300	\$2,750.0
	Federal Funded Programs for Homelessness	\$139.2	\$139.2	\$278.4
	Various backlogged projects	\$1,750.0	\$0.0	\$1,750.0
	Foster Youth Housing Navigators	\$5.0	\$5.0	\$10.0
	Transitional Housing Program	\$13.2	\$17.0	\$30.2
Homeless Coordinating and Financing Council	Homeless Data Integration System	\$4.0	\$0.0	\$4.0
	Flexible Aid	\$1,000.0	\$1,000.0	\$2,000.0
	Homeless Landscape Assessment	\$5.6	\$0.6	\$6.2
	Encampment Resolution Efforts	\$50.3	\$0.3	\$50.6
	Family Homelessness Challenge Grants	\$40.0	\$0.0	\$40.0
Office of Emergency Services	Various Homeless Youth Programs	\$51.0	\$1.0	\$52.0
	Youth Emergency Telephone Network	\$0.6	\$0.6	\$1.2
Department of Social Services	Community Care Expansion	\$805.0	\$0.0	\$805.0
	CalWORKS Housing Support Program	\$190.0	\$190.0	\$380.0
	Housing and Disability Advocacy Program	\$150.0	\$150.0	\$300.0
	Bringing Families Home	\$92.5	\$92.5	\$185.0
	Home Safe Program	\$92.5	\$92.5	\$185.0
	Project Roomkey	\$150.0	\$0.0	\$150.0
	Behavioral Health Continuum Infrastructure Program	\$755.7	\$1,447.2	\$2,202.9
Department of Health Care Services	Project for Assistance in the Transition from Homelessness	\$8.8	\$8.8	\$17.6
Department of State Hospitals	Acute Bed Capacity Expansion	\$267.1	\$88.5	\$355.6
Veteran's Affairs	Supportive Services for Formerly Homeless Veterans	\$25.0	\$0.0	\$25.0
	West L.A. Medical Center	\$20.0	\$0.0	\$20.0
Department of Transportation	Encampment Relocation Coordinators and Homeless Services Liaisons	\$2.7	\$2.7	\$5.4
	Clean up California - additional Hazardous Material Removal	\$25.0	\$25.0	\$50.0
	Hazardous Material Removal at Encampments	\$20.6	\$20.6	\$41.2
California Community Colleges	Basic Needs Funding - Student Hunger and Homelessness Programs	\$130.0	\$30.0	\$160.0
	Rapid Rehousing	\$9.0	\$9.0	\$18.0
California State University	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15.0	\$15.0	\$30.0
	Rapid Rehousing	\$6.5	\$6.5	\$13.0
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15.0	\$15.0	\$30.0
	Rapid Rehousing	\$3.5	\$3.5	\$7.0
Total		\$7,292.8	\$4,660.5	\$11,953.3

1/ This amount reflects programs that receive federal funds, such as the Emergency Solutions Grant program. 2021-22 funding used as estimate for 2022-23 and 2023-24.

2/ Funding for HCD's backlog of various housing projects.

3/ This proposal includes \$355 million one-time General Fund and \$450 million one-time American Rescue Plan Act of 2021.

4/ Of the \$2.2 billion total funds (\$1.7 billion General Fund and \$530 million CFRF), a minimum of \$255 million (\$25 million General Fund and \$230 million CFRF) is targeted to individuals under the age of 26 and \$150 million General Fund is for mobile crisis infrastructure.

5/ These Basic Needs funding programs support basic needs partnerships for low-income students facing housing or food insecurity. These amounts exclude basic needs funding provided in the 2021-22 Budget Act to address student mental health. Program funding reflected for UC Basic Needs and UC/CSU/CCC Rapid Rehousing was provided on an ongoing basis in the 2019 Budget Act.

6/ The American Rescue Plan Act of 2021 will provide California with federal funding to enhance and expand Home and Community-Based Services, which may include efforts to address housing and homelessness.

Health

Key Points

- **Further Medi-Cal Expansion to the Undocumented.** Expands Medi-Cal benefits to undocumented individuals age 50 and above.
- **Grants for More Mental Health Beds.** Funding included to construct, acquire, or rehabilitate properties in order to increase treatment bed capacity.
- **Early Intervention Behavioral Health Initiative.** Streamlines and expands the delivery of early intervention behavioral health services for those age 25 and under.
- **Imposes Significant Unknown “Equity” Measures on Health Plans.** Health plans will be forced to hit yet-to-be-written equity metrics or face penalties.
- **Creates Slush Fund for Unknown Future Use.** Moves \$333 million in General Fund to a new do-nothing special fund.

Expands Medi-Cal to Undocumented Individuals Age 50 and Up. The 2021 budget expands full-scope Medi-Cal eligibility, as well as In Home Supportive Services (IHSS) eligibility, to an estimated 250,000 low-income undocumented individuals age 50 and up, starting May 1, 2022. This will cost \$48 million in 2021-22 and will ramp up to eventually cost the state more than \$1.3 billion General Fund annually. This policy will also result in foregoing more than \$1.5 billion in "matching" annual federal funds that California would have received if Democrats had chosen to spend this sum on Medi-Cal for California's citizens and legal residents. This change follows two recent expansions to roughly 355,000 undocumented individuals age 26 and under, which now costs \$1 billion annually. The addition of at least 250,000 more individuals to Medi-Cal, which already serves almost 14 million Californians, will exacerbate problems in actually accessing care due to California's already-strained delivery system.

Addresses the Need for More Behavioral Health Treatment Beds. This budget creates a \$756 million grant program in 2021-22 to provide county behavioral health departments and non-profit community partners with funding to construct, acquire, or rehabilitate properties in order to increase treatment bed capacity. Another \$1.4 billion is scheduled for the 2022-23 fiscal year as part of the overall plan but is not actually obligated in the budget. The administration estimates that this funding will result in 15,000 new treatment beds statewide. These treatment beds are needed more than ever to meet our mental health needs, especially as the population of seriously mentally ill homeless has grown rapidly in California.

Children and Youth Mental Health Services. This budget establishes a new effort to streamline and expand behavioral health services to all children and youth (ages 0-25). This initiative will result in costs of \$1 billion General Fund in 2021-22 and \$1.4 billion in planned General Fund costs in 2022-23. While the devil will be in the implementing details, this effort has several laudable goals including:

- Building up infrastructure, partnerships, and capacity statewide to increase preventive and early intervention behavioral health services delivered by schools in collaboration with managed care plans;

- Implementing a behavioral health virtual platform to support regular automated assessments/screenings as well as navigation tools for families to access help;
- Developing a new school behavioral health counselor system where students can receive in-person and/or virtual one-on-one and group supports;
- Building up sites where children and young adults can receive mental health and substance use services, including intensive outpatient and crisis stabilization facilities.

Eliminates Looming Health Cuts. This budget rids the state of looming funding "suspensions" within Medi-Cal that would have ended supplemental payments to various Medi-Cal providers as well as supplemental payments to developmentally disabled and pediatric care facilities, AIDS waiver clinics, and home health care service providers. The budget also eliminates the planned suspension of various Medi-Cal benefits. These suspensions, approved by the Democrats in 2019 and 2020, were a cruel attempt to disguise overspending and to balance the out-year budgets on the backs of vulnerable Californians. This action will result in roughly \$1.2 billion in annual General Fund costs beginning in 2022-23.

Another 18 Months of Telehealth Flexibilities. This budget extends the Medi-Cal telehealth flexibilities, first approved by the Department of Health Care Services under the COVID-19 public health emergency, through December 31, 2022. This continues for 18 more months the use of remote patient monitoring as an allowable telehealth modality for covered health care services. The pandemic has taught us that in many instances (especially for the elderly and frail), telehealth is a preferred and easier mode of critical healthcare delivery.

Removal of Medi-Cal Asset Test. This budget removes the remaining Medi-Cal asset test rules in current law that forbids a senior or person with a disability to possess more than \$2,000 (\$3,000 for a couple) in certain types of assets in order to qualify for Medi-Cal. Under current law, there is no asset test for families, children, and childless adults, so there is some sympathy towards removing the Medi-Cal asset test for seniors and the disabled, but doing so may lead to odd scenarios where a senior may have accumulated a lifetime of assets (multiple cars, recreational vehicles, and life insurance policies for example), but could be income eligible for Medi-Cal. Current law appropriately incentivizes individuals in this scenario to sell off these assets for income (in order to purchase a Medicare wrap around plan) before enrolling in taxpayer-funded Medi-Cal benefits. This change may result in an expectation of dual Medi-Cal and Medicare eligibility for many seniors. A more prudent course of action would be to raise the allowable asset limit, rather than eliminate it entirely. The administration expects 18,000 individuals to enroll in Medi-Cal because of this change, resulting in \$197 million of General Fund costs annually.

Implements the CalAIM Initiative. This budget begins a multi-year implementation of the California Advancing and Innovating Medi-Cal (CalAIM) initiative to transform the delivery system of physical, behavioral, and oral health care services in the Medi-Cal program. As part of the CalAIM proposal, this budget adds a new enhanced care management benefit, funding incentives for managed care plans to invest in voluntary non-traditional Medi-Cal service programs, enhanced reimbursements for dental services, and funding to facilitate future behavioral health integration and payment reform efforts. This effort is promising but implementation challenges may hamper any real success of reforming the delivery of Medi-Cal

benefits. CalAIM will result in costs of \$1.6 billion (\$651 million General Fund) in 2021-22 and an estimated \$1.5 billion annually thereafter.

An Unnecessary New Health Care Department. The budget changes the Office of Statewide Health Planning and Development into the Department of Health Care Access and Information, but aside from the pending creation of a new Office of Health Care Affordability to enforce price controls within this new department, the remaining responsibility changes in this "new" department are not very substantial. But nevertheless this new department is set to expand by 145 new positions over the next three fiscal years.

Health Equity Mandates on Managed Health Care Plans. This budget creates a new set of Orwellian regulatory tools for the Department of Managed Health Care to enforce various health equity benchmarks on Knox-Keene licensed health plans (as well as Medi-Cal managed care plans regulated by the DHCS). These health equity benchmarks could include outcome data thresholds based factors such as race, ethnicity, gender, sexual orientation, language, age, income, and disability. Under this new law, licensed health plans must turn over a substantial amount of health care data annually to the department, who will use that data to determine if the health plan is striving to meet the adopted new health equity benchmarks set by department. If the health plan fails to comply, the department will impose corrective action plans through penalties. The department will consider which specific health equity benchmarks to enforce after a newly created Health Equity and Quality Committee (with membership picked by the Governor and legislative leadership) makes their recommendations. This sort of complex policymaking should be done through a comprehensive and transparent policy committee process, not by jamming new regulatory authority for the administration into a trailer bill at the last minute.

New Covered California Slush Fund Hides Health Tax Proceeds. The recent American Rescue Plan Act provided two years' worth of federal subsidies for Covered California healthcare customers. These subsidies are much more generous than those currently provided by the existing state subsidy program, which is now irrelevant for the next two years. But rather than use the savings in the state subsidy program for other statewide needs or tax relief, instead this budget moves the two years' worth of program funding (\$333 Million in General Fund) to a newly created special fund in order to keep that sum "ready" for possible expenditure in the 2022-23 budget cycle. Because neither the Governor nor the Democrats have any idea of what to do with the money, this budget requires Covered California to write a report to study potential state subsidy options. It appears that the Democrats are just hiding money in this slush fund while continuing to collect more than \$150 million annually from low-income Californians through the individual healthcare mandate tax.

A Permanent Parkinson's Disease Registry and a Neurodegenerative Disease Registry. This budget adds \$8.4 million to create a new Neurodegenerative Disease Registry for data on Alzheimer's disease, multiple sclerosis, Huntington's disease, and amyotrophic lateral sclerosis (ALS). In addition, the budget repeals the sunset date for the existing Parkinson's Disease registry. These registries will require healthcare providers diagnosing or providing treatment to these disease to report each case into the registries in order to analyze the incidence and prevalence of neurodegenerative diseases. The Parkinson's disease registry provision is in line with a budget request made by Republican Senator Melissa Melendez.

Human Services

Key Points

- **CalWORKs Grant Increase.** Provides \$142 million to increase CalWORKs Maximum Aid Payment levels.
- **State Supplementary Payment (SSP) and Other Grant Increases.** Provides \$291 million General Fund in 2021-22 and ongoing to increase grants for SSP, Cash Assistance Program for Immigrants, and California Veterans Cash Benefits.
- **Additional Resources to Assist the Elderly and Disabled.** Provides nutrition services, housing renovation, and assistance with technology services for California's elderly population.
- **Coerces Counties to Sign Collective Bargaining Agreements.** Interferes in local government operations by imposing a seven percent penalty on counties that fail to reach an In-Home Supportive Services (IHSS) collective bargaining agreement.
- **Assistance With Overdue Utility Bills.** Provides \$1 billion in American Rescue Plan Act Funds to cover past due utility bills for low-income residents.
- **Food Assistance for Undocumented Immigrants.** Provides \$5 million General Fund for state-funded food services to undocumented immigrants.
- **Guaranteed Basic Income Pilot.** Provides \$35 million General Fund over five years for city- or county-administered Guaranteed Income pilot programs intended to prioritize former foster youth or pregnant Californians.
- **IHSS Career Pathways Program.** Provides \$295 million General Fund to create a questionable workforce training program for IHSS employees.
- **State Funds for Afghan Refugees.** Allocates a \$26.7 million General Fund for Afghan refugees that do not qualify for federal assistance, though no explanation was available for \$10 million of the total.

Increase to CalWORKs Grants Following Recent Reductions to Accountability. Provides a 5.3 percent increase to CalWORKs grants, which would be paid by "single allocation" funds (the Child Poverty and Family Supplemental Support Subaccounts of the Local Revenue Fund). Small and infrequent grant increases (and some decreases) over the last twenty years have left grants relatively stagnant. However, in recent years the majority party has enacted several major policy changes, such as elimination of the maximum family grant, that have reduced accountability in CalWORKs and have made the program look more like an open-ended entitlement rather than a program focused on helping parents achieve self-sufficiency.

Repeals In-Home Supportive Services (IHSS) Seven Percent Suspension. Eliminates the IHSS seven-percent reduction in service hours previously scheduled for 2022-23, resulting in a cost of approximately \$248 million General Fund that year and \$496 million ongoing General Fund. This is part of a broader action to repeal planned future cuts to various health and human services payments or benefits. These threatened cuts had been built into forecasts to artificially make future budgets look balanced. Also, during the last recession, the state reduced IHSS service hours, but the Legislature has reversed this reduction every year since 2015-16. If the current law suspensions went into effect, the state would reinstate a seven percent reduction to service hours.

Coerces Counties to Sign IHSS Collective Bargaining Agreements by Threatening Realignment Funding. The budget needlessly interferes in county operations by threatening to impose a seven

percent penalty on counties that fail to reach an IHSS collective bargaining agreement. A seven percent penalty is equivalent to about a \$0.70 wage increase, which represents millions of dollars of realignment funds to large counties and up to hundreds of thousands of dollars in smaller counties. This fiscal penalty ignores the progress that has been made to date on IHSS collective bargaining and punishes counties that have properly balanced labor demands and fiscal stewardship of taxpayer dollars. Lastly, this penalty will threaten county realignment funding for other county realignment health and social service programs, like child care and mental health. A broad coalition of associations opposed the trailer bill that implemented this provision (AB 135), including stalwart Democratic allies such as the County Welfare Directors Association.

IHSS Career Pathways Program. Late-session budget legislation creates a workforce training program for IHSS employees, costing \$295 million General Fund to be swapped with federal funds upon approval of the Home and Community-Based Services plan. By creating a training program for IHSS workers and offering incentive payments, this action puts cost pressure on the program, likely driving up costs for both the state and the counties, who share in the costs for IHSS workers. Furthermore, the legislation does not specify the amount, frequency, or requirements of receiving incentive payments, and leaves this crucial determination up to the unions and the state behind closed doors. While IHSS providers will receive training in dementia and Alzheimer's care, as well as cultural sensitivity training, other publicly funded positions, such as a direct support professional for individuals with developmental disabilities, would likely benefit more from professionalization and job-related incentive pay. In fact, other states have introduced the professionalization of DSP workers, which was one of the recommendations made by the developmental services payment rate study in 2019. IHSS workers can of course access all the typical career pathways available to all residents, including community college and university training programs.

Additional Resources for the Elderly and Disabled. Provides \$291 million General Fund in 2021-22 to increase grants for SSP, Cash Assistance Program for Immigrants, and California Veterans Cash Benefits. (Note there is no obligation for the state to provide the remaining funds past the budget year.) SSP provides a small supplement to recipients of federal Supplemental Security Income (SSI) and some non-SSI recipients who are low-income with disabilities and older adults with limited resources to pay their living expenses. This action increases SSP Grants to 2011 levels, which provides vital income support to eligible individuals who are aged 65 or older, blind, or disabled.

Addresses Complex Care Needs for Foster Youth. Provides \$139.2 million General Fund to assist counties with serving foster youth with complex needs and behavioral health conditions, within California, as well as youth that return from an out-of-state congregate placement. This provides necessary treatment options needed to support California's commitment to keep youth in families to the greatest possible degree based on the best interest of the youth, and to eliminate the placement of foster youth with complex needs in out-of-state facilities whenever possible.

Prioritizes Family-Based Foster Care. Provides \$222.5 million General Fund in 2021-22 to be expended over three years to assist counties with new prevention services implementation efforts allowable under the federal Family First Prevention Services Act (FFPSA). FFPSA reforms federal financing to prioritize family-based foster care over residential care by limiting federal reimbursement for certain residential placements. The law permits states to use federal Title IV-E funds for evidence based prevention services for families at risk of entering the child welfare system. These one-time resources will assist California counties to build locally driven prevention services and supports for children, youth and families at risk of entering foster care.

Guaranteed Basic Income Could Assist Foster Kids and Others. Includes \$35 million in grants to local governments that would provide a guaranteed basic income for targeted individuals. As authorized in AB 153, these grants are supposed to prioritize individuals who age out of the extended foster care

program at or after 21 years of age or who are pregnant, but the program would not be strictly limited to those populations—other unspecified groups could be targeted as well. While individuals aging out of the foster care system are a vulnerable and deserving population, and a basic income level may assist them on their road to a successful life, this program may establish a precedent as a benchmark for all Californians, which could result in problematic unintended consequences.

Assists Low-Income Individuals with Overdue Utility Bills. Provides nearly \$1 billion in federal American Rescue Plan Act Funds to cover low-income utility payment arrearages. The economic consequences of stay-at-home orders and precautionary quarantine measures not only increased home energy consumption for many California households but impacted many Californians' ability to pay their home energy bills. (The State Water Resources Control Board budget also includes nearly \$1 billion to pay for overdue water bills.) Republican Senators Grove and Nielsen had submitted a budget letter requesting this type of assistance.

Food Assistance for Undocumented Immigrants. Provides \$5 million General Fund in 2021-22 to expand the California Food Assistance Program (CFAP) to individuals regardless of immigration status. Currently in California, “qualified immigrants” and a few other groups already can receive some benefits. Qualified immigrants are lawful permanent residents, refugees, asylees, persons granted withholding of deportation, trafficking victims, battered spouses and children, or Iraqi and Afghan special immigrants. Two programs allow this: the regular, federally funded CalFresh Program, and the state-funded CFAP. This budget expands the CFAP to all individuals, regardless of immigration status, not just those who already fit into a qualified immigrant group. This expansion could provide limited resources to undocumented individuals at the expense of needy individuals who are legally in the country, exacerbate access to care challenges due to California's already-strained delivery system, and make California a magnet for undocumented individuals due to the state's generous assistance benefits.

Community Care Expansion Program. Provides \$805 million in 2021-22 for the construction, acquisition and/or rehabilitation of projects to preserve or expand Adult Residential Facilities (ARF) and Residential Care Facilities for the Elderly (RCFE) available to individuals who are homeless or at risk of becoming homeless. These funds will further stabilize ARFs and RCFEs, including physical upgrades and capital improvements. According to CDSS, there is a significant need for this funding as many facilities are at risk of closing due to the economic recession caused by the COVID-19 pandemic. Grants would be provided to local governments and a portion of the funding will be used for state operations. These facilities provide vital housing for California's growing elderly population.

Necessary Nutrition Services for the Silver Tsunami. Provides an additional \$14.3 million for senior nutrition services and \$40 million for capacity needs for senior nutrition programs. Adequate nutrition services for the elderly, either through home-delivered meals or via congregate centers, are essential in order for seniors to remain in their homes, avoid costly institutionalization, and maintain their dignity. With the expanding elderly population, lack of nutritional services is a growing problem.

Helps Older Adults and the Disabled Access Technology. Provides \$50 million General Fund one-time for the Technology Access for Older Adults and Adults with Disabilities Pilot Program. In order to meet the needs of California's growing elderly population, and permit these individuals to remain in their own homes and avoid more costly institutionalization, this could provide valuable education and resources necessary to meet their daily needs. This could connect older or disabled adults to technology to reduce isolation and increase relationships.

Uses Safety Net Reserve Fund Instead of General Reserve. Transfers \$450 million from the General Fund to the Safety Net Reserve Fund. Without this transfer, the funds would remain in the general reserve, also called the Supplemental Fund for Economic Uncertainty (SFEU). There is no

reason to have a separate Safety Net Reserve. Diverting money from the SFEU may be intended to avoid triggering an automatic sales tax decrease that would be required under current law if the SFEU balance reaches a certain threshold.

Assistance for Afghan Refugees. The budget provides \$16.7 million to expand the refugee assistance program to help Afghan refugees that are not able to access CalFresh or CalWORKs. The funds would provide Afghan families with approximately \$550 per month for eight months. The budget assumes 15,000 refugees will be resettled in California and 3,000 will be eligible for these assistance payments. However, to date, only 1,600 Afghan refugees have been resettled in California, and the State Department has discouraged Afghan families from coming to California due to the high cost of living. In the event that less than 15,000 refugees settle in California, the budget provides no alternative plan for the \$16.7 million.

An additional \$10 million General Fund was provided at the last minute in the end-of-session budget process, with no explanation, and appears disjointed from the first proposal. The budget provides no details regarding what the funds are for, beyond the generic “assistance for refugees from Afghanistan,” and the Governor could use the \$10 million to fund one of his infamous Executive Orders. While expanding refugee assistance is supportable, the additional \$10 million is sloppy budgeting and emboldens the Administration to create programs and spend funds without proper legislative oversight and authority.

Child Care Programs

Key Points

- **Consolidating Child Care Under One Department.** Transfers child care programs and associated resources from the Department of Education (CDE) to the Department of Social Services (DSS), aligning all child care programs within a single department.
- **Adds to Bureaucracy Without Justification.** Transferring program responsibility from CDE to CDSS was promoted as a cost neutral proposal, but will result in a significant new state bureaucracy with no workload studies.
- **Includes Additional Child Care Slots.** Provides funding to expand child care access by adding alternative payment program, general child care, and migrant child care slots.
- **Rate Supplements for Providers.** Allocates \$200 million for reimbursement rate supplements, to be allocated over a twenty-four month period, and provides \$189 million to address differences in regional rates.
- **New Union Contract.** Provides the first collective bargaining agreement with Child Care Providers United, and provides significant rate increases to many child care providers.

Consolidating Services Could Improve Outcomes... The state subsidizes child care and preschool through several programs, serving an estimated 415,000 children. While the vast majority of children participate in programs currently administered by CDE, CDSS administers two children's programs but also administers numerous programs that impact families and children. For example, CDSS administers CalWORKs Stage One, which also provides safety net services, services for recent noncitizen entrants, and services through Cal-Learn. Concurrently, CDE administers CalWORKs Stage Two, which serves participants either working or transitioning off aid, and Stage Three, which serves participants who have been off aid for two years or more.

Splitting service delivery between two departments can lead to lack of coordination. Often times, departments do not share program information that may impact recipients and service delivery. Children in families moving from CalWORKs Stage One to Stage Two would need to shift between two different departments as well. The transfer of Child Care programs from CDE to CDSS is intended to support implementation of a high-quality, affordable, early childhood care and learning system designed to comprehensively serve children and families. Aligning all child care programs under one department emphasizes early child care could help ensure provider accountability and better outcomes.

...But Also Adds to Bureaucracy Without Justification. According to the Legislative Analyst, last year the Governor proposed adding \$10.4 million to create a new Department of Early Childhood Development to administer all child care programs. The amount of funding for 2021-22, however, exceeds the cost of the initial proposal to create a separate department. Furthermore, the cost of the shift could grow in the future as the administration is still determining the resources it needs. The Legislative Analyst pointed out that the administration did not conduct a workload analysis to determine whether the funding and positions at CDSS are in line with its new administrative responsibilities. As a result, it is uncertain whether the level of resources is fully justified.

Provides Services for More Children. The budget also expands child care access by adding over 145,000 child care slots over the next two years. This amount would grow further to 200,000 new slots by 2025-26 should the state's economic condition support it. The budget includes \$291.5 million General Fund for Alternative Payment Programs, General Child Care, and Migrant Child Care slots to expand child care access. These funds will prioritize General Child Care slots serving children who are

0 to 3 years of age. Additionally, the budget plan includes \$495.9 million federal funds in 2022–23, \$832 million federal funds in 2023–24, and \$115.3 million federal funds in 2024–25 for Alternative Payment Programs and General Child Care slots to expand child care access. Note that future budget allocations can be changed before funds are actually spent.

Rate Supplements Address Differing Regional Rates. Child care advocates contend that higher rates are necessary to attract more qualified providers and create better child outcomes, and that differences in rates paid in different areas of the state continue to be a problem. To address this issue, in addition to the \$200 million provided in the budget for reimbursement rate supplements, the budget also allocates \$189 million to address differences between the reimbursement rate and the regional market rate ceiling for center-based child care providers in general child care, migrant, and State Preschool programs.

Unnecessary Union Ascendancy. The budget ratifies the Child Care Providers United - California bargaining contracts agreed to on April 20 and June 25, 2021, and codifies portions of the agreements. This includes allocating funds for rate increases, provider licensing incentives, provider stipends, and \$289 million in one-time funds for provider supplemental payments to be made during the 2021-22 and 2022-23 fiscal years. This may increase costs by the hundreds of millions to billions of dollars annually, which certainly helps newly unionized employees, but it provides no assurance of actual improvements for children. For comparison, the California Teachers Association has raised teacher compensation in California to near the top nationally, but this has done little to actually improve education for kids in California. Just as with teachers, this budget action for child care may create another highly compensated, poorly performing system.

Developmental Services

Key Points

- **Long Overdue Rate Increases for the Disabled.** Provides \$89.9 million General Fund to begin a five-year implementation of the 2019 DDS rate study.
- **Emphasis on Regional Center Services and Participant Outcomes.** Restores important services, increased transparency, training and accountability at the regional centers, and activities focusing on improved participant outcomes.
- **Restores Previously Cut Camping and Other Services.** Reinstates camping services, social recreation services, and others that had been cut during the 2009 recession.
- **Reinstates Specialized Services and Services to Promote Independence.** Repeals the suspension of a rate increase for specified developmental services, including supported employment services and vouchered community-based services, and a rate increase to independent living programs, infant development programs, and early start specialized therapeutic services.

Phase-In of Overdue Payment Increases for Developmental Services. For the last two decades there has been a deterioration of community services and supports due to critical underfunding by the state. This budget appropriates \$90 million to begin a five-year phase-in of the remaining community rate increases documented by the 2019 DDS rate study. Assuming this full five-year implementation occurs, this action should provide \$1.22 billion into the DD community system.

Republicans have long advocated for improving rates for community services, but the governors in the current and previous administrations have refused to provide the funds, even though they created new programs or expanded eligibility in other areas of the budget. While the increase in this budget is a welcome step in the right direction, and long overdue, Senate Republicans would have approved greater first-year funding and a faster ramp-up. However, this is still an improvement over the Governor's May Revision, which largely omitted a plan to further implement the rate study. A letter from 39 organizations representing consumers, family members, providers, advocacy organizations, and unions emphasizes "[b]y prioritizing our community in the state budget and taking advantage of our historic state surplus, California can fulfill the promise made nearly 50 years ago in The Lanterman Act and usher in a new era."

Finally Restores Services Cut During Great Recession. As part of deficit-driven cuts made during the Great Recession in 2009, the state eliminated camping, social recreation, educational services, and nonmedical therapies for DDS consumers. Even though state tax revenues recovered long since, and the state launched new programs in other areas, the previous and current governors refused to restore these essential services for disabled Californians. This budget, at bipartisan legislative urging, finally restores the services at a cost of \$19 million General Fund in 2021-22 and \$36 million annually.

Repeals Rate Cuts Scheduled for Future Years. In order to falsely make budget forecasts appear balanced, recent budgets include planned cuts to DDS rates and other health and human services. This budget thankfully repeals those misguided plans to cut DDS services in the future. This avoids the specter of a \$310 million General Fund cut to community services.

Uniform Fiscal System and Consumer Electronic Records Management System. The Legislative Analyst has noted in its analysis of the Governor's budget that the DDS system has three fundamental challenges, one of which is a lack of data and good data systems. To address this issue, the budget

appropriates \$6 million from the Home and Community-Based Services American Rescue Plan Fund to DDS for one-time planning purposes for the implementation of a uniform fiscal system and consumer electronic records management system.

Increased Support for Special Olympics. The budget provides \$6 million in state General Fund for the Special Olympics, an increase of 50 percent compared to the level proposed by the Governor. Five Senate Republicans signed a bipartisan letter asking the Senate Budget Chair to approve this increase, as well as an additional \$6 million that was not approved. The State Superintendent of Public Instruction will administer the funds, as authorized in the Education omnibus trailer bill, AB 130.

K-12 Education

Key Points

- **Expanded Learning.** Provides \$1.8 billion in combined funds to support expanded learning opportunities. This program works in tandem with the early learning grants provided in the spring of this year to help address learning loss as a result of the COVID-19 pandemic.
- **Major Universal Transitional Kindergarten (TK) Expansion.** Includes \$300 million to launch a significant expansion of the TK Program beginning in 2022-23 and achieving Universal TK eligibility by 2025-26.
- **From School Lunch to Universal Meals.** Provides an additional \$54 million to reimburse all meals served to students, including those who would not normally qualify, and begins the Universal Meal program in 2022-23.
- **Special Education.** Provides \$396.9 million ongoing Proposition 98 General Fund to increase the statewide base rate and provide a cost-of-living adjustment. Makes additional investments to support early learning recovery, early intervention practices for preschoolers, and alternative dispute resolution.
- **Independent Study.** Revises and recasts the Independent Study program as an available option for families that choose not to send their students to school for in-person learning. Updates rules to ensure that schools assign academic work and track students' performance as a condition for funding.

Expanded Learning Opportunities. In the spring of this year, the Legislature passed AB 86 (Budget, 2021), an early action bill that provided approximately \$6 billion dollars to schools as an incentive to reopen and provide in-person learning as well as begin addressing learning loss. The enacted budget continues to assume schools will offer in-person full time instruction for the upcoming year. Districts must offer a distance learning format for families that choose to have their children remain home.

Moving forward, the budget provides \$1.8 billion in combined funds of which \$753.1 million is one-time Proposition 98 General Fund, as part of a multi-year plan to implement expanded-day, full-year instruction and enrichment for all elementary school students. Providing expanded learning time and opportunities for students is another avenue that schools can use to help address learning loss for school-year instruction, particularly for students from low-income families, students of color, English learners, and students who are academically behind.

The Expanded Learning Opportunities program will focus on schools with the highest concentrations of low-income students, English language learners, and youth in foster care. In the 2021-22 school year, schools must offer specified expanded learning to all students grades TK through 6 on school days and for at least 30 non-school days during intersessional periods, and provide these services to at least fifty percent of unduplicated enrollment in the specified grade span. Subject to future funding, the program is intended to grow to provide funding of \$2,500 per unduplicated student, and reach a total scale of \$5 billion in annual funding.

Slight Proposition 98 Funds Increase from Prior Year. The 2021 Budget has Proposition 98 funding at \$93 billion in 2021-22, as shown in the table below. This reflects a small increase of \$309 million from the revised 2020-21 budget and over \$14 billion from the revised 2019-20 budget. Overall school funding is \$123.9 billion which represents the highest level of funding in California's history, totaling \$13,976 per pupil in Proposition 98 General Fund and \$21,555 per pupil when all fund sources are included. The increase in per pupil funding when all fund sources are included represents the influx of

approximately \$27 billion in funds provided by the federal government. The majority of the federal funds must be used on COVID-related learning and school reopening expenses.

Proposition 98 funding <i>Dollars in Millions</i>					
2021 Budget Act					
	2019 Budget Act Revised	2020 Budget Act Revised	2021 Budget Act	Difference between 2021 BA and revised 2020 BA	
				Amount	%
P98 General Fund	\$54,483	\$67,685	\$66,374	-\$1,311	-2%
P98 Local property tax	24,846	25,745	27,365	1,620	6%
Total	\$79,329	\$93,430	\$93,739	\$309	0.33%

Proposition 98 Rainy Day Funds. The Budget also includes payments of \$1.9 billion and \$2.6 billion into the Public School System Stabilization Account (PSSSA) for both 2020-21 and 2021-22, respectively. The total PSSSA balance is \$4.5 billion at the end of 2021-22. There is a cap of 10 percent on local school district reserves in fiscal years immediately succeeding those in which the balance in the PSSSA is equal to or greater than 3 percent of the total K-12 share of the Proposition 98 Guarantee. The balance of \$4.5 billion in the 2021-22 year triggers school district reserve caps beginning in 2022-23.

Local Control Funding Formula (LCFF). The Budget includes a compounded LCFF cost-of-living adjustment of 4.05 percent, representing a 2020-21 cost-of-living adjustment of 2.31 percent and a 2021-22 cost-of-living adjustment of 1.7 percent. Additionally, AB 130 (Budget, 2021) increased the value of the concentration grant add-on adjustment as part of the LCFF calculation from fifty percent to sixty-five percent of the base grant. Schools generate a concentration grant add-on for each low-income, foster youth, or English learner student, that is in excess of fifty-five percent of the total enrollment of the school. The Budget specifies that the increased funding provided by this augmentation is to increase school site staffing, including custodial staff.

Proposition 98 Deferrals Paid Off. The Budget eliminates debt to schools by paying off the full deferral amount of \$11 billion. This welcome action is in contrast to the Governor’s May Revision proposal, which left \$3 billion in these loans outstanding.

Universal Transitional Kindergarten. The 2021-22 budget package outlines a plan to add children in two- or three-month increments over four years until all 4-year-olds are eligible for TK. The budget includes:

- \$200 million one-time Proposition 98 General Fund to support planning and implementation grants. Base grants will be awarded to schools based on the following enrollment figures:
 - For schools with an enrollment of 1 to 23 pupils, inclusive, the minimum base grant shall be twenty-five thousand dollars (\$25,000).
 - For schools with an enrollment of 24 to 99 pupils, inclusive, the minimum base grant shall be fifty thousand dollars (\$50,000).
 - For schools with an enrollment of 100 or more pupils, the minimum base grant shall be one hundred thousand dollars (\$100,000).

- \$100 million one-time Proposition 98 General fund for schools to train and increase the number of early childhood educators.
- \$490 million one-time funding, both Proposition 98 and General Fund, to support the implementation of TK and the construction of new or retrofitting of existing school facilities for the purpose of providing TK classrooms.

Currently, TK serves approximately 100,000 children in California, primarily those who turn five between September 2 and December 2. Following full implementation of UTK in 2024, the number of children served would increase to about 250,000. Not much beyond the current funding provided in the budget is known about how the state will roll out the new UTK program, how it will work with other preschool providers, or how it will manage competition for teachers.

Proponents of universal TK believe that high-quality early learning can improve children's readiness to succeed in school. While research¹ does support this idea, a crucial element to the success of UTK in California is to ensure that the program offers a high-quality educational experience. To that end, the "State of Preschool Yearbook", an annual report on state-subsidized early learning, indicates that California's TK program only met 3 of the 10 benchmarks of quality².

Other challenges to the roll-out of UTK is the very real possibility that it works to squeeze out other early care providers and exacerbate the current teacher shortage. It is important to note that TK is a school-based option that works for some families, but not all families. Additionally, to the extent parents enroll their four-year old children in "free" TK, private preschool providers will see a reduction in children they serve, likely driving many preschool providers out of business.

Expanding School Lunch to Universal Meals. The 2021-22 budget provides \$54 million Proposition 98 General Fund to reimburse all meals served to students, including those who would not normally qualify. The budget also specifies that commencing with the 2022-23 school year, school districts, county offices of education, and any charter school are required to provide two free school meals each school day to any student, regardless of need. Additionally, the Budget provides \$150 million one-time Proposition 98 General fund for school districts to upgrade kitchen infrastructure and equipment, as well as provide training to food service employees. Of this amount, \$120 million will provide a minimum of \$25,000 per district for kitchen upgrades and equipment, and \$30 million to provide a minimum of \$2,000 per district for training to promote nutritious foods, food preparation, and health food marketing.

The effort to provide universal meals to students is the largest in the country. The budget anticipates funding of \$650 million ongoing Proposition 98 General fund beginning in 2022-23 to cover the cost to offer breakfast and lunch to all students.

Special Education. The budget provides an increase of more than \$1 billion in ongoing Proposition 98 General Fund to Special Education programs. Notable adjustments include:

- \$450 million one-time Proposition 98 General Fund for schools to provide learning and recovery supports for students with disabilities.
- \$396.9 million ongoing Proposition 98 General Fund to increase the statewide base rate for special education funding.
- \$260 million ongoing Proposition 98 General Fund for Special Education Early Intervention Grants to increase the availability of evidence-based services for infants, toddlers, and preschoolers.
- \$186.1 million ongoing Proposition 98 General Fund to provide a 4.05 percent cost-of-living adjustment for special education funding.

- \$100 million one-time Proposition 98 General Fund for alternative dispute resolution to provide more opportunities for efficient and effective resolution of special education services complaints.

Independent Study. The budget revises and recasts the Independent Study program as an option for families that are unsure about sending their students to school for in-person learning during the pandemic. The budget specifies that schools must assign academic work and track student performance as a condition of receiving funding. For students in independent study for a total of 15 or more days, which would include students quarantined more than once, the budget includes allowances for minimum requirements related to live instruction and, for some grades, daily contact between students and a supervising teacher. This is unlike last year's regulations that guaranteed funding with little accountability. The budget also clarifies that classroom-based charter schools will not be subject to a funding redetermination as a result of students participating in independent study as a result of a COVID-related quarantine. This change will help stabilize funding for classroom-based charters.

Teacher Preparation, Retention and Development. The budget includes several provisions to bolster teacher preparation, retention, and professional development. These include:

- \$1.5 billion in one-time Proposition 98 General Fund for the Educator Effectiveness Block Grant, available over five years to provide schools with flexible resources to expedite professional development for teachers, administrators, and other in-person staff.
- \$500 million one-time General Fund over five years for the Golden State Teacher grant program. This will support a combined total of approximately 25,000 grants for teacher credential candidates who commit to teach at a priority school, in a high-need subject matter area, for four years.²
- \$350 million one-time Proposition 98 Funds, available over five years, for the Teacher Residency Grant Program to support existing and create new teacher residency programs that recruit and support the preparation of teachers in designated shortage fields.
- \$125 million in one-time Proposition 98 General Fund, available over five years, to the Commission on Teacher Credentialing for the California Classified School Employee Teacher Credentialing Program. This program assists classified employees in attaining a teaching credential, and expands program eligibility to expanded learning and early childhood education program staff.
- \$15 million in one-time Proposition 98 General Fund, available over five years, to the Commission on Teacher Credentialing for the Computer Science Supplementary Authorization Incentive Grant Program.

Changes in Teacher Credentialing. The budget amends competency standards for teaching credentials by permitting teaching credential applicants the ability to show basic skills proficiency by earning at least a "B" grade in qualifying course work in lieu of taking the basic skills proficiency test. The intent of this change is to remove barriers for candidates that have difficulty passing various teacher examinations in addition to streamlining the path to a credential.

California is facing a teacher shortage that has been further exacerbated by the COVID-19 pandemic. The result of this shortage has been an increased number of teachers in classrooms who have not completed teaching preparation programs or have received only partial training. Lowering the qualifications for attaining a teaching credential may streamline the effort to get more teachers in the

² <https://onlinelibrary.wiley.com/doi/abs/10.1002/pam.22023>

² <https://rutgers.app.box.com/s/397xcqbfbb4upi4b0yowq7ew3ehja156>

classroom but it also compounds an existing problem by continuing to decrease the number of new “qualified” teachers to meet demand.

Additional Notable K12 Adjustments:

- \$547.5 million in one-time Proposition 98 General Fund for the A-G Completion Improvement Grant Program. This program will provide additional supports to schools to help increase the number of California high school students, particularly unduplicated pupils, who graduate from high school with A-G eligibility. Of the total, \$400 million will be provided as grants for activities that directly support student access to, and successful completion of, the A-G course requirements. The remaining \$147.5 million will support students who failed an A-G approved course in the spring semester of 2020 or the 2020 academic year to retake those courses for other credit recovery.
- \$86.4 million in one-time Proposition 98 General Fund to support career technical education, regional occupation centers, or programs operated by a joint powers authority in the 2021-22 fiscal year, in support of in-person learning.
- \$80 million one-time Proposition 98 General Fund for the county offices of education to provide funding for average daily attendance for students in county community schools and juvenile court schools for costs related to in-person instruction.
- \$50 million in one-time Proposition 98 General Fund for the California Collaborative for Educational Excellence to contract with a county office of education to establish a statewide professional development infrastructure to expand the use of evidence-based accelerated learning strategies.
- Allows substitute teachers the ability to contract for up to 60 days at a time, instead of 30 days.
- Specifies that districts can be reimbursed retroactively for independent study from the first day of a quarantine and can take up to 30 days to have parents and students sign a contract.
- Provides that if districts can demonstrate, with affidavits, that they did all they could to fill a staff shortage during a quarantine, they can seek a waiver through their county offices of education, subject to State Superintendent of Public Instruction approval, for funding even if all students are not served.

Higher Education

Key Points

- **Affordable Student Housing.** Establishes the Higher Education Student Housing Grant Program and Capacity Expansion Grant Program to support higher education infrastructure and affordable student housing projects. Includes \$500 million one-time General Fund to support these grant programs.
- **Funding and Cost-of-Living for Community Colleges.** Includes an increase of \$395 million for the California Community Colleges. This amount includes a 5.07 cost-of-living adjustment (COLA) and 0.5 percent for enrollment growth. It also eliminates the outstanding deferral balance of \$1.4 billion.
- **Fund Increases for Universities.** Provides 5 percent base funding increases for the University of California (\$172.3 million) and the California State University (\$185 million) and reverses previous budget cuts for both systems.
- **Reduction in Non-Resident Enrollment at University of California.** Restricts University of California non-resident enrollment to no more than 18 percent of total undergraduate enrollment. Directs the Department of Finance to reduce funds for UC if targeted enrollments are not achieved.
- **Major Funding Expansion for Humboldt State.** Provides \$458 million General Fund to assist Humboldt State into becoming the state's third polytechnic university. Funds will be used to renovate science and computer labs as well as support the addition of academic programs.
- **Expansion of Cal Grant Award Programs.** Revises the Middle Class Scholarship to provide additional financial assistance for recipients, creates the Access Awards for Foster Youth and Former Foster Youth Cal Grant Program, and creates the California Community College Expanded Entitlement Award.

Affordable Student Housing. The budget creates two new programs to support affordable student housing across California's higher education institutions. The Higher Education Student Housing grant program will provide one-time grants for the construction of student housing or for the acquisition and renovation of commercial properties into student housing. The Higher Education Capacity Expansion grant program will provide one-time grants for capacity expansion projects to support increased California resident enrollment. The budget provides \$500 million for this effort, and funding will be distributed as follows:

- 50 percent to the California Community College system.
- 30 percent to the California State University system.
- 20 percent to the University of California system.

It is important to note that projects and planning grants to be funded with these dollars will be identified in subsequent legislation. This approach is outside the normal capital outlay funding process. The normal process requires proposed projects to move through the budget process prior to authorizing funding in the final budget act. By providing funding prior to project approval, the public and the legislature don't have the opportunity to review and vet the proposed projects.

The budget additionally prohibits public-private partnerships for Higher Education Housing and Expansion projects. It is not clear why this language was included nor what exactly is prohibited. However, the prohibition of public-private partnerships increases General Fund cost pressure to support future student housing projects, by disallowing public and private support options.

Last, the budget includes legislative intent language to provide \$750 million in 2022-23 and \$750 million in 2023-24 toward these grant programs.

California Community Colleges (CCC). The budget package includes an increase of \$395 million ongoing Proposition 98 General fund for California Community Colleges. This increase includes \$371.2 million for a 5.07 percent cost of living adjustment and \$23.8 million for 0.5 percent enrollment growth. The budget also pays off remaining \$1.4 billion apportionment deferral balance by August 2021.

Other notable investments include:

- \$250 million one-time American Recovery Plan Act of 2021 funds to support emergency student financial assistance grants.
- \$160 million Proposition 98 General Fund for Student Basic Needs. Of this amount, \$100 million is available over 3 years to address student basic needs such as housing and food insecurity. \$30 million is provided ongoing, to support student mental health services and \$30 million ongoing is provided for colleges to establish basic needs centers and hire basic needs coordinators.
- \$120 million Proposition 98 General Fund is available one-time for community colleges to increase student retention and enrollment rates.
- \$42.4 million Proposition 98 General Fund is available ongoing to increase the Strong Workforce Program and enable college districts to support work-based learning opportunities.
- Provides \$581.4 million in General Obligation bond funding to support new capital outlay projects and construction phase of 32 projects with anticipated completion of design by 2022. Of the funds, \$577.9 million is Proposition 51 of 2016 and \$3.5 million is Proposition 55 of 2004 funding.
- \$511 million one-time Proposition 98 to address deferred maintenance.
- \$115 million one-time Proposition 98 General Fund to develop and implement Zero-Textbook-Cost degrees and open educational resources.

Calbright College. The budget provides \$15 million ongoing to the Calbright College and repeals the legislature's plan to reduce the college's funding by \$50 million with the intent to shut the campus down. Calbright opened in October but has faced an onslaught of criticism and controversy since it was first proposed in 2017. The Legislature agreed to defund the college and redirect more than \$100 million to support the needs of the other 114 community colleges via their joint budget proposal (AB 128, 2021). The LAO reported in their May Revision analysis that eliminating Calbright would save approximately \$137 million, including \$20 million in operating costs for next year.

An audit report released in May of this year states that in its two years of operation, Calbright has failed at its key mission of "enrolling adult students who cannot otherwise obtain postsecondary education." Calbright has enrolled 523 people, with 61 of them completing the entry-level course and participating in one of the college's three programs, as of May this year. The Auditor further recommended that if Calbright doesn't change by the end of 2022, the Legislature should eliminate the college as an independent entity.

Pathways to Law School Programs. The budget provides \$5 million one-time Proposition 98 General Fund to the expand pathways to law school program initiative. These pathways include, but are not limited to: supporting dual enrollment partnerships with local high school law academies; implementing

partnerships with CSU and UC; student advising and guidance. The Chancellor's office is required to report on or before July 1, 2025 on the outcomes from the use of these funds.

Full-time Faculty. The budget provides \$100 million ongoing Proposition 98 General Fund to hire additional full-time faculty at community colleges, a 41 percent reduction from the Legislative budget proposal of \$170 million. This funding will assist more districts in reaching the 75/25 goal, expressed in statute over 30 years ago. In its simplest form, this goal states that 75 percent of credit instruction hours be taught by full-time faculty, with the remaining 25 percent taught by part-time faculty. Since the adoption of this statute, the CCC system has yet to reach this goal. In fact, the most recent data (fall 2020) shows that only eight (or 11 percent) of the 73 districts have reached at least a 70/30 full-time faculty to part-time faculty ratio. On one hand, the additional funding assists community colleges in attaining the 75/25 goal. However, this must be balanced against the recent 12 percent decline in CCC enrollment, a loss of approximately 186,688 students. It is unclear if these students will return post pandemic, leaving full-time faculty to possibly teach smaller courses. Last, should the state experience an economic downturn, limiting the funds to hiring may lead to painful budget reductions, layoffs, and furloughs.

University of California (UC). The budget package provides \$475.6 million General Fund for UC operations, including \$302.4 million General Fund to offset the reduction applied to the UC in the 2020 Budget Act, and \$173.2 million General Fund for a five-percent base increase. The base increase is unrestricted, is not tied to an enrollment target and is given with the understanding that tuition will not increase for the 2021 academic year. However, on July 21, 2021 the UC Regents voted to begin increasing tuition in 2022-23. The original proposal saw tuition increases for each incoming class, indefinitely. The proposal was ultimately amended to instead keep the year over year tuition increase for the next five years at which time the UC Board of Regents will take another vote to reauthorize the increases again beginning 2027. The UC Office of the President projects increased costs of \$2.1 billion in the next few years, with salaries and benefits taking up the largest portion of the increase.

The budget also consolidates the separate funding items for the UC Office of the President, UC PATH, and the UC campuses into one item. The UC Division of Agriculture and Natural Resources is maintained as a separate line item. The budget includes a provision that adds additional transparency for the UC Office of the President through enhanced reporting. Specifically, the UC must report to the Department of Finance and the Joint Legislative Budget Committee information related to campus assessment levels, a categorized list of actual and planned budgetary expenditures, and the amount of the budget the UC Office of the President either passes through to recipients across the state or supports fee-for-service activities aligned with the universities mission.

Nonresident Enrollment at UC. The budget package states the Legislature's intent that the UC adopt a policy to limit the number of nonresident students at every campus to no more than 18 percent of the campus' undergraduate enrollment. California residents have long been frustrated with the UC as it has become increasingly difficult to obtain a seat at many UC campuses. The budget also specifies the Legislature's intent to provide annual appropriations for targeted reduction in nonresident enrollment at UC Berkeley, UCLA, and UC San Diego, and directs the Department of Finance to adjust UC's budget appropriation if the targeted reductions are not achieved.

Dual Admissions. The budget package directs the UC to offer a dual admissions program from 2023-24 through 2025-26 for first-time freshman who do not meet A-G requirements at the time of application but will meet them upon transfer from a CCC. The budget allows UC to establish a new program or use an existing university equivalent. Further directions include that dual admission agreements guarantee admission to the campus of the student's choice but impacted majors or campuses may require supplementary criteria to be met. This program includes a sunset date of January 1, 2027.

On-going investments to the UC include:

- \$32.1 million General Fund for the UC Division of Agriculture and Natural Resources.
- \$15 million General Fund for student mental health resources.
- \$12.9 million General Fund for UC Programs in Medical Education (UC PRIME).
- \$2 million General Fund augmentation for summer-term student financial aid in 2021-22 (resulting in a total of \$4 million ongoing).
- \$1 million General Fund to support adoption of a common intersegmental learning management system.

One-time investments to the UC include:

- \$325 million General Fund to support deferred maintenance and energy efficiency projects.
- \$50 million General Fund to support the Charles R. Drew University medical education program.
- \$45 million for the UC Davis animal shelter grant program.
- \$30 million General Fund to support the UC Dan Diego Hillcrest Medical Center.
- \$25 million General Fund to support the UC Riverside School of Medicine facilities.
- \$22.5 million General Fund to support Student Academic Preparation and Education Partnership (SAPEP) programs.
- \$15.2 million General fund for dyslexia research and screening tool pilot projects.
- \$15 million General Fund to support emergency financial assistance grants for students.

California State University (CSU). The budget package provides the CSU with \$484.9 million General Fund to support CSU operations, including \$299 million to offset the reduction to the CSU in the 2020 Budget Act and \$185 million to support a 5 percent base increase.

Humboldt State University, Polytechnic. The budget package includes \$433 million one-time General Fund to support Humboldt State University becoming the state's third designated polytechnic university, joining Pomona and San Luis Obispo. The funds will support renovations of science and laboratory facilities, as well as enhanced computing and telecommunications infrastructure, as the campus transitions to a polytechnic university. Also, \$25 million on-going General Fund to support the addition of academic programs.

Humboldt State has faced declining enrollment numbers for several years. In 2015-16, enrollment at Humboldt was 7,923. This number has fallen every year since then, dropping to 5,600 in the last year. The campus admits 92 percent of the students who apply. In contrast, California's two Cal Poly campuses are far more competitive. Cal Poly Pomona accepts 55 percent of its applicants while Cal Poly San Luis Obispo has an acceptance rate of about 28 percent. According to Provost Jenn Capps, Humboldt State already has a reputation as a strong STEM (science, technology, engineering and math) school. Providing funds to assist the campus into becoming a polytechnic school is a natural next step, with the potential for a ripple effect throughout the rural area. While the potential for positive outcomes related to this effort are significant, the LAO cautions that the effort may be premature. Humboldt is currently conducting a self-study to determine if becoming a polytechnic school makes academic and financial sense. The study is set to conclude sometime this fall.

Dual Admissions. The budget package directs the CSU to offer a dual admissions program from 2023-24 through 2025-26 for first-time freshman who do not meet A-G requirements at the time of application

but will meet them upon transfer from a CCC. The budget suspends other dual admission statutes while these provisions are operative. Further directions include that dual admission agreements guarantee admission to the campus of the student's choice and impacted majors or campuses may require supplementary criteria to be met. This program includes a sunset date of January 1, 2027.

On-going investments to the CSU include:

- \$15 million General Fund for the basic needs component of the Graduation Initiative 2025.
- \$15 million General Fund for student mental health resources.
- \$3 million General Fund augmentation for summer-term financial aid in 2021-22, resulting in a total of \$6 million ongoing.
- \$2 million General Fund to support a common intersegmental learning management system.
- \$1 million General Fund to support increased full-time equivalent student enrollment at the CSU Stanislaus Stockton Campus.

One-time investments to the CSU include:

- \$325 million General Fund for Deferred maintenance and energy efficiency projects.
- \$60 million General Fund to support infrastructure improvements at CSU Dominguez Hills.
- \$54 million General Fund to support the replacement of the Acacia building at the CSU Stanislaus Stockton Campus.
- \$10 million General Fund to support culturally competent professional development and equal opportunities for faculty.
- \$10 million General Fund for the Computing Talent Initiative through CSU Monterey Bay.

California Student Aid Commission. This budget package makes several adjustments to expand Cal Grant programs. One notable expansion is \$200 million one-time General Fund to establish the Learning-Aligned Employment program. This program promotes learning-aligned, long-term career development for UC, CSU and CCC students. The California Student Aid Commission has been tasked with administering the program, in collaboration with the other public higher education institutions.

The Learning-Aligned Employment program replaces the California State Work Study Program and the Teaching Intern Program and limits student eligibility to underrepresented resident students enrolled at least half-time at a participating UC, CSU or CCC, who demonstrate financial need and maintain satisfactory academic progress.

Other Cal Grant expansion efforts include:

Golden State Education and Training Program. \$472.5 million one-time American Rescue Plan Act of 2021 and \$27.5 million one-time General Fund is provided to establish the Golden State Education and Training Grant program. This program will support displaced workers seeking reskilling and up-skilling, and educational opportunities for individuals who lost their jobs due to the pandemic. Recent trailer bill language (AB 132, 2021) included undocumented individuals as eligible recipients of program grants. The program will allow recipients to use their grants for the costs of either postsecondary programs or high-quality training programs. The grant amount will be determined by the Student Aid Commission and awards will be between \$1,000 and \$2,500.

Community College Expanded Entitlement Award. \$235 million ongoing General Fund is provided to expand community college student eligibility for a Cal Grant entitlement award by eliminating the programs age and time-out-of-high-school requirements. These funds will also be available to support newly eligible community college students that additionally qualify for the students with dependent children supplemental access award. However, students are only able to retain their Cal Grant entitlement awards upon transfer to a CSU or UC. While the Governor's office maintains the expansion provides support for low-income students taking a "nontraditional" pathway to enrolling in college, it seems unnecessarily restrictive. Eligibility for state financial assistance should not restrict where a student chooses to attend a higher education institution.

Middle Class Scholarship (MCS) Expansion. \$515 million ongoing General Fund beginning in 2022-23, for a combined total of \$632 million, to support a revision to the MCS program. The additional resources will focus on reducing a student's total cost-of-attendance. The awards would enable eligible students to reduce the need to borrow resources to finance their education. Middle class college applicants are often caught between low-income financial opportunities and full tuition costs. The revision to the MCS program acknowledges that these students, who often enroll in college at a lower rate than both high- and low-income students, need additional funding options to help make earning an advanced degree possible.

Foster Youth Access Awards. Establishes Access Awards for Foster Youth and Former Foster Youth within the Cal Grant program. Commencing with the 2021-22 academic year, the budget package directs the Student Aid Commission to identify all foster youth or former foster youth who will receive either a new or renewal Cal Grant A, B, or C awards and will attend a CCC, CSU, or UC campus. Identified students will receive an access award up to \$6,000 for Cal Grant A or B recipients and up to \$4,000 for Cal Grant C recipients. The budget stipulates that the program shall not exceed \$40 million and directs the Student Aid Commission to reduce the amount of the awards if the total program exceeds the \$40 million threshold.

California Kids Investment and Development Savings Program (KIDS). \$1.8 billion federal Coronavirus Fiscal Recovery Fund and \$91.7 million General Fund to establish KIDS accounts for eligible children, including undocumented individuals. Initial deposits of \$500 will be made for all students who are considered unduplicated pupils (i.e. English learners, foster youth, homeless, or eligible for free and reduced price meals) and are enrolled in a school entering grades 1 through 12 in the 2021-22 school year. Income eligibility is aligned with the Free and Reduced-price Meals program which, for the July 1, 2021 through June 30, 2022 year is \$58,058 annually for a household size of eight or \$34,340 for a household size of four. The program also includes an additional enhancement deposit of \$500 for eligible students who are foster youth or homeless children and youths.

Business, Labor, and Workforce Development

Key Points

- **Belated Steps to Mitigate EDD Debacle.** The budget belatedly provides \$343 million and makes several policy changes to help address the unemployment claim debacle overseen by the Employment Development Department (EDD).
- **Budget Fails to Address Unemployment Insurance Debt.** Fails to pay down the massive unemployment debt or take steps to offset future tax increases on businesses.
- **Partially Protects Schools from Unemployment Insurance Rate Increase.** Limits the increase in unemployment insurance rates that school districts face.
- **Targeted Support For California Businesses.** Provides more than \$2 billion in additional financial support to California business owners. Early budget action provided \$2.5 billion in relief.
- **Promotes "High Road" Work Programs.** Promotes "high road training programs" by setting out program parameters and requiring the collection of wage and employment data to evaluate them.
- **Community Economic Resilience Fund.** Provides \$600 million one-time in federal funds for regional economic development in selected industries.
- **Unfocused Workforce Program Expansions.** Approves \$245 million for a jumble of workforce development funding efforts without providing justification.

Belated Steps to Mitigate EDD Debacle. Few issues have driven such high levels of calls to elected members' offices than EDD's disastrous response to the rise in unemployment claims resulting from the pandemic shut-down. The need to dramatically improve EDD's computer systems has been known since the Great Recession over a decade ago, yet the current and previous governors did virtually nothing to prepare for the next crisis. Governor Newsom also failed to propose EDD fixes as part of his "early action" budget items that the Legislature addressed in January and February this year.

The budget package belatedly includes funds and several policy changes to address ongoing EDD problems:

- \$276 million one-time General Fund to address claim backlogs and ongoing claims, extensions, and other work within 12 months. This slow timeframe is a continuing indictment of the administration's failure to act early and effectively.
- \$21 million to improve translation, provide a multilingual web portal, and improve outreach to limited-English communities.
- \$11 million to support trained staff in Job Centers of California
- Requires EDD to conduct a fraud prevention assessment, which is similar to a component of Republican Senator Nielsen's SB 232.
- Requires EDD to provide assistance and documents in the top 8 to 15 non-English languages used in California.
- Allows EDD to deposit unemployment and disability insurance payments directly into claimants' accounts, in an effort to address the issues surrounding Bank of America bank cards. Also provides \$11 million over two years to develop the direct deposit option.
- Nearly \$12 million to "reengage" the planning and modernization of EDD's IT systems, an effort that should have been completed prior to the crisis.

Budget Fails to Address Unemployment Insurance Debt. Despite tens of billions of dollars in surplus tax revenues, the budget fails to pay down the massive debt owed by the state's Unemployment Insurance (UI) Fund to the federal government. The EDD estimates that the debt will reach \$24.3 billion by the end of 2021. Due to the lack of state action, employers must pay an estimated \$500 million to \$600 million each year in escalating unemployment taxes, beginning in 2023, to pay back this debt.

Earlier proposals to help employers ultimately were not included in the budget package. The Governor's May Revision proposed to use a modest \$1.1 billion in federal funds to make a payment on the debt, while legislative Democrats proposed granting \$200 million per year in tax credits each year for ten years to help offset the higher taxes. Neither proposal survived the Democrats' secret negotiations. While Democrats provided some subsidies to targeted businesses in the budget package, as described below, their refusal to assist with the UI debt is another example of their ongoing lack of concern for those who actually provide jobs to Californians.

Partially Protects Schools from Unemployment Insurance Rate Increase. School districts have their own version of the Unemployment Insurance Fund, called the School Employee Fund. EDD recently notified school districts that their rates would increase from 0.05 percent of wages to 1.23 percent, nearly a 25-fold increase. Various school districts submitted letters seeking relief from this increase. The budget package (AB 138) sets the contribution rate at 0.5 percent for two years, providing schools partial relief at only a 10-fold increase. Although the state could go further in assisting, school districts will benefit from this protection.

Targeted Support for California Businesses. The budget includes a number of new programs that will provide more than \$2 billion in additional financial support to selected types of California businesses and non-profits, though nearly three-fourths of the total is from federal funds. This new amount is less than the \$3 billion in tax increases for net operating losses that the budget fails to reverse, as described in the *Tax Policy* section of this report. The new \$2 billion in targeted assistance includes the following:

- \$1.5 billion in federal American Rescue Plan Act (ARPA) funds to expand relief to small businesses through the California Small Business COVID-19 Relief Grant Program within the Governor's Office of Business and Economic Development (GO-Biz). This brings the total investment in the program to \$4 billion between 2020-21 and 2021-22. The program is projected to help approximately 210,000 businesses stay open and keep Californians employed. About two-thirds of the funding will be used to provide grants to current waitlisted businesses that have applied for but not received a grant, with the remaining balance of funds opened up to new applicants on a first-come, first-served basis.
- \$150 million General Fund within GO-Biz for the California Venues Grant Program to provide financial relief to independent venues, live events businesses, and minor league sports. Grants of up to \$250,000 will be provided to eligible businesses that have been negatively impacted by the pandemic.
- \$120 million General Fund to establish a new CalCompetes grant program focused on businesses that are unable to benefit from the current CalCompetes Tax Credit program. In order to receive a grant, applications would have to meet at least one of the following criteria: 1) create at least 500 new full-time jobs in the state, 2) make at least a \$10 million infrastructure investment within five years, or 3) create jobs or make investments in high-poverty or high-unemployment area.
- \$95 million in federal ARPA funds for the California Office of Tourism within GO-Biz, which works closely with Visit California.

- \$50 million General Fund for the California Infrastructure and Economic Development Bank for the Small Business Finance Center, to use across programs including the California Rebuilding Fund.
- \$50 million General Fund within GO-Biz to administer the California Microbusiness COVID-19 Relief Grant Program to assist qualified microbusinesses (meaning those with revenues less than \$50,000 annually) that have been negatively affected by the pandemic. Eligible microbusiness will receive grants of \$2,500 each, which will be administered by counties or community-based organizations on behalf of counties.
- \$35 million General Fund to support the California Dream Fund, which would provide micro-grants, up to \$10,000 per grant, to seed entrepreneurship and small business creation in underserved groups that are facing opportunity gaps.
- \$20 million General Fund for IBank’s Small Business Loan Guarantee Program to continue to provide loans as businesses recover from the economic impacts of the COVID-19 Pandemic. The Small Business Loan Guarantee Program uses state funds for guarantees that were not eligible for the federal program.
- \$20 million General Fund for the Cannabis Local Equity Grant Program, administered by GO-Biz, to assist local equity applicants and licensees. This amount is in addition to the \$15.5 million ongoing Cannabis Tax Fund allocated to GO-Biz for this purpose, bringing the 2021-22 total to \$35.5 million.
- \$10 million General Fund within the Department of Financial Protection and Innovation for the Financial Empowerment Fund, which provides grants to non-profit groups serving underbanked and unbanked Californians.
- \$10 million General Fund to provide technical assistance and start-up grants to community groups to build the expertise, partnerships, and local capacity necessary to develop successful applications for state funding programs.
- \$2.5 million General Fund to provide grants for Inclusive Innovation Hubs (IHubs) administered by California Office of the Small Business Advocate within GO-Biz.

Promotes Government-Favored "High Road" Work Programs. The budget package (AB 138) promotes so-called "high road training programs" by defining "high road" and requiring that the Workforce Development Board ("Workforce Board") collect wage and employment data to evaluate them, as well as provide reports to the Legislature on outcome data for the program. These programs involve the government choosing which industries and workers are favored and should be cultivated, rather than letting individuals and the free market decide.

Community Economic Resilience Fund. The budget provides \$600 million one-time in federal American Rescue Plan funds for regional economic development in industries aligned with the High Road approach. The focus will be on advanced energy and "future-looking" jobs such as carbon removal, advanced manufacturing, and climate restoration. The funds will continue the majority party's belief that the government can and should try to manage the economy from the top-down. The budget tasks EDD with administering this new grant program. Not only are there existing and almost identical workforce training programs, but EDD does not appear to be the best department to be taking on more responsibilities amidst benefit fraud scandals and backlogs.

Unfocused Workforce Program Expansions. The budget approves \$245 million General Fund for a jumble of workforce development funding efforts without providing justification or demonstrating that these programs are likely to be effective. The programs may also overlap with existing programs underway at community colleges and universities. The programs include:

- *High Road Training Partnerships.* \$100 million one-time General Fund for the Workforce Board to fund additional High Road Training Partnerships (H RTP) in current and new sectors, such as property services, agriculture, forestry, and manufacturing.
- *Employment Training Panel.* \$50 million one-time General Fund to support training opportunities for workers and address skills gaps in economically disadvantaged regions.
- *“Breaking Barriers to Employment” Initiative.* \$30 million one-time General Fund for the Workforce Board to continue the Breaking Barriers to Employment Initiative, which supports individuals in workforce and education programs in gaining the skills necessary to successfully enter the labor market and retain employment.
- *Social Entrepreneurs for Economic Development.* \$20 million one-time General Fund for the Workforce Board to continue the Social Entrepreneurs for Economic Development program, which provides grants to community-based organizations to provide training and micro grants to help marginalized groups start or maintain a small business.
- *Prison to Employment.* \$20 million one-time General Fund for the Workforce Board to extend and expand the Prison to Employment program.
- *Housing Apprenticeships.* \$10 million one-time General Fund for the Workforce Board to support pathways for workers from disadvantaged communities to State-approved apprenticeships in the trades, with a focus on affordable housing construction.
- *Community Economic Resilience Fund.* \$600 million one-time for the EDD to distribute grants to applicants committed to “High Road” jobs in an effort to promote economic recovery in areas “disproportionately affected” by COVID-19.

Potentially One-Sided Worker Safety Enforcement. The budget package provides \$5 million and establishes a garment worker pilot program to “educate” that industry’s workers about their rights and to provide taxpayer-funded assistance in bringing claims against their employers. If the purpose truly was merely education, or if the bill was not targeting one specific industry, there might be little cause for concern, but this pilot program would specifically fund private organizations such as legal aid groups that have “a minimum of five years’ experience” winning wage claims against private employers.

The budget also provides up to \$23 million and 113 positions for the Department of Industrial Relations to ramp up enforcement of various workplace safety standards and recently enacted legislation regarding COVID-19 standards and requirements.

Public Safety and Judiciary

Key Points

- **Soft-on-Crime Policies Lead to Rising Violent Crime.** Following recent spikes in violent crime, Democrats blame pandemic rather than acknowledging impact of bad policies.
- **Strained Police-Community Trust at Crossroads.** Future relations could hinge on fairness of Attorney General's use-of-force investigations, which are funded in the budget.
- **Effort to Curb Organized Theft Continues.** Funding for joint task force helps retailers still coping with effects of Proposition 47.
- **Hazard Mitigation Funding Targets Disadvantaged Communities.** State funding to pay local governments' share of costs for federal hazard mitigation program will help low-income, high-unemployment, and other disadvantaged communities.
- **Funding for Courts Restored.** Harmful pandemic cuts are eliminated and additional funding provided to address case backlogs.

Violence Intervention Funding Spike Reflects Consequences of Bad Policies. The budget includes a General Fund augmentation of \$76 million to the Board of State and Community Corrections for the California Violence Intervention Program (CalVIP), with a promise from legislative Democrats to continue this elevated funding for the next three fiscal years. (Note that there is no obligation in the budget for the future year funds, however.) This amount represents an increase of more than eight times the 2020-21 funding level. The CalVIP program provides competitive grants that focus resources on communities disproportionately affected by violence – particularly group-member involved homicides, shootings, and aggravated assaults. With a maximum award of \$2 million, CalVIP will be able to fund a minimum of 30 more grants than it did in 2020-21.

According to an April 2021 Public Policy Institute of California report on four major California cities, there was a “troubling rise in homicides in 2020.” San Diego saw a 10 percent increase, San Francisco reported a 17 percent increase, Oakland experienced a 36 percent jump, and Los Angeles saw homicides surge by 40 percent over 2019 figures. The report also notes that data through March 2021 show a “notable rise in homicides and car thefts” during the first part of the year.³ Moreover, An LA Times article points out that homicides in Los Angeles through the first week of July were up 25% over last year (50 percent in South Los Angeles) and that shootings were up by more than half since last year.⁴

Given the recent spike in homicides and other violent crimes plaguing major California population centers, the need for the CalVIP funding increase is apparent. While the ruling party finds it convenient to blame the pandemic for surging violent crime, there is another possible explanation. Perhaps they need look no farther than the recent soft-on-crime reforms they have championed to understand why crime is on the rise in the cities they represent.

Rehabilitation Package Funds More Soft-on-Crime Legislation. The budget includes \$111 million General Fund for six measures intended to reduce incarceration. Several of these measures implement or enhance recent soft-on-crime legislation. The funding breakdown is as follows:

³ <https://www.ppic.org/blog/californias-major-cities-see-increases-in-homicides-and-car-thefts/>

⁴ <https://www.latimes.com/california/story/2021-07-07/a-deadly-july-4th-weekend-in-la-reflects-surge-in-homicides-and-increase-in-shootings>

- \$50 million for local public defenders and other criminal defense counsel serving indigent defendants to address workload resulting from several pieces of recent legislation that allow offenders to be resentenced after having their sentences recalled or vacated. This includes workload associated with the controversial SB 1437 (Skinner, 2018), which eliminated the felony murder rule.
- \$30 million for the Board of State and Community Corrections' Adult Reentry Grant Program, which administers grants to community-based organizations that provide housing support and wraparound services for former inmates as they leave custody.
- \$18 million for a collaborative resentencing pilot between District Attorney (DA) offices, Public Defender offices, and community-based organizations. While the pilot does require agreement between the local prosecutor and the local public defender, this program could be used by recently-elected progressive DAs, like Los Angeles County's DA Gascón, to undo the prosecutorial efforts of their predecessors.
- \$7.5 million to implement AB 1076 (Ting, 2019) retroactively to January 1, 1973. AB 1076 required the Department of Justice (DOJ) to provide automatic expungement of an arrestee's arrest record for misdemeanors and some felonies. This automatic relief by an Executive Branch entity usurps the Judicial Branch's authority to consider the character or behavior of the defendant before granting such relief, and in so doing, undermines an important check and balance on the Executive Branch.
- \$3.5 million to expand the Anti-Recidivism Coalition's Hope and Redemption Teams to all prisons. These teams of former CDCR inmates go back into the prisons to mentor current inmates and model successful rehabilitation.
- \$2.4 million to transform CDCR's Pine Grove Youth Conservation Camp in Amador County into a facility that teaches life skills, connects participants with mental health services, and focuses on reentry. Of this funding, \$2 million must be awarded to nongovernmental organizations to provide and foster mental health care, life skills, peer-to-peer mentorship, life coaching, cognitive-behavioral support groups, prosocial peer support, and robust reentry preparation.

Department of Corrections and Rehabilitation (CDCR)

The 2021-22 budget includes total funding of \$13.6 billion (\$13.3 billion General Fund) for CDCR. This represents an increase of approximately \$240 million above spending levels approved in the Budget Act of 2020. The growth is mostly attributable to efforts to keep COVID-19 out of the prisons, offset by savings from the closure of the Deuel Vocational Institution in Tracy.

Improved Video Surveillance Makes Prisons Safer. The enacted budget includes \$38 million General Fund to expand the installation of modern video surveillance systems to four additional institutions - Salinas Valley State Prison, California State Prison – Sacramento, California Correctional Institution, and Mule Creek State Prison. Including the four facilities that have already been equipped, this would bring high-quality audio and video surveillance to eight of the state's 34 prisons. High-quality video surveillance has been proven to deter criminal activity in the prisons, reduce the incidence of false reports being filed against staff and inmates alike, and generally make prisons safer.

Department of Justice (DOJ)

The 2021-22 budget includes total funding of \$1.1 billion (\$387 million General Fund) for DOJ. This represents an increase of approximately \$41 million above spending levels approved in the Budget Act of 2020.

Use-of-Force Investigations Could Begin to Restore Trust in Police. The budget includes \$15.3 million General Fund for DOJ to establish four regional teams to investigate police use of force incidents pursuant to AB 1506 (McCarty, 2020). Tensions between police and the communities they serve remain near all-time highs, especially in inner cities and communities of color. There is a deep distrust of the police by community members as a result of what many believe to be unnecessary and sometimes unlawful use of force by the police. AB 1506 requires the Attorney General to investigate all officer-involved shootings that result in the death of an unarmed civilian and determine if criminal charges are appropriate. Effective implementation could begin to restore trust, but for that to happen, the investigations must be objective, transparent, and free from political influences. Communities must also be willing to accept the results of the Attorney General's investigations without prejudice.

Continues Funding for Organized Retail Theft Enforcement. In the wake of Proposition 47 (2014), which reduced many felony theft crimes to misdemeanors, retailers across the state suffered as organized rings of thieves began to raid retail establishments for profit. In an effort to curb the problem, AB 1065 (Jones-Sawyer, 2018) established the new crime of organized retail theft. It allowed for the prosecution of retail theft as an alternate misdemeanor/felony when a person either committed theft in concert multiple times, received stolen goods in concert, or recruited and organized individuals for the purpose of organized theft. The bill also established a regional property crime task force, led by the California Highway Patrol (CHP) and the Department of Justice (DOJ), to enforce the law against organized retail theft. Unfortunately, both the definition of organized retail theft and the authority for the regional CHP/DOJ task force sunset on June 30, 2021. AB 331 (Jones-Sawyer, 2021) reestablished the crime and reauthorized the task force, effective July 21, 2021. Senate Republicans supported both AB 1065 and AB 331. The budget provides \$5.7 million General Fund for CHP and DOJ to continue their organized retail theft enforcement efforts.

Implements Anti-Gun Legislation. The budget includes \$1.1 million from the Dealers' Record of Sale Special Account in 2021-22, increasing to \$2 million in 2022-23, for DOJ to implement three firearms bills that were enacted in 2020 (AB 2061, AB 2362, and AB 2847). These bills further erode Californians' Second Amendment rights by directly and indirectly restricting access to firearms and ammunition. All three bills passed the Senate with no Republican votes.

Provides Personally Identifying Firearms Data to Anti-Gun Researcher. A late-session trailer bill requires DOJ to begin providing expanded access to firearm and ammunition-related data to the California Firearm Violence Research Center at UC Davis (Davis Center), and at DOJ's discretion, to other "bona fide research institutions" (which excludes non-academic research organizations, such as the pro-Second Amendment Crime Prevention Research Center). Among the data DOJ would be required to provide is sensitive, personally-identifying information that was previously protected from disclosure for any purpose other than law enforcement by Proposition 63 (2016). Providing this information to researchers, who may have their own agendas, appears to contradict the intent of the provisions of Proposition 63 protecting this data, and could place law-abiding gun owners at risk. Furthermore, it is unclear why the Davis Center, which has had an antagonistic history toward Second Amendment rights, should have preferential access to this data. To maintain fairness, all bona fide researchers should have equal access and limitations concerning this data.

Office of Emergency Services (OES)

The budget includes total funding of \$2.3 billion (\$1.1 billion federal funds, \$817 million General Fund) in 2021-22 for OES. Relative to the 2020 Budget Act, 2021-22 OES spending levels are about \$509 million higher.

Backfill for Federal Victims of Crime Act (VOCA) Funding. The federal VOCA grant program provides grants to states to support victim assistance services for victims and survivors of domestic violence, sexual assault, child abuse, drunk driving, homicide, and other crimes. Funds are typically awarded to nonprofit organizations, including rape crisis centers, domestic violence shelters, housing first providers, victim-witness support organizations, and child advocacy centers. The state's recent VOCA awards are down by roughly half since peaking in 2018. Grant funds have been decreasing due to declines in the program's dedicated revenue stream at the federal level. The enacted state budget provides \$100 million General Fund (one time) to temporarily stabilize grants to sub-recipients, avoiding reductions to crime victim services or loss of service providers that might otherwise occur without this funding.

Hazard Mitigation Funding for Disadvantaged Communities. The budget includes \$100 million General Fund for OES to cover local governments' share of costs to participate in the federal hazard mitigation grant program. The state funding is restricted to "disadvantaged communities", defined as areas disproportionately affected by environmental pollution and other health hazards, areas of low income (less than 80 percent of the statewide average), high unemployment, low levels of homeownership, high rent burden, sensitive populations, or low levels of educational attainment. The federal program is available after a declared disaster to help communities rebuild in ways that reduce risk and the potential impact of future disasters. This funding will help disadvantaged communities that are prone to disasters by ensuring that their local governments' lack of available funding to cover the local share of participation does not preclude them from receiving federal aid.

Judicial Branch

The budget includes total funding of \$4.8 billion (\$2.8 billion General Fund) in 2021-22 for the Judicial Branch, including \$3.6 billion to support the trial courts. Relative to the 2020 Budget Act, 2021-22 Judicial Branch spending levels are about \$805 million higher.

Restores Funding for Courts and Includes Relief for Pandemic Backlog. The budget restores \$200 million in baseline General Fund budget reductions for the Judicial Branch that were implemented last year in anticipation of plummeting revenues. This results in an additional \$177 million for the trial courts and \$23 million for the state-level judiciary. In addition, the budget includes a \$72 million General Fund augmentation to support trial court operations and another \$60 million General Fund for allocation by the Judicial Council to trial courts on a need basis. These important adjustments will allow courts to reopen courtrooms that were temporarily closed and work through case backlogs that accumulated during the pandemic.

Prematurely Expands Judicial Branch Pilot Program. The Budget Act of 2018 authorized the Judicial Council to administer pilot projects in eight courts for online traffic infraction adjudication, including ability-to-pay determinations. The Governor proposed expanding the program beyond traffic infractions to include all infractions and to roll the program out statewide. The LAO recommended only approving the budget-year rollout of the ability-to-pay determination component and rejecting the rest of the online adjudication expansion because, while the ability-to-pay component clearly provides meaningful financial relief to lower-income individuals, the benefits and costs of the rest of the pilot are not as clear. As such, the LAO suggested waiting for the Judicial Council's assessment of the pilot, which is due in June 2022, to better inform the Legislature's decision. Despite the LAO's words of caution, this budget provides \$12 million General Fund to fully expand both components of the pilot statewide.

Funding to Reduce Pretrial Detention Consistent with State Supreme Court Decision. The enacted budget provides \$140 million General Fund to the courts to expand statewide a 2019-20 pretrial pilot program that used pretrial risk assessments, judicial determinations, and least-restrictive

alternatives to detention to protect public safety and ensure defendants' return to court. While drawing conclusions from the results of the pilot is precarious due to a conflicting pretrial detention policy that was implemented during the same period to slow the spread of COVID-19, expansion of the pilot is consistent with a March 2021 California Supreme Court decision that requires judges to favor pretrial release and to consider both the availability of less restrictive alternatives that could reasonably ensure the defendant's appearance in court and a defendant's ability to pay bail. Despite the voters' recent rejection of similar provisions included in Proposition 25 (2020), it appears that the funding in the budget is consistent with the recent high court decision. The question that remains is how effective the pretrial assessment tool developed by the courts as part of the pilot program will be at assessing risk and protecting the safety of the public.

Criminal Fee Eliminations Will Reduce Deterrence for Low-Level Crimes. A late-session trailer bill eliminates 18 "criminal administrative fees", requiring a General Fund augmentation of \$25 million in 2021-22 and \$50 million ongoing beginning in 2022-23 to backfill the revenue to counties for the eliminated fees. Eliminating these fees shifts more of the cost of the criminal justice system from those breaking the law to the taxpayers. Clearly, it will reduce the financial burden on violators, many of whom might otherwise struggle for months or years to escape the burden of debt imposed by the criminal justice system. The relief provided will surely be even more meaningful for lower-income individuals. On the other hand, judges already had broad discretion to reduce or eliminate fees based on a defendant's ability to pay, so in theory, the only people who should have been paying fees are those who could afford to do so. Additionally, prior to this policy change the only real deterrent for many low-level crimes was the financial penalty. When the last consequence for violating the law has been eliminated, the law will have been rendered meaningless.

Resources & Environmental Protection

Key Points

- **Agricultural Package.** Provides \$683 million in 2021-22 for various programs and projects within the agricultural sector.
- **Circular Economy Package.** Includes \$205 million in 2021-22 for food waste and recycling programs.
- **Climate Resilience Package.** Provides nearly \$370 million General Fund in 2021-22 for multi-benefit and climate-centric programs to mitigate the impacts of climate change.
- **Water Resilience and Drought Package.** Appropriates \$855 million (\$730 million General Fund \$125 million special fund) in 2021-22 for drought response and water-related projects.
- **Cap and Trade Expenditure Plan.** Provides \$850 million (Greenhouse Gas Reduction Fund) in discretionary spending.
- **Relief for Overdue Water Bills.** Provides funds to help households and businesses that have incurred overdue bills for water and wastewater during the COVID-19 pandemic.
- **Fairgrounds and Agricultural Support.** Provides over \$400 million to advance activities geared toward varying assistance levels within the state fairgrounds and agriculture industry network.
- **New Fee Authority.** Increases and expands fees for oil and renewable fuels, adding to economic recovery challenges and California's growing affordability crisis.

Agriculture

Enhances Funding for Critical Programs. The end-of-session budget added \$438 million (\$200 General Fund and \$238 special funds) for the Agricultural package. When combined with the \$246 million provided in June, the overall plan totals \$683 million in 2021-22 for a variety of sustainable agricultural programs and activities outlined in the chart on the next page. Notably, the spending plan includes \$75 million for the Funding Agricultural Replacement Measures for Emission Reductions (FARMER) program to support grants that help replace high-emitting agricultural equipment with cleaner equipment. It also includes \$32 million for methane reduction with provisions that require priority to the Alternative Manure Management Program and \$25 million (General Fund) for the Healthy Soils Program, which supports grants for on-farm conservation management practices designed to sequester carbon within the soil. Supporting these programs are suitable investments that reduce emissions and help the agricultural sector recover from the economic impacts of the COVID-19 pandemic.

Expands and Creates New Programs. While the funding supports various programs with measurable benefits, it also offers one-time funding to create new programs and grow others. For example, the budget provides \$12 million for a new Urban Agriculture Grant Program and \$10 million to support the continuation and expansion of the pilot Healthy Refrigeration Grant Program. Further, the

appropriations are one-time, and it is unclear whether the funding provided would produce meaningful results in the agricultural sector recovery due to the pandemic. The details of the Agriculture Package can be found in the chart below.

Sustainable Agriculture
(Dollars in Millions)

Investment Category	Program	2021-22	2022-23	Total
Healthy, Resilient, and Equitable Food Systems	California Farm to School Incubator Grant Program	\$30	\$30	\$60
	Farm to Community Food Hubs Program	\$15	\$0	\$15
	California Nutrition Incentive Program	\$10	\$10	\$20
	Healthy Refrigeration Grant Program	\$10	\$10	\$20
	Senior Farmers Market Nutrition Program	\$0.5	\$0.0	\$0.5
	Urban Agriculture Program	\$12	\$0	\$12
Climate Smart Agriculture for Sustainability and Resiliency	Agricultural Diesel Engine Replacement and Upgrades	\$213	\$150	\$363
	Healthy Soils	\$75	\$85	\$160
	Sustainable California Grown Cannabis Pilot Program	\$9	\$0	\$9
	Livestock Methane Reduction	\$32	\$48	\$80
	Pollinator Habitat Program	\$15	\$15	\$30
	Technical Assistance and Conservation Management Plans	\$17	\$22	\$39
	Transition to Safer, Sustainable Pest Management	\$9.8	\$0	\$10
	Incentives for Alternatives to Agricultural Burning in the San Joaquin Valley	\$180	\$0	\$180
	Research in GHG Reduction	\$5	\$5	\$10
	Invasive Species Council	\$5	\$5	\$10
Climate Catalyst Fund	\$0	\$25	\$25	
Economic Recovery & High-Road Job Growth	Technical Assistance Program for Underserved Farmers	\$5.4	\$5	\$10
	Impact Assessment and Alignment of Regulatory Reporting Requirements for Agriculture	\$4	\$2	\$6
	Fresno-Merced Future of Food Innovation Initiative	\$30	\$0	\$30
	New and Beginning Farmer Training and Farm Manager Apprenticeships Program	\$5	\$5	\$10
	Canine Blood Bank	\$1	\$0	\$1
Total		\$683	\$417	\$1,100

Circular Economy

Elusive Spending Priorities. The budget provides \$205 million in 2021-22 for the “Circular Economy” package. Funding would support the Department of Resources Recycling and Recovery (CalRecycle) and its administration of programs to develop and implement projects to build progress toward a statewide economic system that tackles climate change, waste, and pollution. Notably, the budget includes \$20 million for the Organics Grant Program to expand organics recycling infrastructure such as pre-processing, composting, and digestion facilities to achieve greenhouse gas reductions. There is also \$20 million for a new Recycling Market Development Zone (RMDZ) Loan Program that would provide low-interest loans to recycling businesses to support commercially ready but not yet widely deployed technology. Unfortunately, the details on programmatic priorities for using the funds are unknown and depend on future regulations developed by the administration without legislative oversight. The below chart details funding categories aimed to achieve the state’s statutory climate, reuse, and recycling goals.

Circular Economy Package (Dollars in Millions)

Investment Category	Department	Program	2021-22	2022-23	Total
Organic Waste Infrastructure and Implementation	Cal Recycle	Edible Food Recovery	\$3	\$2	\$5
		Composting Opportunities	\$5	\$0	\$5
		Organic Infrastructure Grants	\$90	\$15	\$105
		Co-Digestion Capacity	\$10	\$10	\$20
		SB 1383 Local Jurisdiction Implementation Grants	\$60	\$0	\$60
Non-Organic Waste	Cal Recycle	Recycling Feasibility Grants	\$2	\$13	\$15
		Recycling Market Development Zone Loan Program	\$25	\$25	\$50
		Quality Incentive Payments for PET Thermoform-Free Beverage Container Loads	\$10	\$0	\$10
Total			\$205	\$65	\$270

Climate Resilience

Spending Reflects Environmental Policy Agenda. The end-of-session budget provides \$369.2 million General Fund in 2021-22 for a Climate Resilience Package, reflecting the deferral of two multi-billion packages related to energy and transportation. Funding would support efforts to respond to extreme heat, address sea-level rise, and help reach California’s commitment to conserving at least 30

percent of California's land coastal waters by 2030. The most significant piece of the Climate Package is \$115 million for the Transformative Climate Communities (TCC) Program, typically supported by the Greenhouse Gas Reduction Fund. The General Fund appropriation represents a major resource shift to support climate-centric community development and infrastructure projects in disadvantaged communities. Please refer to the below chart to review the details of the spending plan.

Climate Resilience Package
(Dollars in Millions)

Investment Category	Department	Program	2021-22	2022-23	2023-24	Total
Extreme Heat	California Natural Resources Agency	Urban Greening	\$50	\$100	\$100	\$250
	Department of Community Services and Development	Low Income Weatherization	\$0	\$25	\$25	\$50
	Strategic Growth Council	Community Resilience Centers/Extreme Heat and Community Resilience Program	\$0	\$50	\$150	\$200
	Various	Extreme Heat Set Aside	\$0	\$150	\$150	\$300
Multi-Benefit and Nature Based Solutions	Department of Fish and Wildlife	Climate Change Impacts on Wildlife	\$15	\$35	\$0	\$50
	Department of Water Resources	Habitat Restoration	\$0	\$125	\$75	\$200
	Wildlife Conservation Board	Protect Fish and Wildlife from Changing Conditions	\$31	\$222	\$100	\$353
	Various	Multi-Benefit and Nature Based Solutions Set Aside	\$0	\$593	\$175	\$768
Building Ocean and Coastal Resilience	Ocean Protection Council	Ocean Protection	\$0	\$50	\$50	\$100
	State Coastal Conservancy	Coastal Protection and Adaptation	\$0	\$350	\$150	\$500
	Department of Parks and Recreation	State Parks Sea Level Rise Adaptation Strategy	\$12	\$0	\$0	\$12
Community Resilience	Strategic Growth Council	Transformative Climate Communities	\$115	\$165	\$140	\$420
		Regional Climate Collaboratives	\$10	\$10	\$0	\$20
	Office of Planning and Research	Climate Adaptation & Resilience Planning Grants	\$10	\$10	\$5	\$25
		Vulnerable Communities Platform and CalAdapt Mapping	\$5	\$0	\$0	\$5
		Regional Climate Resilience	\$25	\$125	\$100	\$250
	Various	Conservancy Funding	\$60	\$0	\$0	\$60
	Cal Volunteers	California Climate Action Corps	\$5	\$5	\$5	\$14
	California Environmental Protection Agency	Environmental Justice Initiative	\$10	\$10	\$5	\$25
Other	Department of Conservation	Biomass to Hydrogen/Biofuels Pilot	\$0	\$50	\$0	\$50
	Various	Fifth Climate Assessment	\$22	\$0	\$0	\$22
	Air Resources Board	Fluorinated Gas Reduction Incentive Program	\$0	\$15	\$0	\$15
Total			\$369	\$2,090	\$1,230	\$3,689

Water and Drought

Final Water and Drought Spending Plan. The end-of-session budget package appropriates \$855 million (\$730 million General Fund and \$125 million special funds) in 2021-22 for the Water Resilience Package. This funding is in addition to the \$2.414 billion already approved for immediate drought response in the Budget Act in June. Some spending categories broadly reflect statutory changes to accelerate emergency drought relief in communities desperate for clean drinking water supplies, such as the \$115 million for groundwater cleanup and water recycling. Others lack clarity and do not demonstrate priorities that a Drought Relief Package demands under current statewide conditions, such as the \$50 million for land repurposing projects. The program provides incentives to repurpose irrigated agricultural land and provide wildlife habitat. Instead of encouraging farmers to fallow their land through multi-benefit projects, the state could aid local farmers with grants that preserve their livelihoods *and* benefit habitat resources. The details of the Water Resilience Package can be found in the chart on the following page.

Cap and Trade

The end-of-session budget details a \$1.5 billion Cap and Trade Expenditure Plan from the state's Greenhouse Gas Reduction Fund (GGRF), representing \$180 million in additional funding associated with higher-than-projected revenue from the August 2021 auction. The plan prioritizes the below spending levels across five broad categories in the 2021-22 fiscal year:

- **Zero-Emission Vehicles (ZEV) - \$735 million.** Funds would support efforts and programs that accelerate the state's low carbon transportation and ZEV Strategy, including the Clean Vehicle Rebate Program and agricultural diesel engine upgrades and replacements.
- **Equity Programs - \$379 million.** Eligible projects include AB 617 implementation, low-income weatherization programs, and Safe and Affordable Drinking Water.
- **Wildfire and Forest Resilience - \$230 million.** Continues supporting SB 901 (Dodd, 2018) implementation and funds projects to reduce fuel loads and enhance forest health and resiliency.
- **Sustainable Agriculture - \$25 million.** Funds will support agriculture incentives and sustainability through grants, like the Healthy Soils Program.
- **Organic Waste Infrastructure - \$165 million.** Funds waste diversion and recycling infrastructure (SB 1383, 2016) and other projects that reduce short-lived climate pollutants, such as wood stove replacements.

The chart on page [59](#) provides more detail for total allocations in the Cap and Trade Package.

Water Resilience Package
(Dollars in Millions)

Investment Category	Department	Program	2021-22	2022-23	2023-24	Total
Drinking Water, Water Supply and Reliability, Flood	State Water Resources Control Board	Drinking Water/Wastewater Infrastructure	\$1,300	\$0	\$0	\$1,300
		PFAs Support	\$30	\$50	\$20	\$100
		Water Recycling/Groundwater Cleanup	\$200	\$100	\$100	\$400
	Department of Water Resources	Salton Sea	\$40	\$100	\$80	\$220
		SGMA Implementation	\$180	\$60	\$60	\$300
		Water Conveyance	\$100	\$100	\$0	\$200
		Flood	\$313	\$237	\$88	\$638
		Watershed Climate Studies	\$25	\$0	\$0	\$25
	Department of Food and Agriculture	Aqueduct Solar Panel Pilot Study	\$20	\$0	\$0	\$20
Department of Food and Agriculture	State Water Efficiency and Enhancement Program	\$50	\$50	\$0	\$100	
Natural Resources Agency	Clear Lake Rehabilitation	\$5.7	\$0.0	\$0.0	\$6	
Immediate Drought Support	Various	Data, Research, and Communications	\$127	\$0	\$0	\$127
	Various	Drought Technical Assistance, Emergency Water Supplies, & Control Section	\$52	\$0	\$0	\$52
	Department of Conservation	Multi-benefit Land Repurposing	\$50	\$0	\$0	\$50
	Department of Water Resources	Small Water Suppliers Drought Relief & Urban Water Management Grants	\$500	\$0	\$0	\$500
	Various	Drought Permitting, Compliance, and Enforcement	\$36	\$3.5	\$3.5	\$43
	Department of Fish and Wildlife	Drought Fisheries and Wildlife Support	\$43	\$0	\$0	\$43
Nature Based Solutions	Natural Resources Agency	Water Resilience Projects	\$165	\$100	\$180	\$445
	Wildlife Conservation Board	Wildlife Corridors/Fish Passage	\$65	\$40	\$0	\$105
		Stream Flow Enhancement Program	\$100	\$150	\$0	\$250
	State Water Resources Control Board	Border Rivers	\$20	\$0	\$0	\$20
	Various	Restoration of Natural Areas and Ecosystems	\$130.1	\$24.4	\$8.9	\$163
	Various	Urban Streams	\$30	\$20	\$0	\$50
Total			\$3,582	\$1,035	\$541	\$5,157

Cap and Trade Expenditure Plan
(Dollars in Millions)

Investment Category	Department	Program	2021-22
Equity Programs	Air Resources Board	AB 617 - Community Air Protection	\$260
		AB 617 - Local Air District Implementation	\$50
		AB 617 - Technical Assistance to Community Groups	\$10
	Community Services and Development	Low-Income Weatherization Program	\$15
	Water Board	Safe and Affordable Drinking Water (\$130 million total)	\$44
Low Carbon Transportation & ZEV Strategy	Air Resources Board	Clean Trucks, Buses, & Off-Road Freight Equipment	\$315
		Agricultural Diesel Engine Replacement and Upgrades	\$170
		Clean Vehicle Rebate Program	\$100
		Clean Cars 4 All & Transportation Equity Projects	\$150
Natural and Working Lands	CAL FIRE	Healthy & Resilient Forests (SB 901)	\$230
	Department of Food and Agriculture	Healthy Soils	\$25
Other	Cal Recycle	Waste Diversion/Recycling Infrastructure	\$130
	Air Resources Board	Woodstove Replacement	\$5
		Small Off Road Engines	\$30
Total			\$1,534

Relief for Overdue Water Bills. The budget includes \$1 billion Coronavirus Fiscal Recovery Fund of 2021 to the State Water Board for local assistance to forgive residential and commercial customer overdue bills and water revenue shortfalls due to the pandemic. The funding is critical to address the growing backlog of household water bill debt due to water shutoff policies and procedures. Republican Senators Grove and Nielsen submitted a budget request to advocate for providing this relief. Many water systems were already struggling to meet requirements before the COVID-19 pandemic emergency, and additional revenue loss will further their decline and place more Californians at risk. The budget also includes provisions to expedite the steps required to identify and assist small and medium water systems with high debt levels currently threatening their ability to operate.

Welcome Assistance Includes Local Fairgrounds. The budget approves a \$150 million one-time General Fund for CDFA to support the development and enhancement of community resilience centers. Unlike past years, the budget specifies that local fairgrounds are eligible to receive funding in addition to state fairgrounds. Provisional language further extends the above eligibility to an additional \$60 million one-time (General Fund) for fairground operational support and to address deferred maintenance needs.

Oil Spill Prevention and Administration Fee (Barrel Fee). The budget includes statutory changes to authorize an increase to the barrel fee from \$0.65 per barrel to \$0.85 per barrel (an increase rise of 31

percent now, with annual Consumer Price Index adjustments following) and regulatory authority to adjust fee levels to maintain a necessary fund balance. It also expands the definition of regulated oil to include renewable fuels that closely mimic conventional oil and threaten the environment if spilled. Increasing current fees on oil and petroleum-based product oil and petroleum-based products fees and imposing new fees on renewable energies is yet another burden on consumers and businesses struggling to comply with the state's overzealous climate goals. In addition to limiting renewable fuel options, this policy impedes the state's carbon reduction goals. Rather than penalizing industries that advance various climate policies, the state could instead promote laws that reward cleaner fuel alternatives.

Energy and Utilities

Key Points

- **Broadband Infrastructure Investment.** Includes \$4.4 billion of a \$6 billion package to invest in new broadband infrastructure to help bridge the “Digital Divide,” but major implementation challenges remain.
- **New Office to Oversee Electrical Utilities.** Establishes the Office of Energy Infrastructure Safety and transfers the California Public Utilities’ (PUC’s) Wildfire Safety Division to the new office.
- **Clean Energy Investments Scaled Back.** Includes \$70 million General Fund for clean energy programs, but failed late-session negotiations result in deletion of \$400 million previously included in the June budget.
- **All-Electric Building Incentives Drive Energy Costs Still Higher.** Includes \$75 million for incentives to builders to build all-electric buildings, which would drive energy prices still higher and contribute further to California’s poverty rate.

Broadband Investment Brings Promise as Well as Questions. The budget includes \$4.4 billion to invest in broadband infrastructure. This includes \$3.25 billion (American Rescue Plan Act of 2021, or ARPA) for the California Department of Technology (CDT) to build a state-owned, open-access middle mile broadband network, \$1.1 billion (ARPA) for the PUC to allocate for last mile broadband projects, and \$50 million (General Fund) to fund a loan loss reserve account. Bridging the Digital Divide is critical, but results will depend on the implementation of the programs by the agencies tasked with making these investments. As detailed below, Senate Bill 156 (Committee on Budget, 2021) includes the statutory framework for the broadband investment, however, many programmatic decisions are left to the CDT and the PUC.

SB 156 requires the CDT to contract with a third-party administrator for construction of the middle mile network. In an attempt to make targeted middle mile investments, the framework prioritizes locations without broadband service meeting the current federal standards, certain critical facilities and anchor institutions without broadband service, and geographically diverse urban and rural locations. While this broad prioritization will help the PUC and the CDT identify locations where investments can be made, it is unlikely the provided funding will be sufficient to support projects in every priority area and the final decisions on project locations appear to be left to the CDT.

However, many questions remain regarding investment in middle mile vs. last mile. Last mile projects provide broadband connections from the middle mile to households, businesses, and public buildings. While an open-access middle mile network will create competition in the marketplace, it is unknown how many unserved or underserved Californians will benefit from this investment. Many private internet service providers already have significant middle mile infrastructure. It is the last mile infrastructure that is desperately needed, often in rural communities, because it is extremely costly to build with a low return on investment.

To begin addressing the last mile need, the budget provides \$1.072 billion for last mile projects. It should be noted the budget indicates an additional \$928 million will be provided over the next two years, for a total last mile investment of \$2 billion. However, there is no binding obligation for the \$928 million. SB 156 provides an allocation methodology for the \$2 billion investment, beginning with the creation of two pots of \$1 billion each for rural and urban counties. From those pots, the PUC allocates \$5 million to each urban and rural county for projects. Remaining funds are allocated based on each county’s proportionate share of California households without broadband internet service with at least 100 Megabits per second (Mbps) download speeds, with the pots remaining separate for urban

and rural counties. Unfortunately, this threshold of 100 Mbps download speed means many more households will be counted toward a county's proportionate share of "underserved" households, likely resulting in more funding for projects that increase existing service speeds from moderate to fast, rather than focusing on households with no service or very slow speeds. Additionally, there is no list of, or criteria defining, which counties are urban and rural. As details continue to be finalized, Senate Republicans will continue to advocate for an equitable distribution of funds to ensure rural communities lacking service do not get left on the wrong side of the "Digital Divide."

It should be noted that two policy bills, SB 4 (Gonzalez, 2021) and AB 14 (Aguiar-Curry, 2021) make significant changes to the California Advanced Services Fund (CASF) Program to further fund broadband deployment and access projects. Collectively, these bills authorize the PUC to collect \$150 million annually in surcharge revenues until December 31, 2032 for the CASF Program. This is a significant increase from prior law, which authorized the PUC to collect \$330 million over a five-year period, or about \$66 million annually. These funds are granted or loaned through the CASF program to support broadband infrastructure projects, technical and project development assistance to applicants, connection of low-income communities to free broadband service, and digital literacy training programs.

SB 156 also sets up a loan loss reserve account to assist local governments, tribes, and non-profits to secure financing to construct and operate new public fiber networks. This is another way communities, particularly rural communities, will be able to close gaps in last mile service. The budget provides an initial \$50 million for this purpose, and indicates additional investments of \$700 million will be provided over the next two years. However, there is no binding obligation for the additional \$700 million.

Lastly, Senate Republicans will need to provide oversight of the broadband infrastructure investments. The state's track record for building infrastructure projects on time and within budget is lacking. The construction of the eastern span of the Bay Bridge was \$5 billion over budget and a decade late. The high-speed rail project is already around \$60 billion over original cost estimates and years behind schedule, and not a single piece of track has been laid. Will this be another taxpayer-funded project costing more than advertised and delivering less than promised? Time will tell if the state can improve its track record with this project.

New Office to Oversee Electrical Utilities. The 2021-22 Budget Act includes \$20.4 million and 90 positions to establish the Office of Energy Infrastructure Safety (OEIS). This includes the transfer of (1) \$10.6 million and 32 positions from the PUC's Wildfire Safety Division; and (2) \$2.1 million and 24 positions from the California Department of Forestry and Fire Protection's (Cal Fire's) Dig Safe Board to the OEIS. The Budget Act adds \$7.8 million and 34 positions to OEIS to implement the establishment of the new office. Ongoing costs for OEIS are \$23.6 million annually.

Assembly Bill 148 (Committee on Budget, 2021), a budget trailer bill, implements the transition of the Wildfire Safety Division to the OEIS. However, many changes in AB 148 go beyond statutory changes necessary to make the transition. For instance, the bill provides very broad investigation and inspection authority to the OEIS, limits appellate rights, authorizes the use of emergency regulations, and provides a definition for "deenergization event".

Regardless of these unnecessary policy changes, hopefully this new entity continues to create a robust structure providing oversight and enforcement of wildfire mitigation measures. Examples of OEIS tasks include development of performance metrics for evaluating wildfire mitigation plans, enforcement of wildfire mitigation plans, review of electrical infrastructure safety requirements, development and incorporation of safety policy in the regulation of utilities, addressing various policy issues including safety culture and Public Safety Power Shutoffs, investigations, and participation in PUC proceedings.

Until now, the state's oversight of electric utility safety by the PUC has been largely nonexistent, with the PUC instead focused on setting rates and implementation of various climate-related energy policies. To the extent the OEIS is successful at reducing utility caused wildfires, human tragedies as well as costs related to emergency response, insurance claims, utility liabilities, and property losses will all decrease.

Clean Energy Investments Scaled Back. The budget includes \$70 million for various clean energy investments as follows:

- \$35 million for resource and transmission planning to meet the state's clean energy goals.
- \$20 million for environmental studies and port improvements for future development of offshore wind resources.
- \$15 million for emergency planning and preparedness.

The June budget package included an additional \$400 million General Fund, subject to future legislation that was expected to allocate the funds among various energy priorities, including the Food Production Investment Program. However, legislative Democrats and the Governor failed to reach an agreement in their secret negotiations on how to spend the money, regardless of the need to advance technologies necessary to achieve their goal of 100 percent clean energy by 2045 while keeping the lights on. Absent a future agreement to allocate the funds, the cost burden to achieve the majority party's clean energy goals will fall completely on the backs of ratepayers.

Climate Resiliency Package to Contribute to Cost-Driven Poverty. The budget includes \$75 million General Fund as part of the Climate Resiliency Package for the Building Initiative for Low-Emissions Development Program Phase 2 to pay incentives for the construction of all-electric buildings, or buildings with energy storage systems, or both. AB 137 (Committee on Budget, 2021) provides the statutory changes to establish the program, but largely leaves program specifics to the discretion of the Energy Commission through the future adoption of guidelines.

Irrespective of the program's intent, all-electric homes and businesses will incur higher utility cost than those with natural gas connections, and thus exacerbate the state's already-high poverty rate. According to a July 2020 report by The Foundation for Research on Equal Opportunity, "Restrictions on natural gas use will result in even-larger energy bills for California residents and further exacerbate the state's poverty problem...banning the use of natural gas imposes a regressive energy tax on low- and middle-income consumers. Prohibiting the direct consumption of natural gas in furnaces, stoves, clothes dryers, and water heaters forces consumers to buy electricity, which in California is four times as expensive as natural gas on an energy-equivalent basis." While AB 137 does not ban natural gas, all-electric consumers who reside in these buildings will pay more for their energy needs. Additionally, as the state continues to shift to all-electric buildings, existing natural gas customers who cannot afford the required investment to convert to electric, will be stuck paying more, as the fixed costs of natural gas utilities are spread among fewer customers. These types of incentive programs are just a first step to a statewide ban.

Transportation

Key Points

- **Zero-Emission Vehicle Subsidies and Infrastructure Investment.** Provides \$2.3 billion for zero-emission vehicle (ZEV) subsidies and infrastructure investments.
- **Transportation Infrastructure.** Includes \$2 billion for various transportation investments. Failed late-session negotiations result in deletion of \$3.3 billion General Fund included in the June budget.
- **Gas Taxes Increase Again as Democrats Reject Gas Tax Holiday.** Already among the highest in the nation, California's gas and diesel taxes increased again on July 1, 2021.
- **Clean California Initiative.** Includes \$1.4 billion over three years to clean up and beautify California highways, local streets, transit facilities, and other public spaces.
- **Department of Motor Vehicles.** Provides \$342 million over several years to continue processing federally compliant driver's licenses and identification cards.
- **High-Speed Rail Folly Possibly Finished?** The budget omits the requested \$4.2 billion in remaining bond funds. Will Legislative Democrats finally end this rail fail?

Zero-Emission Vehicle Subsidies and Infrastructure Investments. Despite billions in subsidies and investments over the last decade, ZEVs have failed to gain an appreciable share of the vehicle market. At the end of 2020, only about 2 percent of registered light-duty (passenger) vehicles in California were ZEVs. In misguided efforts to combat climate change, the Governor set a target to end the sale of passenger gasoline vehicles in California by 2035 and medium- and heavy-duty gasoline vehicles by 2045. This budget furthers that goal by appropriating \$2.3 billion for ZEV vehicle and infrastructure subsidies, including \$1.7 billion General Fund. The distribution of subsidies raises questions. Single filer households making up to \$150,000 annually and joint filer households making up to \$300,000 qualify for state subsidies. A 2018 study by the Pacific Research Institute found 79 percent of electric and plug-in tax credits were claimed by households with adjusted gross incomes topping \$100,000 per year, calling into question whether or not the subsidies are targeting the right populations. With all of the problems plaguing California in the middle of a pandemic, one might argue that forcing people into more expensive vehicles is a strange priority. This funding would be better spent on addressing wildfires, unemployment insurance debt, rising crime rates, or a host of other issues.

Transportation Infrastructure. The June budget made a significant one-time investment of \$5.4 billion (\$3.4 billion General Fund) in the state transportation system. Unfortunately, legislative Democrats and the Governor could not come to an agreement on how to spend \$3.3 billion of the General Fund allocated in June. This funding was removed from the budget in September, with only \$100 million General Fund retained for zero-emission rail and transit demonstration projects. While a substantial portion of the deleted funding was earmarked to support Democrat priorities like active transportation and transit, absent this boost from the General Fund, transportation dollars will eventually fund these types of projects. Among funding Republicans typically support was \$500 million for high-priority grade separations and grade crossing improvements.

The \$2 billion (special and federal funds) for streets, roads, highways, and bridges is also retained in the budget, as it was not contingent upon subsequent legislation. This money flows through existing transportation programs, with the majority of the funding supporting projects in the State Highway Operation and Protection Program (SHOPP). Lastly, despite the large General Fund surplus, the budget fails to make transportation funding whole by ending the diversion of weight fees to fund transportation debt service. Transportation special funds continue to be the only special funds paying for General Obligation Bond debt.

Gas and Diesel Taxes Increase Again as Democrats Reject Gas Tax Holiday. Pursuant to SB 1, the 2017 gas and car tax bill, the tax on gasoline increased by another 0.6 cents per gallon on July 1, 2021. Similarly, the diesel excise tax increased by 0.4 cents per gallon. These automatic adjustments will continue to increase gas and diesel taxes each year on July 1st. California gas prices averaged \$4.43 per gallon, the highest in the nation, as of October 8, 2021, In June **Republicans proposed a one-year gas tax holiday to provide relief to overburdened drivers, but Democrats voted it down**, even though there were sufficient state revenues to continue fully funding all transportation programs without the tax increase

Clean California Initiative. The budget includes \$329 million General Fund to clean up and beautify California highways, local streets, transit facilities, and other public spaces. It should be noted the budget indicates an additional \$1.2 billion will be provided over the next two years, for a total of \$1.5 billion. However, there is no binding obligation for the remaining \$1.2 billion. While California is in desperate need of tidying up, the subsequent bill enacting this program, AB 149 (Committee on Budget, 2021) goes beyond cleaning and beautifying public spaces by requiring project selection to consider potential for greening to provide shade and reduce the urban heat island effect. In relation to state highways, AB 149 includes a program goal to “enhance public health, cultural connection, and community placemaking by improving public spaces for walking and recreation.” AB 149 also prohibits grants to projects that will displace homeless populations. While this is an understandable concern, in some communities the biggest impediment to clean public spaces are tent cities and homeless camps. Regardless, California’s state highways, local roads, and other public spaces are in need of clean up and beautification, to the extent the program is actually implemented to do so, rather than the tangential goals allowed by the budget.

Department of Motor Vehicles

Department of Motor Vehicles (DMV). The budget includes \$342 million over several years for the DMV to process federally compliant driver’s licenses and identification cards, also known as Real IDs. The DMV grossly mishandled Real ID implementation, costing California motorists an extra \$600 million so far. The DMV waited to start issuing Real IDs until the federal compliance deadline was approaching, forcing people to make special appointments rather than obtain their Real IDs on their natural license renewal date. However, for various reasons, the federal compliance deadline was extended several times with the most recent extension pushing the deadline to May 3, 2023. Despite the new deadline, this budget provides another \$342 million over the next three years. With the federal extensions, DMV will actually have been issuing Real IDs for more than five years by the May 2023 deadline, meaning everyone who wants a Real ID could get one or has already gotten one on their natural renewal cycle. It is understandable that COVID-19 may have prevented some folks from choosing a Real ID during renewal over the past year, but even so, it is unclear why the level of additional resources needed is so great. Notably, funding provided for the next three years is General Fund, rather than Motor Vehicle Account.

California High-Speed Rail Authority

High-Speed Rail Funds Noticeably Absent. This budget provides \$624 million for the High-Speed Rail Authority (Authority), including \$532 million from cap and trade revenues for infrastructure. Noticeably absent is the requested \$4.2 billion in remaining bond funding requested by the Authority and the Governor. Negotiations between the Governor and the Legislature are expected to continue over the next several months, which could result in the funds, or a portion of the funds, being appropriated early in 2022.

Perhaps Legislative Democrats can finally see through the smoke and mirrors enough to realize the high-speed rail project is a complete boondoggle. The 2020 Business Plan (finalized in April 2021) reflects another cost increase of \$2.6 billion, as compared to 2019 estimates for the Merced to

Bakersfield line, largely a result of project delays. The plan does not re-evaluate construction costs outside this line. The 171-mile Merced-Fresno-Bakersfield segment is projected to be operational at the end of 2029. When voters approved the high-speed rail bonds, they were told the entire system, San Francisco to Los Angeles and the Sacramento and San Diego extensions, would be operational by 2030.

The 2020 Business Plan also assumes Phase I, Anaheim to San Francisco, will cost between \$82.4 billion and \$100 billion and begin operations in 2033. However, the Phase I costs and completion date can only be realized if more money is sent to the project faster. ***With the current flow of money to the project, cost escalation outpaces the project and there will never be enough money to actually build it.***

Additionally, the scope of the project has changed significantly since 2018. The 2018 Business Plan included the Valley-to-Valley segment with service from San Francisco to Bakersfield. Because of a lack of available funding, the 2019 Project Update Report scaled the project back to a line from Merced to Bakersfield. The Revised 2020 Plan further scales back the project scope by reducing the Merced to Bakersfield line from double track to single track, upon which, interim service would operate through a lease agreement with the San Joaquin Joint Powers Authority.

A Critical Juncture. The high-speed rail project is at a critical juncture. The Authority is planning to enter into massive contracts with 30-year maintenance agreements for track and electrification systems and trainsets. The Authority is also planning to purchase land outside the active construction footprint. These contracts and purchases do not require any further legislative approval and will further commit California to this rail fail, costing Californians tens of billions of dollars.

If the Legislature intends to pump the breaks, or end the project altogether, now is the time to do so by not only rejecting the allocation of the remaining bond funds but ending the flow of up to \$750 million from cap and trade revenues each year. This cap and trade money would be better spent on forest health and fire prevention projects, which actually reduce greenhouse gas (GHG) emissions. Assuming the zero-emission vehicle goals established by the Governor become reality, by the time the high-speed rail train is fully operational, people will be parking their electric cars to ride an electric train. There is no GHG reduction when electricity is swapped for electricity.

Cannabis

Key Points

- **Consolidated Department of Cannabis Control.** The budget consolidates regulatory entities to create a single point of contact for licensees, consumers, local governments, and the Legislature.
- **Local Jurisdiction Assistance Grant Program.** The budget includes \$100 million for grants to help local governments process cannabis permits, but policy changes will make the job harder.
- **Cannabis Tax Allocation.** The budget includes \$629.1 million in cannabis tax revenue to be allocated in 2022-23, as required by a specified formula.

New Department of Cannabis Control. The budget includes \$154 million and 622 positions for a new Department of Cannabis Control (DCC). This reflects the consolidation of the cannabis licensing and enforcement functions of the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health, into the DCC.

Centralizing this industry's regulatory functions creates a single point of contact for cannabis licensees, cannabis consumers, and local governments. It also creates a single enforcement entity, which, if structured correctly, should be more effective than past enforcement of licensed and unlicensed activities. Finally, legislative oversight should improve, as it is easier to oversee one department, rather than divisions within three different departments. As this transition continues, Senate Republicans will look for opportunities for efficiencies to limit cost increases and advocate for more effective enforcement of the cannabis industry.

Funding for Proposition 64 Programs. The Governor's budget includes \$629.1 million to fund the required programs under Proposition 64 (2016, Adult Use of Marijuana Act). After funding specified priority activities such as regulatory administration, local equity programs, and research, the remaining funds are allocated between youth education, prevention, and treatment programs (60 percent), environmental remediation of illegal grows (20 percent), and public safety (20 percent). The funding in the budget includes:

- Education, prevention, and treatment of youth substance use disorders and school retention:
 - \$274.1 million to the Department of Education to subsidize child care for school-aged children of income-eligible families, though child care subsidies may not be an intended use of cannabis tax revenues under Proposition 64.
 - \$73.1 million to the Department of Health Care Services for competitive grants to develop and implement new youth substance prevention and treatment programs.
 - \$18.3 million to the California Natural Resources Agency for grants to fund youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities.
 - \$12 million to the Department of Public Health for cannabis surveillance and education.
- Clean-up, remediation, and enforcement of environmental impacts of illegal cannabis grows:
 - \$75.5 million to the Department of Fish and Wildlife for clean-up, remediation, and restoration of watersheds and enforcement activities on public lands.
 - \$50.3 million to the Department of Parks and Recreation to identify illegal cannabis grows, remediate and restore illegal grow sites on state park land, and make roads and trails accessible for peace officer patrol.

- Public safety-related activities:
 - \$86.2 million to the Board of State and Community Corrections to fund a grant program for local health and safety programs in localities that have not imposed cannabis bans.
 - \$39.6 million to the California Highway Patrol's (CHP's) impaired driving and traffic safety grant program and for training, research, and policy development related to impaired driving.

Local Jurisdiction Assistance Grant Program. The budget includes \$100 million General Fund for the Local Jurisdiction Assistance Grant Program to assist local entities with costs associated with processing local cannabis permits. Many local jurisdictions are overwhelmed by workload required to transition the legacy operators to the legal market. Much of this workload surrounds environmental review and mitigation. These grant funds can be used by the local jurisdictions or passed on to provisional licensees to assess and mitigate environmental impacts. Grant allocations are based on the number of provisional licensees, legacy licensees, and level of CEQA compliance required in jurisdictions across the state. Despite the grant program, changes made to environmental compliance and provisional license timelines by SB 160 (Committee on Budget, 2021) will continue to pose challenges to local jurisdictions. The budget provides specific allocations to 17 local jurisdictions, as follows:

Local Jurisdiction	Grant Amount (in whole dollars)
City of Adelanto	\$972,696
City of Commerce	\$416,870
City of Desert Hot Springs	\$822,160
County of Humboldt	\$18,635,137
County of Lake	\$2,101,143
City of Long Beach	\$3,935,942
City of Los Angeles	\$22,312,360
County of Mendocino	\$18,084,837
County of Monterey	\$1,737,035
City of Oakland	\$9,905,020
County of Nevada	\$1,221,188
City of Sacramento	\$5,786,617
City of San Diego	\$764,261
City and County of San Francisco	\$3,075,769
City of Santa Rosa	\$775,841
County of Sonoma	\$1,158,023
County of Trinity	\$3,295,102

General Government

Key Points

- **Golden State Stimulus 2.0.** Provides \$8.1 billion in additional stimulus payments to low- and middle-income families with an adjusted gross income of \$75,000 or less. Early action on first round of stimulus payments cost \$3.7 billion General Fund.
- **Budget Used for Partisan Election Purposes.** Authorizes manipulation of the recall election date, and provides election “outreach” funds that are subject to partisan abuse.
- **Arts Council and GO-Biz Art Program Expansions.** Includes \$150 million for grant programs focused on youth and workforce development and the arts.
- **CalVolunteers Expansion.** Provides \$152 million for several new grant programs within CalVolunteers for a college service program, climate mitigation, and disaster response.
- **Regional K-16 Education Collaborative.** Provides \$253 million for a regional K-16 collaborative grant program.
- **Restricts State’s Efforts on Debt Collection.** Enacts restrictions on state efforts to collect outstanding debt, consistent with those currently limiting private debt collection entities.
- **Climate Catalyst Funds, Office of Planning and Research** Provides nearly \$450 million in 2021-22 for programs focused on the state’s climate change activities.
- **Deferred Maintenance.** Includes \$2.2 billion for statewide deferred maintenance.

Golden State Stimulus Program. The budget provides \$8.1 billion General Fund to build on previous efforts and expand the Golden State Stimulus program, providing payments to middle-class families with an adjusted gross income of \$75,000 or less. Earlier this year, legislation established the Golden State Stimulus program, which provided \$600 one-time payments to millions of low-income Californians, at a General Fund cost of \$3.7 billion. The new Golden State Stimulus II (GSS II) program is targeted to three groups as follows:

- **Low- to Middle-Income.** \$600 one-time stimulus payments to all taxpayers filing a 2020 tax year return with adjusted gross income of \$75,000 or less who did not already receive a Golden State Stimulus. This component is expected to cost about \$5.6 billion and assist about 9.4 million tax filers.
- **Families.** \$500 one-time stimulus payments to all taxpayers with adjusted gross income of \$75,000 or less with a dependent. This component is expected to cost \$2.2 billion and assist 4.3 million tax filers. (Some of these families will receive \$1,100 if they also qualify for the low- to middle-income stimulus above).
- **Undocumented Families.** \$500 one-time stimulus payments to all immigrant taxpayers with Individual Taxpayer Identification Numbers with adjusted gross incomes of \$75,000 or less and a dependent. This component is expected to cost \$260 million and assist 520,000 tax filers. (These families are eligible for both family credits, so they could receive \$1,000).

Budget Used for Partisan Election Purposes. The majority once again has used a budget “trailer bill” for partisan election manipulation. An elections bill (SB 152, Committee on Budget) allows the majority to manipulate the date of the recall election to a time it deems most advantageous.

The budget also designates \$35 million for the Secretary of State related to the recall election. Some costs are reasonable, such as \$9 million to print and mail the election guide. However, \$17 million is for various media and “outreach” purposes that is at risk for partisan abuse, similar to funds that the previous Secretary of State directed through a backdoor process to a partisan “Team Biden” public relations firm prior to the November 2020 election. Unfortunately, the current Secretary of State similarly claimed “emergency” status and used a backdoor contracting process to award the funds to a firm that, while not as blatantly partisan as the previous contractor, had previously performed work for the Democratic Congressional Campaign Committee in the 2020 election.

Arts Council and GO-Biz Art Program Expansions. The budget includes \$150 million within the California Arts Council and GO-Biz for the following programs:

- \$40 million General Fund to support the new Creative Youth Development Grant program. The Arts Council has several grant programs that support creative youth development through arts education and arts workforce development. These programs include Youth Arts Action, Artists in Schools, Arts Education Exposure, JUMP StArts, and Arts Integration Training. The Arts Council will use partnerships between community-based organizations, educators, and local artists to expand participation in these programs statewide.
- \$60 million General Fund for the new Creative Corps Pilot Program, with expenditures planned for over three years. This program will support artists and local arts organizations with a focus on art campaigns including: (1) public health awareness messages to stop the spread of COVID-19; (2) public awareness related to water and energy conservation, and emergency preparedness, relief, and recovery; (3) civic engagement, including election participation; and (4) social justice and community engagement.
- \$49.5 million General Fund for GO-Biz to administer a California Nonprofit Performing Arts Grant Program that would provide grants of up to \$75,000 to eligible nonprofit performing arts organizations to encourage workforce development.

Cal Volunteers Expansion. The budget includes funding for several new programs within Cal Volunteers, including:

- \$146.2 million to establish a new Californians For All College Service Program within the current CA Volunteers program.
- \$4.7 million General Fund for a new Americorp program called the CA Climate Corp related to climate change mitigation.
- \$1.3 million to maintain an emergency response framework capable of preparing, training, and mobilizing a team of disaster volunteers.

Regional K-16 Education Collaborative. The budget provides \$253 million General Fund to the Department of General Services (DGS) for a regional K-16 collaborative grant program, which would award grants to support regional collaboratives that create streamlined pathways from high school to postsecondary education and into the workforce. It is not clear how this program would work in conjunction with current educational efforts, or why this costly program would be run by DGS, which has no expertise in education, rather than an education department or university system.

STEM Teacher Recruitment Grants. The budget provides \$3 million General Fund to DGS for the purpose of providing grants to recruit Science, Technology, Engineering, and Math (STEM) professionals into the teaching profession by connecting them with teaching, tutoring, and speaking opportunities in K-12 schools. DGS intends to administer this grant program with the assistance of a

third party administrator. Similar to the previous paragraph, it is not clear why DGS would operate this program, which is outside its purview and is likely to be duplicative of efforts underway in education programs already.

State Debt Collection Restrictions. The budget establishes additional restrictions for debt collection from garnishments and levies for very low-wage earners. The budget applies two current private debt collector restrictions to certain types of debt collected by the Franchise Tax Board. The restrictions would apply to court-ordered debt, which includes court-imposed fines and restitution, and to vehicle registration debt, including vehicle registration fees, parking fees, and toll fees, but would not excuse or eliminate the debt, which carries a ten percent interest rate.

Governor's Office of Planning and Research Climate Catalyst Programs. The Governor's Office of Planning and Research will receive nearly \$450 million in 2021-22 for both new and expanded programs, mostly focused on the state's climate change activities. Several of the notable inclusions are as follows:

- \$200 million for grants to cities to support local youth employment programs.
- \$115 million for the Transformative Climate Communities program, administered by the Strategic Growth Council, which provides funds for the creation of neighborhood community plans
- \$65 million for the Integrated Climate Adaptation and Resiliency Program. These funds would support local and regional planning needs, and fund the development of new data visualization tools.
- \$12.5 million for the establishment of the Integrated Climate Adaptation and Resiliency Program Regional Planning Grant program for grants that support regional climate adaptation planning and action plans.
- \$11 million for support or local assistance funding through the Office of Planning and Research for the state's Fifth Climate Assessment.
- \$10 million to provide technical assistance and start-up grants to community groups to build the expertise, partnerships, and local capacity necessary to develop successful applications for state funding programs.
- \$10 million to the Strategic Growth Council for unspecified regional climate collaboratives.

Deferred Maintenance. The budget includes additional one-time resources of approximately \$2.2 billion (\$1.7 billion General Fund and \$511 million Proposition 98 General Fund) for statewide deferred maintenance, including nearly \$1.2 billion for UCs, CSUs, and community colleges, \$237 million for Department of Water Resources, \$188 million for the Judicial Branch, and \$185 million for the Department of Parks and Recreation, among others. A fall 2020 survey of state departments indicated that the statewide deferred maintenance need totals approximately \$66.9 billion, 72 percent of which was reported by the Department of Transportation (\$36.2 billion) and the Department of Water Resources (\$12 billion). This investment will help to address the statewide backlog of deferred maintenance. A full list of department allocations can be found on page 174 of the Governor's General Government 2021-22 Budget Summary.

New Digital ID Development. The budget includes \$35.8 million General Fund and 78 new positions within the Department of Technology to develop a new Digital ID pilot program, enhance statewide IT performance, and expand the CA.gov web portal to include additional departments. The new Digital ID

program will create a system in which a resident may have one account, or a digital identification, that is able to access the myriad of digital state services that California provides.

Gov-Ops Cradle to Career Unit. The budget provides \$15 million General Fund within the Government Operations Agency (Gov-Ops) to establish a new unit that would provide resources for the Cradle to Career IT system.

Tax Preparation and Outreach. The budget includes \$15 million General Fund to the Franchise Tax Board for free tax preparation, outreach, and technical support, including assistance for undocumented individuals obtaining Individual Taxpayer Identification Numbers.

IT Modernization Projects. The budget includes \$25 million General Fund, available for expenditure through 2023-24, to the California Department of Technology (CDT), to fund technology modernization projects. To be eligible for project funding, the technology proposals must meet at least one of the following criteria: (1) improve, retire, or replace existing technology systems; (2) improve information security; (3) improve the efficiency and effectiveness of state entities; or (4) transition state entities' legacy technology systems to cloud computing. The budget requires CDT to develop an implementation plan and submit the plan to the Legislature by February 1, 2023.

Local Government

Key Points

- **Election Costs for September 2021 Recall Election.** Provides \$243 million General Fund for county election activities for the September 2021 recall election.
- **Local Projects Receive More than \$1 Billion in Special Allocations.** The budget includes more than \$1 billion General Fund directed to a long list of specific local projects and state projects with a local focus throughout the state.
- **Federal Support for Cities.** Provides \$609 million from the Coronavirus Fiscal Recovery Fund for distribution to small cities and towns.
- **Special Districts Backfill for Lost Revenue.** Provides \$100 million General Fund for special districts who can demonstrate financial need due to the COVID-19 pandemic.
- **Backfills Local Revenues for Disaster-Struck Counties.** The budget provides \$21 million General Fund to backfill property tax losses for counties impacted by recent wildfires.
- **Youth Workforce Programs.** Includes \$200 million in federal funds for the Youth Workforce Development grant program, and \$185 million in federal funds for grants to cities and counties to create or expand youth employment opportunities.
- **Climate Programs.** Provides \$140 million for the Transformative Climate Communities grant program and \$25 million for the Integrated Climate Adaptation and Resiliency grant Program

Recall Election Costs. The budget provides \$243 million General Fund for county election activities for the September 2021 recall election. The budget requires each county to report on its final cost to administer the election, and requires the Secretary of State to report to the Department of Finance and the Joint Legislative Budget Committee on the final costs by February 1, 2022.

Local Projects Receive More than \$1 Billion in Special Allocations. The budget includes authority for \$871.5 million General Fund for 246 various local projects throughout the state. These projects are typically funded based on requests made by individual members. Examples of larger projects include \$16.5 million to finalize dissolution of the North Coast Rail Authority, \$10 million to the City of Glendale for the Glendale Narrows Bridge, and \$13.5 million to the City of Sacramento for community reinvestment, to name a few. A full list of these projects can be found in Control Section 19.56 of Senate Bill 129 (Skinner).

Additionally, the budget provides \$328 million for dozens of state-run projects with a local focus, including \$10 million to a Pet Assistance and Support program at the Department of Housing and Community Development, \$35 million for the University of California, San Diego, Scripps Reserve Vessel, and \$8 million for the Santa Monica Mountains Conservancy to acquire the Triangle Ranch property. A list of these state/local projects can be found in Control Section 19.57 of SB 129.

Coronavirus Fiscal Recovery Fund. The budget provides \$609 million in federal funds from the Coronavirus Fiscal Recovery Fund for distribution to small cities and towns. A second allocation of \$609 million will be distributed June 2022. Allocations are generally based on the local jurisdiction's share of the state's population. The federal CARES Act provides broad authority for allowable expenditures, stating that funds may be used to cover costs that:

- 1) Are necessary expenditures incurred due to the public health emergency

- 2) Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government
- 3) Were incurred between March 1, 2020, and December 30, 2020

Information on specific allocations to cities and counties can be found on the Department of Finance COVID-19 [webpage](#).

Special Districts Funding. The budget provides \$100 million General Fund for independent special districts who can demonstrate financial need due to the COVID-19 Pandemic. The Department of Finance will work with the California Special Districts Association to develop an allocation plan, to be provided to the Legislature by September 1, 2021. The plan would provide each qualifying district a prorated share of the \$100 million, with each share based on its proportionate share of revenue losses.

Backfilling Local Revenue Losses for Disaster-Struck Counties. The budget provides \$21 million General Fund to backfill property tax losses for the 2020 wildfires for several counties negatively impacted by the disasters, including \$10.3 million to reimburse the Counties of Alpine and San Mateo for earlier wildfires in 2019-20.

Youth Programs May Be Duplicative. The budget includes new funds for youth workforce or student development, though it is not clear how these programs differ in mission from other education or workforce programs already in operation:

- *Workforce Development Program.* \$200 million in federal ARPA funds for the Office of Planning and Research's (OPR) Youth Workforce Development program to provide grants to cities to support local youth employment programs.
- *Youth Employment Grants.* \$185 million in federal ARPA funds within GO-Biz to provide grants to cities and counties to create or expand youth employment opportunities. Of this amount, \$150 million will be provided directly to large cities on a per capita basis and \$35 million will be available to other cities and counties through a competitive grant process.
- *Student Success Coach Grant Program.* \$15 million one-time General Fund to create a grant program that will establish student success coaches in communities to establish relationships with K-12 students and collaborate with teachers to help prepare students with skills.

Transformative Climate Communities Program. The budget provides \$140 million General Fund per year for three years for the existing Transformative Climate Communities program within OPR's Strategic Growth Council, which funds the development and implementation of neighborhood-level community plans that include multiple projects to reduce greenhouse gas emissions.

Integrated Climate Adaptation and Resiliency Program. The budget includes \$25 million General Fund for the Integrated Climate Adaptation and Resiliency Program, which supports local and regional planning activities.

State Employee Compensation and Retirement

Key Points

- **New Contracts with Every State Employee Union.** Reflects collective bargaining agreements between the state and 21 employee bargaining units.
- **Ends 2020 Furlough Program.** Eliminates the 2020 Personal Leave Program (PLP) that reduced employee pay in exchange for furlough days off.
- **Bullish Stock Market Yields Little Progress on Liabilities.** CalPERS and CalSTRS achieve good investment returns in latest year, but make little progress in addressing unfunded liabilities.
- **Resumes Prefunding of Retiree Health Care.** State employees will once again contribute towards retiree health liabilities. The budget also commits \$616 million General Fund to backfill waived employee contributions to retiree health liabilities in 2020-21.

New Contracts Bring Clarity for State Workers, but Sizable New Costs to the State. This budget provides funding for new contracts agreed upon by negotiators representing the Governor and f the state's 21 employee bargaining units. While these contracts bring clarity to state employees after the budget uncertainty during the 2020-21 fiscal year, there is should be concern that these contracts provide overly generous raises (varying from 4 percent to 12 percent in 2021-22) that will burden future state budgets. The 2021 Budget Act includes \$1.96 billion (\$1.06 billion General Fund) to cover the cost of the pay increases, various one-time and ongoing special salary adjustments and pay differentials, increases related to minimum wage changes, and adjustments to the health and dental contributions based on the 2022 estimated premiums, and updated enrollment for active state employees.

No Budget Deficit Means the End of Furloughs. The new collective bargaining agreements ended, on July 1, 2021, the PLP 2020 program that imposed "furloughs" and corresponding pay cuts as a response to the dire state revenue projections adopted in the 2020 Budget Act. Given that our state revenue forecast is dramatically better, there seems to no reason to continue the state employee PLP into 2021-22. The elimination of the PLP will also slow the increasing liability of growing personal leave balances.

Makes An Effort to Address Leave Balances. The new state employee contracts would also provide state employees opportunities to cash out leave credit in 2021. Growing leave balances were a problem before 2020, but the PLP greatly increased this liability for the state by adding furlough days to an employee's leave package. The LAO estimates that the state's leave liabilities likely have increased to more than \$4 billion dollars in 2021-22, with \$500 million of that attributable to the PLP. This effort to accelerate employee cash out programs helps reduce long-term costs for the state by cashing out leave at today's salary levels rather than at levels at higher future salaries.

Despite a Good Investment Year, Pension and Retiree Health Care Costs Still Grow. Despite the recent increases in the stock market which produced investment returns of 21.3% at CalPERS and 13.5% at CalSTRS in 2020-21, the state unfunded pension and retiree health benefit liabilities continue to grow to a staggering \$103 billion. As such, annual state pension contributions have increased substantially compared to just a decade ago, and these costs are projected to continue growing. The state's annual contribution to CalPERS for example is more than \$2.3 billion higher (or 82 percent higher) than the state's contribution in fiscal year 2012-13. For CalSTRS, the contribution increase is \$2.5 billion higher (or a whopping 296 percent higher) over that same period.

The 2021-22 budget includes \$6 billion (\$3.2 billion General Fund) for state pension contributions to CalPERS. This includes \$677 million General Fund for California State University pension costs. In addition, the budget adds \$1.9 billion for a one-time Proposition 2 debt repayment to further reduce the unfunded liabilities at CalPERS.

For CalSTRS, the budget includes \$3.7 billion General Fund for state contributions to CalSTRS as well as a one-time \$410 million Proposition 2 supplemental pension payment in 2021-22 to be put toward the state's share of the CalSTRS.

Retiree Health Care Prefunding Restored. Of the \$195 billion in current unfunded liabilities, \$92 billion is attributable to retiree health care liabilities. In an attempt to address this liability, the state had begun in 2013-14 a shared prefunding plan whereby the state and employees jointly contribute monthly sums to prepaying each employee's retiree health care liability. By addressing future liabilities, the state was attempting to eliminate the retiree health care liability by 2046. Due to collective bargaining agreements in response to the pandemic, the retiree health care prefunding was suspended in exchange for pay reductions. Now in the new collective bargaining agreements, those pay cuts have been restored and the employee contribution to retiree health care prefunding will once again resume.

The budget also includes a one-time payment of \$616 million on behalf of employees for prefunding retiree health, in order to make up for the last year's suspended prefunding payments. The budget counts this one-time payment as part of the state's Proposition 2 debt payment obligation for 2021-22. While this method appears technically allowable under the constitution, there is a risk that the majority party may use it to avoid asking employees to contribute more to reduce the massive remaining liabilities.

Statewide Debts and Liabilities

Key Points

- **Liabilities Rise as State Spends at Record Levels.** Liabilities for pensions and retiree health grew by \$6.5 billion compared to last year, even as the state spends at record levels.
- **Local Governments to Receive Minor Mandate Relief.** Provides nearly \$48 million General Fund to repay local agencies for mandates, but state still has \$553 million in mandate debt.
- **Continued Special Fund Borrowing.** Despite the surplus, the budget fails to pay back \$1.9 billion in special funds authorized last year to address the deficit.

Retiree Liabilities Rise as State Spends at Record Levels. The state's liabilities for pensions and retiree health now reach nearly \$195 billion, as shown in the table on the next page. This amount is higher by a net \$6.5 billion compared to last year, due primarily to a rise of \$7.8 billion in the actuarial value of the long-term liabilities for pensions and health benefits. This rise in debt is occurring as the state makes the minimal required payments on these debts under Proposition 2, even as the state spends at record levels. The Governor and legislative Democrats are choosing to spend at record levels now while long-term liabilities pile up for future generations.

Pays Off Short-Term Education Loans. The 2020-21 budget used a variety of borrowing to help address the deficit projected at that time. As noted in the sections on *K-12 Education* and *Higher Education*, this budget takes the common sense step of fully paying off the deferrals for K-12 school districts and community colleges, though notably Governor Newsom's May Revision proposal would have left billions of that debt outstanding.

Local Governments Get Minimal Mandate Relief Even With Major Surplus. The budget includes \$47.7 million General Fund to repay local agencies for a combination of funded and suspended mandates. However, the state still owes \$553 million in suspended mandate debts to local governments, leaving those governments with less funding for critical programs and services. Utilizing such a small portion of the state's unprecedented levels of General Fund resources is irresponsible as the state is in the envious position of having the resources necessary to pay off the debt. Instead, the state maintains these long-overdue debts that deprive local governments of resources.

Continued Special Fund Borrowing. Despite the surplus, the budget fails to pay back \$1.9 billion in special funds authorized last year to address the deficit. These are internal loans from various state special funds, and the state can pay them back at its discretion if those funds need the resources for program operations. However, these loans were taken out solely to address the then-projected General Fund deficit; now that the budget has flipped to surplus, it would be reasonable to pay back the unnecessary loans instead of using them as an ATM. As pointed out by the LAO, the state's failure to pay these deficit loans back means that the budget continues to borrow in order to pay for current spending.

Fails to Address Unemployment Insurance Debt. As described more fully in the *Business, Labor, and Workforce Development* section earlier in this report, the budget fails to pay down the \$24 billion debt owed by the state's Unemployment Insurance (UI) Fund to the federal government. The default course of action under federal law is for this debt to be repaid by a surcharge on employers beginning in 2023. As such, the UI debt is not included in the table on the next page.

Bond and Proposition 2 Debt Payments. The Budget Act includes \$11.6 billion to pay down the state's current debts and liabilities, as required by the state constitution and bond covenants. Debt payments include the following components:

- \$8.2 billion to pay debt service costs for the state's outstanding and planned general obligation and lease-revenue bonds in 2021-22, as required by the California Constitution and debt issuance documents. According to the State Treasurer, the state currently has outstanding general obligation bonds totaling \$71.4 billion and has authorization to issue \$33.8 billion more. Outstanding lease-revenue bonds total \$8.3 billion, and the state has authorization to issue \$7.2 billion more.
- \$3.4 billion to pay a variety of debts and liabilities as mandated by Proposition 2, including payments for state employee pension and retiree health liabilities, as well as the state's share of teacher pension liabilities.

State and Other Public Debts and Liabilities						
<i>(Dollars in Millions)</i>	At Start of 2021-22	Estimated Payments			Remaining Liabilities	
		2021-22	2022-23	2023-24	2024-25	
Special Fund Loans	\$1,949	\$576	\$592	\$66	\$710	\$5
Education Deferrals						
K-12	\$3,723	\$3,723	-	-	-	-
Community Colleges	\$327	\$327	-	-	-	-
Subtotal	\$4,050	\$4,050	-	-	-	-
State Retirement Liabilities						
State Retiree Health	\$91,929	\$926	\$305	\$325	\$340	\$90,033
State Employee Pensions	\$62,991	\$1,881	\$2,358	\$2,086	\$1,028	\$55,638
Teachers' Pensions (state portion)	\$33,064	\$410	\$307	\$210	\$85	\$32,052
Judges' Pensions	\$3,085	-	-	-	-	\$3,085
SB 84 Loan from SMIF	\$3,700	\$225	\$56	\$14	\$768	\$2,637
Subtotal	\$194,769	\$3,442	\$3,026	\$2,635	\$2,221	\$183,445
Other State Debts						
Long-Term Bonds - General Obligation and Lease-Revenue	\$80,100	\$8,246	\$7,859	\$8,004	\$8,231	\$47,760
Suspended Local Mandates	565	-	-	-	-	\$565
Education Mandates	1,118	-	-	-	-	\$1,118
Subtotal	\$81,783	8,246	7,859	8,004	8,231	49,443
Total State Debt	\$282,551	\$16,314	\$11,477	\$10,705	\$11,162	\$232,893
Other Public Debts						
Teachers' Pensions (Local Districts)	\$69,572	-	-	-	-	N/A
University of California Liabilities*						
UC Employee Pensions	19,800	-	-	-	-	N/A
UC Retiree Health	23,300	-	-	-	-	N/A
UC Subtotal	\$43,100	-	-	-	-	
Total, State and Other Public	\$395,223	\$16,314	\$11,477	\$10,705	\$11,162	

*UC liabilities technically belong to the UC system alone, not the State of California, due to UC's constitutional autonomy, but these liabilities are nonetheless included as eligible for repayment under Proposition 2.

Appendix I: “Early Action” Budget and Trailer Bills

Bill	Subject (Date Enrolled or Chaptered)
AB 80 (Burke)	<p>Paycheck Protection Program: State Tax Deductibility (Chaptered 4/29/21) Cost: \$6.2 billion General Fund</p> <p>Provided partial federal tax conformity on deductibility for paycheck protection program (PPP) loans/grants by allowing full deductions for recipients that had more than a 25 percent reduction in revenue.</p>
AB 81 (Ting)	<p>Unemployment Benefits and Rent Assistance Clarification (Chaptered 2/23/21) Cost: \$5 million General Fund</p> <p>Provides conformity to federal extended unemployment benefits, exempts federal pandemic unemployment compensation from being considered income for CalWORKs eligibility, clarifies that landlords who participate in the tenant relief program receive 80 percent of back rent due, rather than "up to" 80 percent, and extends tenant rental debt repayment deadlines by one year.</p>
AB 82 (Ting)	<p>Childcare/Contact Tracing MOU (Chaptered 2/23/21) Cost: \$1 million General Fund, \$1.2 million Federal Fund</p> <p>Provides a mix of general and federal funds for bilingual pay differential related to contact tracers for COVID-19. Provides federal funds to address immediate needs of childcare providers and eligible families. Provisions include a ratified agreement reached with the Childcare Provider Union.</p>
AB 83 (Budget)	<p>ABC License Renewal Fees: Waiver (Chaptered 3/17/21) Cost: \$3 million General Fund; -\$3 million Special Funds</p> <p>Authorizes fee waivers and establishes a waiver request process for three additional alcohol licensees (those with beer and wine tasting rooms), expanding upon those eligible from the passage of SB 94, a budget trailer bill that waived license fees for several other businesses.</p>
AB 85 (Budget)	<p>Elections Fund Redirection (Chaptered 2/21/21) Cost: \$1.4 billion General Fund</p> <p>Retroactively authorizes Secretary of State to take \$35 million from counties to give to “Team Biden” PR firm. Also approves nearly \$1 billion for various social services programs.</p>

SB 85 (Budget and Fiscal Review)	Wildfire (Chaptered 4/13/21 Cost: \$701.4 million from all funds. Amends the 2020 Budget Act to allocate funds to various programs and activities related to wildfire prevention and underserved farmers. Includes funding efforts to mitigate the impacts of COVID-19 on social services and education programs.
AB 86 (Budget)	School Reopening (Chaptered 3/5/21) Cost: \$6.6 billion Proposition 98 General Fund Provides grants for In-Person Instruction and expands in-person instructional time and academic intervention and supports related to learning loss.
SB 86 (Budget and Fiscal Review)	Social Services (Chaptered 4/16/21) Cost: \$1.2 million General Fund Amends Golden State Stimulus program in order to expedite release of the one-time \$600 increase in cash assistance to recipients in SSI/SSP or the Cash Assistance Payment for Immigrants (CAPI) programs. Continues CAPI program flexibilities for the remainder of the declared COVID-19 emergency. Continues until June 30, 2021 any emergency foster care payments to caregivers that have been waiting for resource family application approval for more than 365 days.
SB 87 (Caballero)	Small Business Relief Grant Program (Chaptered 2/23/21) Cost: \$2.075 billion General Fund Establishes and expands the California Small Business COVID-19 Relief Grant Program, which will provide grants of up to \$25,000 to qualified small businesses and nonprofits with up to \$2.5 million annual gross revenue. The bill sets aside \$50 million for eligible nonprofit cultural institutions.
AB 88 (Budget)	Stimulus Funds, Clean Up: Garnishment, Exclusion from Gross Income (Chaptered 3/17/21) Cost: \$100,000 General Fund Exempts the Golden State Stimulus program's tax credits and cash grants from being considered income for tax purposes, exempts both from a garnishment order, and authorizes the Department of Social Services to establishment the eligibility date for the cash grant.
SB 88 (Budget and Fiscal Review)	Golden State Stimulus and Grant Program (Chaptered 2/23/21) Cost: \$3.7 billion General Fund Implements the Golden State Stimulus program in 2020-21 for one-time \$600 and \$1,200 tax refunds or cash payments to eligible participants, including Earned Income Tax Credit recipients, Individual Taxpayer Identification Number filers, CalWORKs families, SSI/SSP and Cash Assistance Payment for Immigrants recipients.

<p>SB 89 (Skinner)</p>	<p>Budget Act of 2020 (Chaptered 1/29/21) Cost: \$0 (See SB 91 for allocation of \$1.5 billion federal funds) Provides authority (but does not appropriate) for the state to receive and distribute \$1.5 billion in federal funds to provide fiscal relief to Californian renters and landlords negatively affected by the COVID-19 pandemic. The funds can be used to pay for housing expenses, such as rent and utilities, for up to 12 months.</p>
<p>SB 91 (Budget and Fiscal Review)</p>	<p>Eviction Moratorium: Federal Rental Assistance (Chaptered 1/29/21) Cost: \$1.5 billion Federal Funds; \$200,000 General Fund</p> <p>Extends and expands upon AB 3088's COVID-19 eviction protections until June 30, 2021, and distributes federal funds (\$1.5 billion) for Californians to pay off unpaid rental debt. Creates new workload for the trial courts to adjudicate cases alleging violations of the eviction moratorium requirements.</p>
<p>SB 92 (Budget and Fiscal Review)</p>	<p>Juvenile Justice: Remaining Realignment (Chaptered 5/14/21) Cost: \$2.1 million General Fund</p> <p>Makes the final transfer of responsibility for housing and treating the most serious and violent juvenile offenders from the state to the counties, which was set in motion by SB 823 (Committee on Budget and Fiscal Review, 2020). In so doing, it would clarify the post-July 1, 2021 process of juvenile commitments for the courts and the counties, which was not adequately addressed by SB 823.</p>
<p>SB 93 (Budget and Fiscal Review)</p>	<p>Employee Rehiring and Retention Mandate (Chaptered 4/16/21) Cost: \$6 million (Special Fund)</p> <p>Establishes a retroactive "recall right" for employees laid off from the hospitality industry due to COVID, and mandates new procedures for employers to offer jobs to laid-off employees, including a preference system based on seniority rather than merit.</p>
<p>SB 94 (Skinner)</p>	<p>License Renewal Fee Waivers: (Chaptered 2/23/21) Cost: \$25.6 million General Fund</p> <p>Provides a one-time renewal fee waiver for cosmetologists, barbers, manicurists, estheticians, and electrologists, and authorizes fee waivers and establishes a waiver request process for certain licensees under the Department of Alcoholic Beverage Control.</p>
<p>SB 95 (Skinner)</p>	<p>Supplemental Paid Sick Leave (Chaptered 3/19/21) Cost: \$19 million General Fund, \$22 million federal funds.</p> <p>Extends and expands eligibility for up to 80 hours of COVID-19 paid supplemental leave to covered employees of all employers with more than 25 workers, applying the benefits retroactively to January 1, 2021 and extending them through September 30, 2021.</p>

Appendix II: Summer 2021 Budget and Trailer Bills

Bill	Subject (Date Enrolled or Chaptered)
AB 128 (Ting)	<p>Initial Budget Bill (Chaptered 6/28/21)</p> <p>Initial budget bill passed by the Legislature to meet the June 15 deadline. Reflects only the two-party agreement between Assembly and Senate Democrats.</p>
SB 129 (Skinner)	<p>Budget Bill Junior #1 (Chaptered 7/12/21)</p> <p>Makes substantial changes to AB 128 to reflect the three-party budget agreement with the Governor.</p>
AB 130 (Budget)	<p>Education (Chaptered 7/9/21)</p> <p>K-12 Omnibus budget trailer bill. Pays outstanding \$11 billion Proposition 98 deferral balance. Increases Special Education base rate to \$715 per average daily attendance and directs additional funding toward teacher recruitment and professional development. Extends the moratorium on new non classroom based charter schools and reduces standards for attainment of teacher credentials. Expands Transitional Kindergarten beginning 2022-23 and requires schools to provide two free meals to student regardless of need.</p>
AB 131 (Budget)	<p>Child Development Programs (Chaptered 7/23/21)</p> <p>Transfers child care program, authority, and resources from the Department of Education to the Department of Social Services and ratifies an agreement with the new child care union.</p>
AB 132 (Budget)	<p>Higher Education (Chaptered 7/27/21)</p> <p>Higher Education omnibus trailer bill. Revises financial assistance for middle class scholarship and reduces non residence enrollment at the University of California. Pays off remaining Community College deferral balance. Limits Cal Grant A and B entitlement award recipient's higher education institution options. Makes various other changes.</p>
AB 133 (Budget)	<p>Health Omnibus (Chaptered 7/27/21)</p> <p>Expands Medi-Cal eligibility to undocumented individuals age 50 and above. Eliminates the Medi-Cal asset test for seniors and the disabled. Creates new state health department. Eliminates Medi-Cal budgetary "suspensions". Creates a grant funding program for mental health treatment bed capacity. Streamlines the provision of behavioral health services for all children and young adults under 25.</p>

AB 134 (Budget)	Mental Health (Chaptered 7/16/21) Provides counties an additional year of Mental Health Service Act funding flexibilities and appropriates \$187 million in federal funds to support community mental health services.
AB 135 (Budget)	Human Services Omnibus (Chaptered 7/16/21) Addresses programs including CalWORKs, In-Home Support Services, SSI/SSP, Food Assistance, Housing, Child Support, and Aging/Adult Programs.
AB 136 (Budget)	Developmental Services Omnibus (Chaptered 7/16/21) Addresses programs and services for Californians with developmental disabilities, including a phase-in implementation of rate reform and rate increases proposed in a 2019 rate study.
AB 137 (Budget)	General Government (Chaptered 7/16/21) Continuously appropriates \$300 to \$600 million, collected from utility ratepayers of large electric and gas corporations, improves access to financial education tools, creates a program to provide financial relief to consumers harmed by solar installers, involuntary sterilization compensation language included, and creates a program to incentivize construction of all-electric buildings, ultimately resulting in higher utility costs for consumers.
AB 138 (Budget)	Labor & Employment (Chaptered 7/16/21) Makes changes to a range of programs including the Employment Development Department, state pension liabilities, retiree health, school unemployment insurance payments, a new garment worker pilot program, and job training.
SB 139 (Budget)	Golden State Stimulus (Chaptered 7/12/21) Implements an additional stimulus payment program, at a cost to the state of \$8.1 billion General Fund, to residents earning up to \$75,000 per year in some cases, including undocumented immigrants.
AB 140 (Budget)	Housing (Chaptered 7/19/21) Includes statutory changes for allocation of \$1 billion to support local homelessness programs, grants for locals for planning activities for housing and infrastructure needs, increases local flexibility and reduces barriers for development of excess state lands, expanding eligible uses to commercial developments, permanent supportive housing, and traditional housing, and provides authority for local jurisdictions to resolve critical homeless encampment concerns.

AB 141 (Budget)	Cannabis (Chaptered 7/12/2021) Establishes the Department of Cannabis Control and transfers cannabis licensing and regulatory functions to the Department from the Bureau of Cannabis Control, the California Department of Food and Agriculture, and the California Department of Public Health.
SB 142 (Budget)	Memoranda of Understanding for Multiple Units (Chaptered 6/30/21) Approves the memoranda of understanding between the state and the unions for 19 state bargaining units, including the Association of Highway Patrolmen, the Statewide Law Enforcement Association, AFSCME, and SEIU 1000.
AB 143 (Budget)	Courts (Chaptered 7/16/21) Authorizes the Judicial Council to use the design-build procurement methodology for all judicial branch construction projects. Puts a structure in place to begin implementing audit recommendations concerning the Commission on Judicial Performance's (CJP) weak oversight. Expands an online program to assess defendants' ability to pay fines and fees.
SB 144 (Portantino)	Film Tax (Chaptered 7/21/21) Provides authority for \$240 million in new tax credits within the Film and TV Tax Credit program, including \$90 million in additional tax credits for relocating and recurring television productions for two years, and establishing a \$150 million studio construction tax credit.
AB 145 (Budget)	Public Safety (Chaptered 7/16/21) Implements a job shadowing and job readiness program for new Correctional Officers. Temporarily stabilizes Community Corrections Performance Incentives Program funding for local probation departments. Authorizes participation by violent felons in community reentry programs. Deletes CDCR's statutory authority to operate the Deuel Vocational Institution. Authorizes a court to place certain juvenile offenders directly into the Pine Grove Youth Conservation Camp. Expands automatic expungements that were enacted prospectively by AB 1076 (Ting, 2019) to be retroactive to January 1, 1973.
SB 146 (Budget)	Correctional Facilities (Chaptered 7/12/21) Extinguishes approximately \$272 million in lease-revenue bond authority allocated to counties for local adult correctional facilities construction (\$229 million) and to the Receiver for health care facility projects (\$43 million).
SB 147 (Budget)	Supplemental Appropriations Bill (Chaptered 6/30/21) Augments the Budget Act of 2020 by \$17.2 million General Fund for the Department of Corrections and Rehabilitation (CDCR) to take current-year action to comply with court orders in <i>Armstrong v. Newsom</i> and for payment to Mariposa County for costs associated with a 2001 homicide trial.

AB 148 (Budget)	Resources (Chaptered 7/22/21) Resources Trailer bill for Budget Year 2021-22. Makes various changes to existing resources and environmental programs, most notably increasing the oil spill prevention and administration fee imposed on each barrel of oil.
AB 149 (Budget)	Transportation (Chaptered 7/16/21) Provides relief to transit agencies and local jurisdictions impacted by COVID-19, implements the Clean California Initiative, provides an Adopt-A-Highway stipend, extends the cap on indirect costs charged by Caltrans to self-help counties, and establishes a digital driver's license pilot.
AB 150 (Budget)	Revenue and Taxation (Chaptered 7/16/21) Provides a new homeless tax credit program, creates a new elective tax for S Corps, increases funding for the Cal Competes tax credit program, increases the Main Street hiring credit, and extends the State Historic tax credit.
SB 151 (Budget)	Small Business Grants (Chaptered 7/12/21) Provides authority for additional rounds of grants to be awarded to eligible nonprofit cultural institutions, expands the definition of businesses eligible to participate in the California Dream Fund program, establishes a new Cal Competes Grant program, creates the California Nonprofit Performing Arts Grant Program, establishes a new grant program for eligible independent live event venues, and establishes the California Microbusiness COVID-19 Relief Grant Program.
SB 152 (Budget)	Elections (Chaptered 6/28/21) Makes changes to the current recall process to allow a recall election to be called sooner by authorizing the Legislature to waive the Joint Legislative Budget Committee's cost review time period (30 days) under certain conditions. Also authorizes \$35 million for the Secretary of State for recall activities.
AB 153 (Budget)	Child Welfare and Foster Youth. (Chaptered 7/16/21) Enhances existing programs and provides for new services for vulnerable children and youth being served within California's foster care system, as well as those aging-out of the system.
SB 156 (Budget)	Broadband (Chaptered 7/20/21) Reflects the three party deal for broadband infrastructure, providing the statutory framework to implement the broadband provisions contained in the 2021 budget package for a state-owned open-access middle mile broadband network and last mile broadband infrastructure investments.

AB 157 (Budget)	Crime Prevention: Enforcement and Training Programs (Chaptered 7/16/21) Redirects several state funding streams away from the California District Attorneys Association (CDAA) and to other recipients in response to a CDAA-initiated independent audit.
SB 158 (Budget)	Toxics (Chaptered 7/12/21) Creates the Board of Environmental Safety within the California Environmental Protection Agency to provide policy direction to and oversight of the Department of Toxic Substances Control. Raises and recasts existing fees within the Hazardous Waste Control Account (HWCA) and raises the environmental fee.
SB 159 (Budget)	Memorandum of Understanding for Peace Officers (Chaptered 7/1/21) Approves the memorandum of understanding with Bargaining Unit 6, the California Correctional Peace Officers Association (CCPOA).
SB 160 (Budget)	Cannabis Clean-Up (Chaptered 7/16/21) Amends the prior cannabis trailer bill (AB 141), which was drafted behind closed doors and hastily pushed through the Legislature. Specifically, this bill adjusts criteria related to the qualifications for the Department of Cannabis Control to issue provisional licenses and renewals and delays the implementation of the appellations of origins program by one year.
AB 161 (Ting)	Budget Bill Jr. #2 (Chaptered 7/9/21) Adds more funds for the 2021 recall election. Authorizes more funds for wildfire prevention. Redirects funds for the University of California.
AB 164 (Ting)	Budget Bill Jr. #3 (Chaptered 7/16/21) Shifts \$500 million from middle mile broadband to the last mile broadband projects. Authorizes non-transparent public health contracts. Adds funding for the distribution of needle exchange program supplies.
AB 832 (Chiu)	Eviction Moratorium and Rental Assistance (Chaptered 6/28/21) Extends the eviction moratorium by 90 days to October 1, 2021, and provides for the allocation of \$1.2 billion in federal rental assistance funds. Not technically counted as a trailer bill, but was heard as an informational item (without a vote) in the Senate Budget and Fiscal Review Committee.

Appendix III: End-Of-Session Budget and Trailer Bills

Bill	Subject (Date Chaptered) and Summary
SB 170 (Skinner)	<p>Budget Bill Junior #4 (Chaptered 9/23/21)</p> <p>Appropriates roughly \$3.9 billion for various programs, including wildfire prevention, water resilience, Cap & Trade discretionary spending, agriculture, climate actions, and others.</p>
SB 155 (Budget)	<p>Resources #2 (Chaptered 9/23/21)</p> <p>Makes numerous policy changes, including expanding the existing prohibition on water shut-offs to all water systems; making a continuous appropriation for healthy forest and fire prevention grants; providing a 5 percent pay raise for the Public Utilities Commission this year and each of the next two years; and extending the prohibition on water shut-offs under the Arrearage Payment Program to all water systems, among other changes.</p>
SB 162 (Budget)	<p>Community Economic Resilience Fund (Chaptered 9/23/21)</p> <p>Creates the Community Economic Resilience Fund at the Employment Development Department to administer \$600 million in federal funds, prioritizing "high-road partnerships" aimed at regions disproportionately affected by COVID-19.</p>
AB 163 (Budget)	<p>State Government (Chaptered 9/23/21)</p> <p>Includes changes to the Transcript Reimbursement Fund to allow for payment of claims for costs incurred, waives licensing fees for cardrooms, increases appropriation for Capitol Annex project to \$37 million, requires the creation of an implementation plan for long-term strategies to modernize state IT systems, and expands eligibility to receive state victim services from being a victim of not only a hate crime, but also a victim of a hate incident.</p>
SB 165 (Budget)	<p>State Employment: State Bargaining Unit (Chaptered 9/23/21)</p> <p>Approves the MOUs for protective services employees and firefighters, and includes additional pay raises for both employee groups. The bill also fixes technical errors and specifies that the General Fund appropriation to backfill waived employee retiree health contributions from 2020-21 counts towards the constitutionally required Proposition 2 debt payment.</p>
SB 166 (Budget)	<p>Cannabis: Equity Applicants and Licensees (Chaptered 9/23/21)</p> <p>Specifies criteria for cannabis applicants or licensees to be considered "equity applicants and licensees" for purposes of qualifying for waiver or deferral of state fees.</p>

AB 167 (Budget)	K-12 Education Omnibus (Chaptered 9/23/21) Clarifies school funding related to independent study and quarantined students including classroom based charter. This bill also clarifies ADA funding and fund use for the Classified School Employee Summer Assistance Program, and amends the Pre-Kindergarten Planning and Implementation Grant program to specify base grant amounts.
SB 168 (Budget)	Child Care: Technical and Clarifying Changes (Chaptered 9/23/21) Specifies that the Emergency Child Care Bridge Program for Foster Children and Migrant Alternative Payment program are eligible to receive pandemic relief funds. The bill includes clarifying language to allow for the self-certification of emergency child care voucher eligibility and requires additional notification of parties when the Department of Social Services makes changes the child care reimbursement rate methodology.
SB 169 (Budget)	Postsecondary Omnibus (Chaptered 9/23/21) Clarifies that State Special School students are eligible for the KIDS Savings program. Establishes the Higher Education Student Housing Grant Program and the Higher Education Capacity Expansion Grant Program.
SB 171 (Budget)	Health (Chaptered 9/23/21) Implements a one-time Home and Community Based Services spending plan, extends current Medi-Cal appointment time and distance standards by one year, appropriates \$6.4 million for community mental health services, and requires a Medi-Cal housing support service provider network adequacy analysis.
AB 172 (Budget)	Human Services (Chaptered 10/08/21) Includes technical clean-up provisions, creates a career pathways program for In-Home Supportive Services (IHSS), and establishes the Community Care Expansion program.
AB 173 (Budget)	Public Safety (Chaptered 9/23/21) Clarifies that the prohibition against bringing a weapon into the State Capitol or legislative offices also applies to the Capitol Annex Project swing space at 10 th and O Streets. Requires the Department of Justice (DOJ) to provide various firearm-related data to the California Firearm Violence Research Center at UC Davis and, at DOJ's discretion, other nonprofit bona fide research institutions.
AB 174 (Budget)	Transportation (Chaptered 9/23/21) Includes various minor changes related to the Department of Motor Vehicles and motor carrier requirements. Appropriates \$1.63 million for a local transit project.

AB 175 (Budget)	Housing (Chaptered 9/23/21) Provides authority for Cal Expo to continue to provide services and emergency shelter for homeless individuals, extends timeframe for a North Hollywood surplus land development project, revises eligibility and reporting requirements within the Homeless Housing and Assistance program, and makes changes to SB 1079 (mortgage deeds and trusts) in order to minimize confusion and eliminate potential loopholes during implementation.
AB 176 (Budget)	Economic Development and Taxation (Chaptered 9/23/21) Restricts the state's efforts for debt collection from very low-wage earners, allows organizations that are considered a fiscal sponsor to apply for CAC grant funding, clarifies definitions of "motor vehicle" for purposes of the Used Car Sales Tax program (exempts RV's and park trailers), and makes several changes within several of the state's new economic development grant programs to ensure consistency between them, especially with regard to exemptions from gross income consideration.
AB 177 (Budget)	Public Safety: Courts (Chaptered 9/23/21) Eliminates 18 criminal administrative fees that fund various parts of the criminal justice system, makes outstanding debt from those fees uncollectable on January 1, 2022, and provides funding to the counties to backfill lost revenues. Increases court reporter transcription fees. Extends Judicial Council's emergency authority to take necessary actions to respond to the pandemic through January 31, 2022.

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