CALIFORNIA SENATE REPUBLICANS

Highlights and Analysis of the 2024-25 Enacted Budget

Updated October 29, 2024

SENATE REPUBLICAN FISCAL OFFICE

Table of Contents

TABLE OF CONTENTS.....1

EXECUTIVE SUMMARY 2

REVENUES, EXPENDITURES, AND DEFICITS 12

HOUSING.....19

HOMELESSNESS.....23

TAX POLICY 25

HEALTH.....28

BEHAVIORAL HEALTH 32

HUMAN SERVICES 35

DEVELOPMENTAL SERVICES 40

CHILD CARE AND EARLY EDUCATION.....42

K-12 EDUCATION 44

HIGHER EDUCATION.....49

LABOR AND WORKFORCE DEVELOPMENT.....54

PUBLIC SAFETY AND JUDICIARY.....56

RESOURCES & ENVIRONMENTAL PROTECTION 61

ENERGY AND UTILITIES 71

TRANSPORTATION 74

LOCAL GOVERNMENT.....77

GENERAL GOVERNMENT 78

STATE EMPLOYEE COMPENSATION AND RETIREMENT.....81

STATEWIDE DEBTS AND LIABILITIES.....84

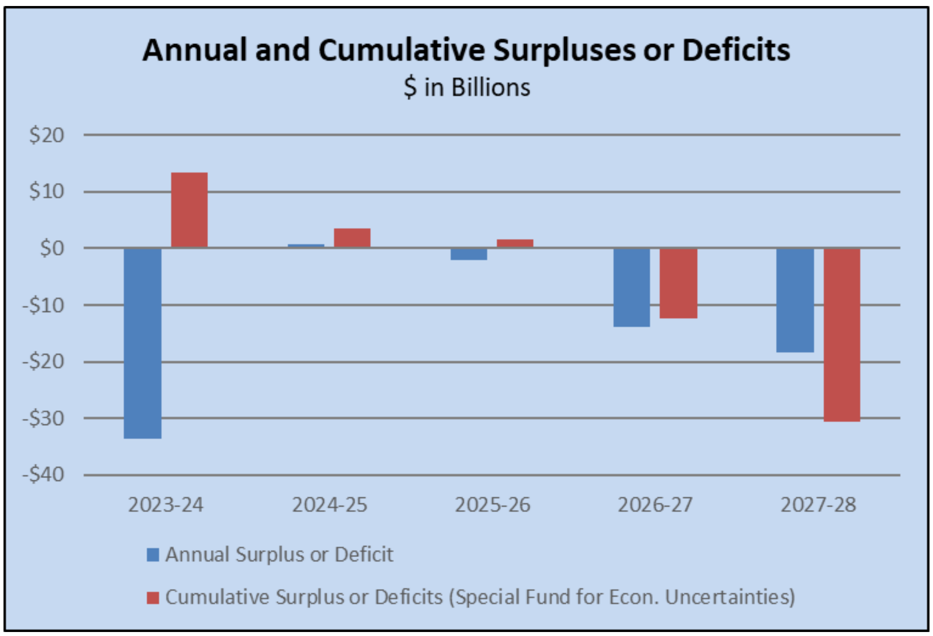
APPENDIX: TRAILER BILLS 87

SENATE REPUBLICAN FISCAL STAFF ASSIGNMENTS 92

Executive Summary

Overall Budget

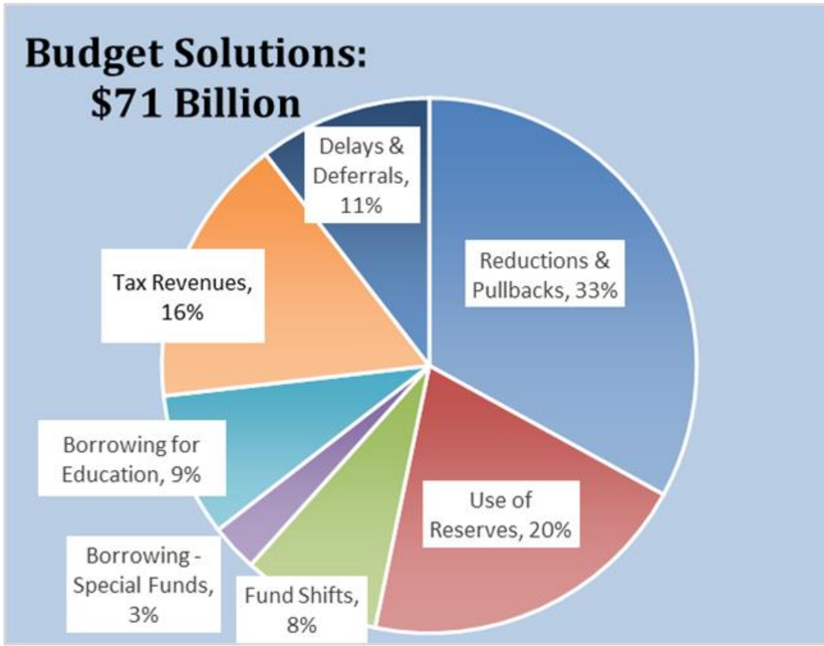
Continues Long-Term Trend of Spending Growth and Deficits. The 2024-25 budget would spend nearly $212 billion General Fund, a decline of about $12 billion from the prior year. Despite the deficit, the budget would still spend $16 billion General Fund more than the level seen just two years ago in 2022-23. The three future years included in the forecast would continue that long-term growth trend in spending, which would outpace revenues for years into the future. The budget is purportedly balanced through 2025-26, but only precariously so on paper using largely short-term solutions. The “balance” also ignores billions in higher spending that is likely to occur through the new health facility wage mandate or November ballot propositions. The budget puts California on pace to create operating deficits of $14 billion in 2026-27 and $18 billion in 2027-28, as shown in the chart below, even without a decline in revenue or further increase in spending.



Governor’s Deficit Lower than Nonpartisan Estimate. The 2024-25 budget purportedly solves a deficit of $47 billion, though the nonpartisan Legislative Analyst’s Office (LAO) points out that the Governor preemptively removed some solution proposals from that deficit calculation, even though the Legislature had not yet approved those actions. Thus, the Governor’s accounting artificially reduces the size of the deficit. After adding back those precounted solutions, and thus returning to the typical accounting approach, the deficit increases to $71 billion.

Spending Potentially Undercounted. In addition to the unusual accounting, the Governor undercounts spending for the newly implemented health care facility wage mandate authorized by SB 525 (Durazo, 2023) by potentially $2 billion. The budget also does not address potential spending in the low billions of dollars that voters may approve on the November 2024 ballot for bond measures or the health care tax redirection initiative.

Budget “Solutions” Almost Entirely Short-Term. The deficit solutions in the enacted budget total nearly $71 billion through 2024-25, after adding back precounted solutions. Unfortunately for the long-term sustainability of the state budget, only 8 percent of the solutions are ongoing. The remainder include short-term solutions that affect one to three years of spending, or potentially require higher spending in the future to pay back borrowing. Only one-third of the solutions are characterized as spending reductions. The $71 billion solutions package includes the components summarized in the chart below.



The largest individual items include use of general reserves ($6 billion), various tax increases on businesses ($6 billion), tax increases on managed care plans ($5.6 billion), and an across-the-board reduction to state operations ($2.2 billion). Gimmicks included in the solutions package are a one-day delay in state payroll from June 30, 2025, to July 1 ($1.6 billion), which would not pass muster in any private corporation, and the use of a previous pension debt reduction payment to offset current state pension contribution ($1.3 billion).

An additional $27 billion in budget solutions would occur in 2025-26, addressing the deficit for that year, at least on paper and before accounting for the potentially higher spending described above. These solutions that are either carryforwards from solutions adopted in 2024-25 or new solutions for 2025-26. The largest solution for 2025-26 is the withdrawal of $7 billion from reserves.

Reserves Used While Program Expansions Continue. The budget would use $6 billion from General Fund reserves in 2024-25, including a withdrawal of $4.9 billion from the state Rainy Day Fund. The 2025-26 budget would withdraw another $7 billion from the Rainy Day Fund, helping to avoid a deficit in the forecast for that year. The state continues to increase spending, though, including through new or recent discretionary program expansions that are still ramping up. This indicates that the budget is using reserves to expand programs, not merely maintain existing programs, in defiance of common sense fiscal management. The resulting deficits mean that reserves would be wiped out in 2026-27.

Californians Have Taken Billions in Tax Dollars to Other States. The nonpartisan LAO evaluated the tax revenue effects of Californians moving to other states in a July 2024 report, finding that the lost revenue in 2022 accounted for about 1.6 percent of personal income taxes that year. Additional information this office requested from the LAO indicates that the cumulative net effect of Californians moving to other states is about $7 billion less in tax revenue each year.

Tax Policy

Raising Billions in New Taxes. Despite Governor Newsom's claim that he is not raising taxes, the budget raises taxes by $6 billion in 2024-25, and by nearly $16 billion over a multiyear period, through business tax increases that could also drive consumer prices higher. Specifically, the budget suspends the use of Net Operating Losses (NOL) for medium and large businesses and also limits business tax credit use to $5 million per year for tax years 2024, 2025, and 2026. The budget also includes a statutory trigger to rescind these tax changes if revenues are determined to be sufficient in 2025 and 2026, and authorizes refundability of tax credits for all businesses impacted by the tax credit limitation. The budget assumes revenue of $850 million in 2023-24, $6 billion in 2024-25, and $5.5 billion in 2025-26, and $3.4 billion in 2026-27 as a result of both the suspension and credit limitation.

Low-Income Housing Tax Credit. The budget provides $500 million for the Low-Income Housing Tax Credit Program to support low-income housing development, thus maintaining one tool that developers of "affordable housing" use.

Health

Two More Managed Care Organization (MCO) Tax Bills. Adding to our dependency on Washington DC, the enacted budget added two additional MCO Tax trailer bills in order to generate more federal funds to balance the budget. This action produces $7.1 billion in General Fund relief in 2024-25 and an additional $11.6 billion in later years. Overall, the MCO tax will raise $26.6 billion in tax revenue over multiple years.

Democrats Play Games with MCO Tax. While this budget does include some Medi-Cal provider reimbursement rate increases funded by the MCO tax, the budget also includes language to make these increases inoperable if the Medi-Cal provider backed ballot measure, Proposition 35, is approved by the voters in November 2024. That ballot measure would permanently use all of the MCO tax for provider reimbursement rate increases This maneuver by the Governor and legislative Democrats makes the public choose between two lists of provider reimbursement rate increases, pitting some Medi-Cal providers against others politically to retain their piece of the MCO tax pie.

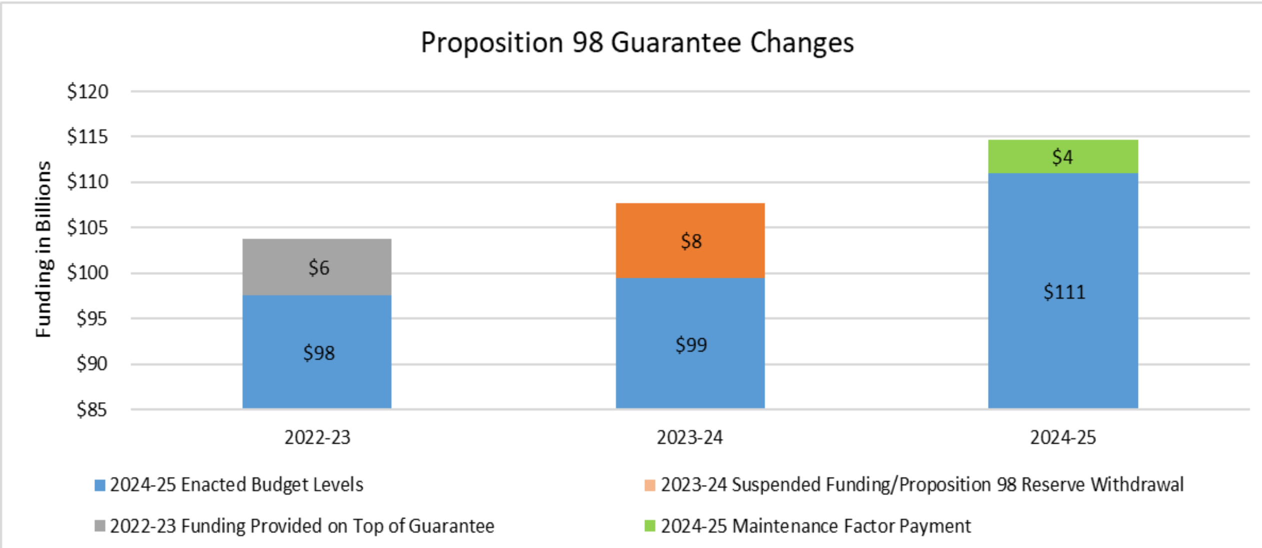
To make matters worse, the budget sweeps over $7 billion of MCO tax funds away from possible Medi-Cal provider reimbursement rate increases and uses it to close the deficit. All of these hijinks signal to the public that Democrats aren't really serious about actually improving Medi-Cal.

Healthcare Minimum Wage Mandate Delayed. The final budget fails to eliminate the costly health care facility wage mandate from SB 525 (Durazo, 2023), but instead only delayed the bill's implementation to October 2024. The Department of Finance projected in 2023 that the mandate could cost up to $2 billion in General Fund annually. The budget fails to include the realistic costs of the bill, which means the budget is not truly balanced in all likelihood.

No Cuts to Undocumented Medi-Cal Eligibility. The budget fully funds the previously authorized full-scope Medi-Cal eligibility, including In Home Supportive Services eligibility, to an estimated 1.3 million undocumented individuals of all ages at a cost of $5.4 billion General Fund in 2024-25. Included in that total is the final piece of the expansion, covering childless adults ages 26 through 49, which launched January 1, 2024 without any delay, despite the massive deficit, at a cost of $2.8 billion General Fund in 2024-25.

K-12 and Early Education

Education Spending Grows Through Many Moving Pieces. The Proposition 98 TK-14 education guarantee for the 2024-25 budget year is $115 billion, nearly $16 billion over the 2023-24 guarantee of $99 billion. However, the $99 billion in 2023-24 reflects a suspension of the guarantee by $8.3 billion. The education budget package includes several moving pieces, as summarized in the chart and described below.



- ***Unprecedented Borrowing Scheme.*** The 2024 Budget Act includes a reduced version of the Governor's unprecedented scheme to keep schools whole for 2022-23 by "borrowing" $6.2 billion from cash reserves and paying it back in future years outside the normal Proposition 98 mechanisms. The budget would repay these funds to the state from non-Proposition 98 General Fund over a ten-year period from 2026-27 through 2035-36. The nonpartisan LAO criticized this scheme and described it as setting a bad precedent.

- ***Suspending the Guarantee.*** The budget suspended the 2023-24 Proposition 98 guarantee by $8.3 billion, which creates a "maintenance factor," or debt to schools, for the same amount. Maintenance factor payments will be made over time to build the guarantee back-up to what it would have been absent the suspension. This mechanism is part of the constitutionally approved funding approach, unlike the borrowing scheme described in the previous paragraph.

- ***School Reserve Withdrawal.*** The overall education package withdraws the full Public School System Stabilization Account (Proposition 98 Reserve) balance of $8.4 billion in 2023-24 to cover costs related to the suspension. The 2024-25 budget deposits $1 billion back into the Proposition 98 Reserve.

After all of these shifts, ongoing TK-12 Proposition 98 expenditures would reach $18,339 per pupil in 2024-25, and $24,314 per pupil when accounting for all TK-12 funds.

Eliminates Planned Investments in School Facility Programs. The budget eliminates a planned $550 million one-time General Fund investment in the Preschool, Transitional Kindergarten, and Full Day Kindergarten Facility Grant (FDK) program, and another $875 million one-time General Fund investment in the School Facility Program. Both investments were intended for the 2024-25 fiscal year.

Child Care and Early Education

Cuts Funding and Expanded Inclusivity for Disabled Children. The 2024-25 budget repeals the requirement that, starting July 2025, at least 7.5 percent of funded enrollment slots in California state preschool programs be reserved for students with disabilities. The required percentage would have increased to 10 percent in July 2026. By repealing the planned expansions, the budget indefinitely extends the current 5 percent requirement. The budget also sweeps $150 million in Inclusive Early Education Expansion Program (IEEEP) grant funding, intended to increase inclusion for children with disabilities and exceptional needs. These actions show a lack of prioritization for children in the disabled community.

Sets Child Care Slot Timeline into Law. The budget sets into law a timeline for the full expansion of 200,000 child care slots by 2027-28, a year later than the original goal of 2026-27. The 2024-25 budget also includes $1.6 billion to continue funding the slots that have been added since 2021-22, and includes an additional $117 million General Fund in 2024-25 for 11,000 new slots beginning October 2024.

Preschool Eligibility to Two-Year-Olds. The budget temporarily allows preschool providers to enroll two-year-old children in the California State Preschool Program (CSPP) through July 1, 2027. Currently, CSPP serves three and four-year old children. While expanding the ages served by CSPP could create issues in the child care space, one could argue it also provides more options and flexibility for parents.

Higher Education

University Base Funding Maintained. The enacted budget rejects the Governor's January proposal to defer the previously approved base funding increases of 5 percent for the University of California (UC) and the California State University (CSU), instead providing these base increases in 2024-25 with intent to defer the scheduled 2025-26 increases by a year. The UC and CSU systems would still be subject to the broader budget's across-the-board operations reduction of 7.95 percent in 2024-25, resulting in cuts of $125 million for UC and $75 million for CSU. It is not clear how the two systems will achieve those savings, and both systems already have tuition increases scheduled.

Student Financial Aid Protected. The budget rejects the Governor's proposal to cut Middle Class Scholarship by $510 million and instead maintains this funding.

Student Housing and Campus Infrastructure Shift to Bond Funding. Budgets approved in the surplus years authorized billions of dollars in General Fund grants and loans to universities and community colleges for student housing projects and other campus facilities. The 2023-24 budget clawed back the funds and shifted those projects from cash to lease-revenue bonds, creating a challenge for community colleges, some of whom had begun to spend funds on their projects. The 2024-25 budget package develops the financing structure for the community college student housing statewide lease revenue bond for 13 campuses.

Community College Nursing Expansion. The higher education trailer bill, SB 155, establishes the Rebuilding Nursing Infrastructure grant program for community college districts to expand educational opportunities in the nursing field. To support this program $60 million Proposition 98 General Fund will be provided annually for five years, starting in 2024-25.

Campus "Climate Action Plan" for Protests and Free Speech. The budget bill (AB 107) requires each UC and CSU campus to prepare a campus "climate action plan" regarding on-campus protests by October 1, 2024, as a condition of receiving $50 million of state funding. The plan must include each campus's "Time, Place, and Manner" policy, which identifies the allowable parameters of free speech activities, and the Student Code of Conduct, which determines acceptable student behavior.

Housing and Homelessness

Reduces $1 billion in Funding for Several Housing Programs. The budget includes a reduction of more than $1 billion from various housing programs, including the elimination of all remaining program funding for the Foreclosure Intervention, Housing Preservation Program ($484 million), the Infill Infrastructure Grant program ($235 million), the CalHome program ($153 million), the Adaptive Reuse program ($128 million), and the Veteran's Housing and Homelessness Prevention Program ($77 million).

Maintains $575 Million For Affordable Housing and Local Planning Grants. The budget continues to provide $315 million for the Multi-Family Housing Program, originally appropriated for the program in the 2023-24 budget, and also maintains $260 million (of the $300 million available for expenditure) for the Regional Early Action Planning Grants program appropriated as part of the 2021-22 budget.

Homeless Housing Assistance and Prevention Program. The budget provides $1 billion General Fund for Round 6 of the Homeless Housing Assistance and Prevention (HHAP) Program. A budget trailer bill, AB 166, includes additional implementation and reporting requirements for this new round of flexible funding available to local and tribal entities. The new steps may be a small improvement, but do not go far enough to ensure that billions spent to combat homelessness actually accomplish anything meaningful. The budget also includes a reversion of $260 million in supplemental funding that remains from Rounds 3 and 4 of the HHAP program.

Encampment Resolution Grant Program. The budget provides $150 million General Fund in 2024-25 for the Encampment Resolution Grant Program, and would include an additional $100 million for the program in 2025-26. Combined with new legal tools available following the U.S. Supreme Court's recent *Grants Pass* ruling (a decision supported by Governor Newsom despite his hyperbolic criticism of the Supreme Court), hopefully these funds will prove to be more effective going forward.

Natural Resources and Environment

Cap and Trade Fund Shifts. The budget redirects $5.2 billion over five years from the General Fund to the Greenhouse Gas Reduction Fund to help close the deficit. However, Cap and Trade funds continue to provide over $1 billion per year to pay for the failing High Speed Rail project, which likely will never offer any real net reduction in greenhouse gases.

Vulnerable Community Clean-Up. The budget provides $554 million (General Fund) over three fiscal years for the discovery, cleanup, and investigation of contaminated properties in vulnerable communities.

CalFire Investments: The budget also continues to support the statewide wildfire mitigation and response investments from prior years while looking ahead at the growing need for resources in this area by providing $50 million ($42 million General Fund and $8.3 million special funds) for a variety of investments to bolster CalFire's ability to prevent and respond to wildfires, as detailed below:

- New CalFire Training Facility: $31.6 million General Fund for the acquisition phase of establishing a new, additional CalFire training facility, with a total estimated project cost of $631.5 million.

- ALERTCalifornia Fire Camera Mapping System: $10.4 million General Fund appropriated to CalFire for providing funding to the University of California, San Diego's ALERTCalifornia for digital imagery to support its fire camera mapping system.

- CalFire Deferred Maintenance, Ecological Monitoring, and Special Repairs: $8.34 million appropriated for various CalFire initiatives, including $2.6 million for deferred maintenance and special repair projects, $5.74 million for Ecological Monitoring, Research, and Adaptive Management.

Watershed Protection and Climate Resiliency Funding: The budget provides $37 million (General Fund) to the Wildlife Conservation Board for improving watershed protection and climate resiliency, including $18.5 million for the Cascades and High Sierra Upper Watersheds Program and $18.5 million for the Land Acquisition and Habitat Enhancement Program.

Oil and Gas Policy Changes. The budget introduces $15 million for setback legislation and grants fee authority to the Governor's Department of Conservation to address the environmental impacts of oil and gas operations. These measures could lead to increased operational costs for the industry and potentially result in higher consumer prices at a time when gas prices and the overall costs of living for Californians are already sky-high.

Energy and Utilities

Clean Energy Programs. The budget includes $147 million for various clean energy programs, reflecting reductions and delays of $884 million in 2024-25. This funding is part of a multi-year package now totaling $6.5 billion, reflecting program reductions of $1.5 billion.

Clean Energy Reliable Investment Plan. The budget delayed planned expenditures of $850 million from 2023-24, 2024-25, and 2025-26 to future years, and shifted planned future spending of $900 million for this program from the General Fund to the Greenhouse Gas Reduction Fund (cap and trade revenues). Notably, the entire $1 billion planned for this program is retained.

Middle Mile Broadband Initiative. The budget provides $250 million General Fund within the California Department of Technology for the Middle Mile Broadband Initiative, and requires prioritization of unserved and underserved areas. Additionally, the budget provides authority for an additional $250 million augmentation if certain reporting requirements are completed.

Broadband Grant Programs. This budget reduces the Broadband Loan Loss Reserve program by $125 million. The budget also reflects a delay of $200 million in Last-Mile Broadband funding from 2024-25 to 2027-28. As a result of these actions, the Last-Mile Broadband funding remains whole at $2 billion over the long term while the Loan Loss Reserve would be reduced from $750 million to $50 million.

Transportation

Gasoline Taxes Increase Again. The automatic annual gas tax increase raised the price of gas by 1.7 cents per gallon, effective July 1, 2024. These increases will generate about $262 million in tax revenues, bringing total gas and diesel tax revenue to an estimated $9.5 billion for 2024-25. This is an increase of $2 billion (26 percent) compared to the $7.6 billion in tax revenue raised the first full year of SB 1's implementation.

Transit Bailout. The budget includes $3.4 billion to bail out failing transit systems. Additionally, $1.7 billion is promised, but not guaranteed, in future years, as part of the $5.1 billion multi-year package. Between 2014 and 2018, California lost over 165 million annual transit boardings, a decline of more than 11 percent. Given these types of statistics and the massive deficit that had to be addressed in this budget, prioritizing such a large amount of money for a failing industry is mindboggling.

Zero-Emission Vehicle and Infrastructure Subsidies. The budget includes $350 million for zero emission vehicle (ZEV) subsidies, infrastructure, and equity projects. In prior budgets, the Governor committed $10 billion over five years to transition Californians to ZEVs, aligning with state regulations to ban the sale of gasoline cars by 2035. This budget reduces that commitment by about $900 million, maintaining $9.2 billion over seven years.

High-Speed Rail. The 2022-23 budget included $4.2 billion in remaining Proposition 1A (2008) bond funds for the High-Speed Rail Authority to continue the construction of the Merced to Bakersfield high-speed rail line, to be spent over several years. In addition to spending previously appropriated bond funds, the budget includes $1.1 billion in 2024-25 from Cap and Trade funds. Given the nearly $100 billion shortfall that High-Speed Rail faces to ever be completed as promised, the budget could have redirected Cap and Trade funds from High-Speed Rail to generate General Fund savings in other areas of the budget.

Public Safety and the Judiciary

No New Funding to Enhance Fentanyl Enforcement. The $22 million per year that has been allocated to the California Military Department and the Department of Justice for interdiction efforts since 2022-23 has been wholly inadequate. Despite dramatic increases in the amount of illicit fentanyl being smuggled into California and skyrocketing fentanyl overdose deaths, the budget fails to include any new funding to enhance state or local law enforcement efforts to crack down on fentanyl trafficking.

Closing Housing Units Better Than Closing Whole Prisons. The budget reflects the Governor's plan to deactivate 46 individual housing units across 13 prisons, totaling approximately 4,600 beds. This would help to align bed capacity with the prison population, which continues to trend downward due to soft-on-crime policies and the Governor's massive expansion of sentence credits in response to the broad authority provided by Proposition 57 (2016).

Because violent crime has increased dramatically over the past decade (up 32 percent since 2013) and continues to increase significantly, it is becoming increasingly likely that the state may need additional prison capacity soon. Thus, deactivating housing units is far preferable to closing entire prisons.

Across-the-Board Cuts to Trial Courts are Shortsighted. The enacted budget includes a $97 million unallocated reduction to the trial courts. The trial courts must address caseloads within budgeted resources by adjusting court calendars to accommodate criminal caseloads, which have strict statutory timelines, and civil caseloads, which generally have no statutory timeline requirements. The Governor's blind application of an arbitrary 7.95 percent unallocated reduction to the trial courts saves some money in the short term, but it will lead to further delays to civil cases, many of which already take more than a year to be resolved.

Attorney General's Posturing Will Hurt Struggling Californians. The enacted budget includes $5 million from the Unfair Competition Law Fund per year for the next three years to fund the Attorney General's social justice litigation against oil companies. These misguided lawsuits will simply drive up the cost of oil and petroleum-based products and are more likely to hurt Californians who are already paying too much for fuel and energy than actually help the environment.

General Government

State Operations Savings. The budget reduces nearly all departments' operating budgets by up to 7.95 percent in 2024-25, including personnel, operating costs, and contracting costs. The budget requires the Governor to notify the Legislature of the necessary adjustments, and to provide a plan with the January 2025 budget proposal for how the reduction in state operations expenditures would be achieved. The action would generate savings of $2.2 billion in 2024-25 and $2.7 billion annually, though questions remain as to whether these savings are truly achievable in practice.

Vacant Position Sweep. The budget permanently eliminates about 10,000 vacant positions from state departments beginning in 2024-25, yielding estimated savings of $763 million General Fund annually. Over the past three years, the number of state employees has grown significantly, from 384,000 in 2020-21 to 426,000 in 2024-25, including higher education. As revenues have declined, it is appropriate to reduce the level of state employees to ensure appropriate staffing.

State Capitol Building Annex Project. The budget appropriates $300 million General Fund in 2024-25, and commits an additional $250 million in 2025-26 and $150 million in 2026-27 to continue the acquisition, design, and construction of the State Capitol Building Annex. The budget also provides the Annex Project with an exemption from the California Environmental Quality Act through the end of the project. Since the environmental impact report is already completed, this action serves to prevent current and future potential CEQA lawsuits against the project.

New Name for Governor's Office of Planning and Research. The budget includes a reorganization of the Governor's Office of Planning and Research (OPR), including a new name, the Governor's Office of Land Use and Climate Innovation, and a new Governor's Office of Service and Community Engagement (GO-Serve). This grandiose renaming accompanies massive growth of OPR under Governor Newsom, from a research group of $54 million in 2016-17 to over $1 billion in various programs administered for 2024-25.

College Corps, Youth Jobs Corp, Climate Action Corps Programs Prioritized. Even though the budget includes billions in cuts and delays for critical priorities, such as developmental services rate increases, the Governor's recently established volunteer programs mysteriously remain a priority. The 2024 budget includes more than $170 million for these programs, leaving the full base funding intact.

Department of Real Estate (DRE) Fee Increases. The budget increases the DRE's current fees, and increases the statutory fee cap by 30 percent, allowing the department to increase fees in the future via regulations rather than through statutory changes. A budget trailer bill requires DRE, in the course of requesting a regulatory fee increase proposal, to report on the financial status of the department.

Labor and Employment

Massive Unemployment Insurance (UI) Debt Creates Interest Payments. The state is responsible for interest due on money borrowed from the federal government for UI benefit payments. The outstanding loan is more than $20 billion as of October 2024, and the budget includes an annual interest payment for 2024-25 of $484 million. California and New York were the only two states that chose ***not*** to pay off their UI debts following the pandemic, which means taxes on private job providers will increase each year to pay off the principal of the debt. This will take years to accomplish, during which time the state budget must pay hundreds of millions of dollars annually in interest costs.

Human Services

Cut to the Developmentally Disabled. The enacted budget delays the long-awaited final rate increase to developmentally disabled providers, thereby saving $306 million in one-time General Fund. This cut emphasizes that the Democrats are willing to balance the budget with cuts to this specific vulnerable population, all while spending billions on other priorities, including new expansions elsewhere.

Establishes Permanent Foster Care Rate Reform. The budget initiates the implementation of a new permanent foster care rate structure that will begin in 2027. For now, the budget includes $14.5 million one-time General Fund for automation costs, though the new rates would likely cost $1 billion total funds ($900 million General Fund) per year once fully implemented. The new rates would be based on the needs of a child or youth, rather than their placement type.

Some Programs Reduced in Size. The budget also includes several reductions to services provided under CalWORKs, such as $25 million in 2024-25 and 2025-26 for the Home Visiting Program, $47 million in 2024-25 and ongoing for Employment Services Intensive Case Management, $37 million in 2024-25 for Expanded Subsidized Employment, and $37 million in 2024-25 and $26 million in 2025-26 for mental health and substance use disorder services.

Federal Work Participation Pilot. The budget includes a provision to increase the Department of Social Services (DSS) budget by $2.4 million General Fund for automation costs if California is selected to participate in the federal work participation pilot. The budget also directs DSS to apply for this pilot program, and states the Legislature's intent to continue the push to reimagine CalWORKs as part of the application for the pilot program. To meet the goals of reimagining CalWORKs, DSS will consider proposals to modify the existing welfare-to-work process, limit sanctions, and repeal the federal work participation rate penalty pass-through.

State Employee Compensation and Retirement

State Employee Compensation Continues to Rise. The state approved Memoranda of Understanding with three bargaining units representing Highway Patrol Officers, State Firefighters, and professional scientists, whose contracts expired in summer 2024. These contracts are estimated to cost $137 million in 2024-25.

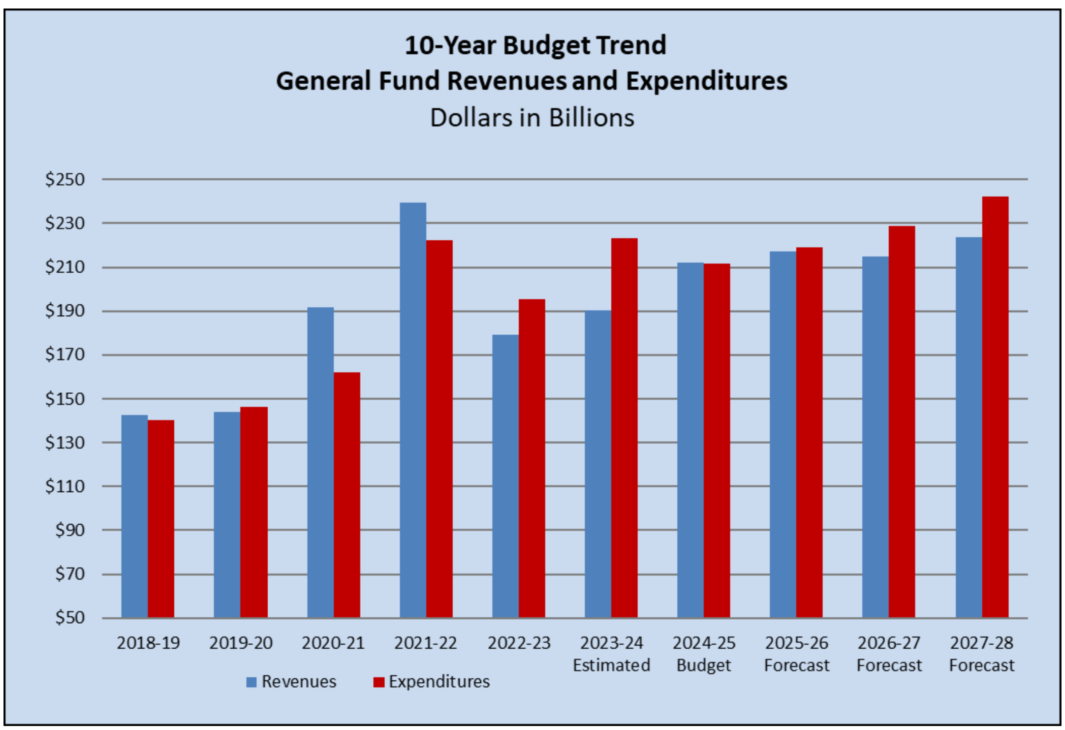
Payroll Deferral Gimmick. In an attempt to address the projected budget deficit, the budget defers $3.2 billion ($1.6 billion General Fund) in state employees' payroll costs from June 30, 2025 to July 1, 2025. This change would only be reflected in accounting and would not affect the timing of payments issued to state employees. This one-time gimmick appears to help solve the deficit on paper, but does nothing to truly bring spending in line with revenues, and would not pass muster in the private sector.

Revenues, Expenditures, and Deficits

Key Points

- **Brief Pause in Long-Term Spending Growth.** Spending growth continues despite massive deficit as budget makes few long-term spending corrections.
- **Revenues Grow Slowly as Californians Take Money to Other States.** State revenues show anemic growth, in part because billions of dollars in tax revenues have shifted to other states.
- **Deficit Likely Understated.** Budget addressed a $71 billion deficit, after adjusting the Governor's $47 billion estimate to reflect more typical accounting.
- **Budget "Solutions" Mostly Short-Term.** Solutions adopted to close the deficit largely focus on short-term reductions, borrowing, gimmicks, and tax revenues.
- **Reserves Drawn Down as Program Expansions Continue.** Budget employs reserves to help cover deficit even as major recent program expansions continue.
- **Unsustainable Budget Path.** Refusal to rein in massive spending puts state on unsustainable budget path with years of deficits ahead, while reserves would run out in 2026-27.

Long-Term Trend of Spending Growth Continues. The 2024-25 budget would spend nearly $212 billion General Fund, a decline of about $12 billion from the prior year. Despite the deficit, the budget would still spend $16 billion General Fund ***more*** than the level seen just two years ago in 2022-23. The spending level for 2024-25 would also exceed the pre-pandemic level by $65 billion, a whopping 45 percent growth in just five years, despite two consecutive deficit years. Looking forward, spending would continue to grow by an average annual rate of 4.6 percent over the next three years. The chart below illustrates recent and forecasted revenues and expenditures.



The following chart lists the $212 billion General Fund spending plan by state agency. Because of fund shifts included in the budget and the expiration of one-time spending from 2023-24, not every apparent decline in an agency's spending reflects an actual programmatic reduction.

General Fund Expenditures by Agency (Dollars in Millions)			
	2023-24	**2024-25**	
Agency	**Revised June 2024**	**Enacted June 2024**	**Change from 2023-24**
Legislative and Executive	$9,176	$4,367	-$4,810
Courts	$3,436	$3,222	-$214
Business, Consumer Services, Housing	$3,541	$1,324	-$2,217
Transportation	$669	$209	-$460
Natural Resources	$10,299	$3,786	-$6,513
Environmental Protection	$2,271	$214	-$2,056
Health and Human Services	$73,408	$71,193	-$2,216
Corrections and Rehabilitation	$14,895	$13,749	-$1,146
TK-14 Education (Proposition 98)	$68,033	$82,612	$14,579
Higher Education (Non-Prop. 98)	$19,775	$20,170	$395
Labor and Workforce Development	$1,356	$949	-$408
Government Operations	$4,592	$2,467	-$2,125
General Government	$4,834	$821	-$4,013
Capital Outlay	$1,459	$567	-$891
Debt Service	$5,332	$5,856	$524
Total, General Fund Expenditures	**$223,075**	**$211,504**	**-$11,571**

Tax Revenue Growth Flattens. As shown in the chart on the previous page, state revenues are significantly lower than the short-term spike seen in 2020-21 and 2021-22. In those years, federal pandemic spending combined with strong capital gains to drive up revenues by an astonishing 55 percent in the two-year span from 2019-20 to 2021-22. The Governor's current forecast predicts tax revenues will increase by an anemic average of 2.6 percent per year for the next three years.

Californians Take Their Taxes to Other States. The nonpartisan Legislative Analyst's Office (LAO) evaluated the tax revenue effects of Californians moving to other states in a July 2024 report. The data shows that the lost revenue in 2022 accounted for about 1.6 percent of personal income taxes that year. Recent emigrants from California to other states have higher incomes than past leavers, resulting in a tripling of lost tax revenues in 2022 compared to pre-pandemic levels. Additional information this office requested from the LAO indicates that the cumulative net effect of Californians moving to other states is about $7 billion less in tax revenue each year.

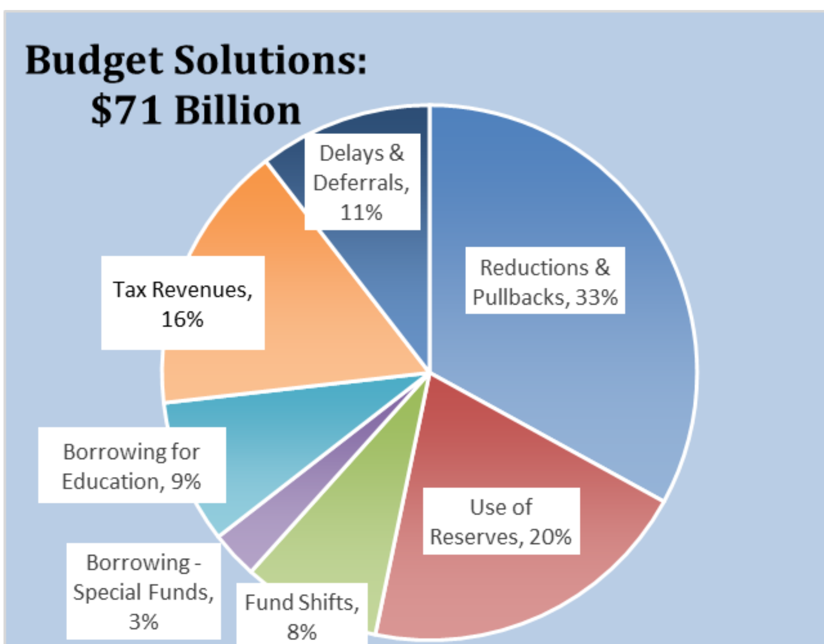
Governor's Deficit Likely Understated; Differs from Nonpartisan Estimate. Throughout the budget development process, the Governor offered different estimates of the deficit than the nonpartisan LAO.

The Governor's May Revision budget proposal, which is used as the basis for the eventual budget, purported to solve a $47 billion deficit. However, the LAO pointed out that the Governor precounted some proposed solutions as part of the budget "baseline," in effect assuming they were in law even though the Legislature had not adopted them. These precounted solutions totaled about $24 billion, including $19 billion in education actions and $5 billion in other solutions. The Governor's approach of preemptively removing these amounts from the deficit artificially reduces the size of the deficit. Adding those precounted solutions back is consistent with the traditional accounting for deficits, and places the deficit at $71 billion. The table below summarizes these adjustments.

Reconciling the Deficit Estimates Dollars in Billions	
Governor's May 2024 deficit estimate	$46.8
Add back precounted education-related solutions (LAO)	$18.9
Add back precounted non-education solutions (LAO)	$5.1
Subtotal of precounted solutions	$24.0
Deficit estimate under typical accounting	**$70.8**

For its part, the LAO estimated the deficit to be $55 billion, even when using the same tax revenue projections as the Governor. However, the LAO's deficit figure removed $17 billion in "early action" solutions that were passed in April 2024 as part of AB 106 (Gabriel). Since the Governor signed that legislation into law, the LAO moved those actions into its baseline, thus removing that total from its $55 billion deficit. The estimate of $71 billion represents a deficit that considers the underlying fiscal imbalance prior to any of the solutions enacted in either April or June.

Budget "Solutions" Largely Short-Term. Using the adjusted view of the deficit, the solutions enacted in both April and June combined total $71 billion through 2024-25, consisting of the components summarized in the chart below.



Unfortunately for California's fiscal sustainability, only 8 percent of the solutions are ongoing in nature. The remainder are either one-time or affect two or three years of budgets. Additionally, only one-third of the solutions are characterized as spending reductions, though some of these are either recoveries of previously approved funds that went unspent for other reasons, or planned expansions that were withdrawn.

Notable individual solution items include:

- Use of school reserves to address the education shortfall ($8 billion)
- Use of general reserves, including the Rainy Day Fund ($6 billion)
- Tax increases on businesses ($6 billion)
- Tax increases on managed care plans with a related fund shift ($5.6 billion)
- An across-the-board reduction of 7.95 percent to state operations ($2.2 billion)

The budget includes various gimmicks to give the appearance of balance. Most significant among these gimmicks are a one-day delay in state payroll from June 30, 2025, to July 1 ($1.6 billion), which would not pass muster in any private corporation, and the use of a previous pension debt reduction payment to offset current state pension contribution ($1.3 billion). The nonpartisan LAO has opined that this pension offset is potentially unconstitutional, since Proposition 2 (2014) required those funds to make supplemental reductions to state liabilities.

Health Facility Wage Mandate Costs Significantly Undercounted. In addition to the deficit differences noted above, the Governor's view of the deficit likely undercounts spending by potentially $2 billion for the new $25 health facility wage mandate authorized by SB 525 (Durazo, 2023) (see *Health* section for further discussion). The budget included a "trigger" mechanism to potentially delay the implementation date, but the Governor announced in early October 2024 that this delay would not take place, thus allowing the new wage to start October 15, 2024. The Governor's administration has refused requests to provide an updated cost estimate for the mandate, but the letter announcing the implementation suggested the state may increase fees on hospitals to pay for the new spending.

Reserves Drawn Down as Program Expansions Continue. The enacted budget would use $6 billion from General Fund reserves in 2024-25, including a withdrawal of $4.9 billion from the Rainy Day Fund, as permitted by Proposition 2 (enacted by voters in 2014). The budget also withdraws the entire $900 million balance from the Safety Net Reserve. Under the Governor's and Democrats' agreement, the 2025-26 budget would withdraw $7.1 billion from the Rainy Day Fund, helping to avoid a projected deficit in the forecast for that year.

The enacted budget package also uses all of the public school reserve of $8.2 billion to offset the suspension of the Proposition 98 education spending guarantee in the 2023-24 fiscal year. These reserves are only available for TK-14 education spending, but not for the non-Proposition 98 deficit.

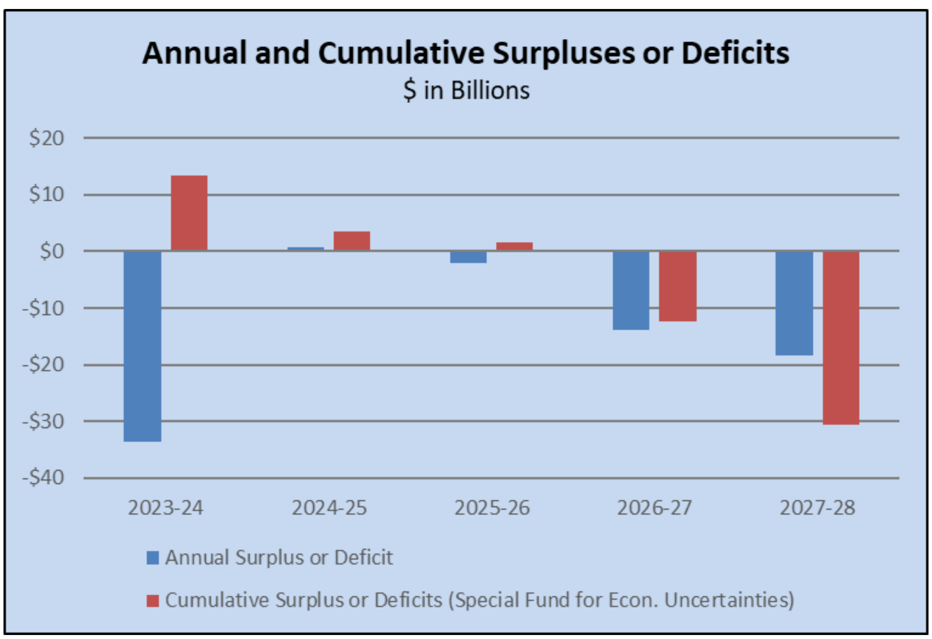
The state's remaining reserve balances at the end of 2024-25 would total $22 billion, including nearly $18 billion in the Rainy Day Fund and a discretionary reserve of $3.5 billion (Special Fund for Economic Uncertainty). This amounts to 10 percent of General Fund revenues (including carry-in balances from the prior year). Because the budget forecast shows deficits in each of the following years, no additional reserve deposits would occur through at least 2027-28.

The budget's use of the Rainy Day Fund is legally permitted under the criteria established by the voters through Proposition 2 in 2014. However, the prudence of drawing down budget reserves while continuing to expand programs and increase spending is highly questionable. In essence, the majority party is using reserves to pay for recent program expansions, including the multibillion dollar expansion of health care for undocumented immigrants that Governor Newsom and legislative Democrats continued to implement in January 2024, despite the deficits in 2023-24 and 2024-25. This practice defies the common sense intention of budget reserves, namely to maintain existing programs during times of unexpected revenue shortfalls. Instead, under one-party rule the 2024-25 budget uses one-time reserves to help pay for recent, ongoing program expansions. Upward budget pressure exists in any year due to the autopilot spending growth that is built into many pre-existing state programs, but the recent program expansions add to the fiscal folly of this and recent budgets.

In addition to the problem of paying for new program expansions with reserves, California's budget deficits are occurring even though the state economy is not in a recession. Rather, the deficits are the result of the majority party ramping up spending dramatically beyond the long-term revenue levels during the short-term revenues spikes in 2020-21 and 2021-22. Both the nonpartisan LAO and the Governor's Department of Finance have pointed out that an actual recession could lower state revenues by tens of billions of dollars in a single year, far exceeding the state's reserves.

Balanced on Paper for One Additional Year. One improvement in the enacted mix of solutions, compared to the Governor's initial January budget proposal, is that the forecast shows no deficit for 2025-26. That deficit is addressed, at least on paper, by about $27 billion in budget solutions that are either carryforwards from solutions adopted in 2024-25 or new solutions for 2025-26. The most significant solution for 2025-26 is the withdrawal of $7 billion from reserves that year.

Unsustainable Fiscal Future. The three future years included in the Governor's budget forecast project that the long-term growth trend in spending will continue. Projected spending would exceed revenues in each of those three years and likely longer. The Governor projects that revenue will grow by an average of 2.6 percent over those three years, while spending would grow by 4.6 percent per year. This fundamental imbalance means that the enacted spending path is on pace to create operating deficits of $14 billion in 2026-27 and $18 billion in 2027-28, as shown in the chart below, even without a decline in revenue or further increases in spending.



The years of deficits ahead illustrate further the financial foolishness exhibited by the majority party's decision in 2020-21 to withdraw nearly $8 billion from reserves in what turned out to be a surplus year. The June 2020 budget initially authorized the reserve withdrawal under the pandemic's cloud of uncertainty. However, six months later, the Governor's January 2021 budget showed there would be a surplus, not the feared deficit. Despite this rapid turnaround, the majority party chose to maintain the reserve withdrawal, fueling even more surplus spending that year. The 2024-25 budget demonstrates why that $8 billion in reserves should have been saved for an actual rainy day, not a spending spree. Absent additional corrective actions to curtail spending or raise taxes, the state would exhaust its remaining reserves in 2026-27.

In addition, the state's complex constitutional formula for education spending under Proposition 98 diminishes the potential benefits of any positive revenue surprises. In normal years, education spending captures about 40 percent of each new revenue dollar, but when "maintenance factor" is outstanding, as it is under this budget, potentially 95 percent of each new revenue dollar goes to meet the Proposition 98 educational requirements. Thus, higher-than-expected revenue may not do much to offset potential deficits.

Special Fund Budget Absorbs Deficit Solutions. While deficit discussions focus on the General Fund, state spending from special and federal funds can account for more than half the total taxpayer funds that flow through the state coffers, as shown in the table below. Special funds include sources like the gasoline tax and cap-and-trade revenues (Greenhouse Gas Reduction Fund), among many other specialized fees and taxes.

To address deficits in 2023-24 and this budget year, the state has relied on shifting spending from the General Fund to various special funds. As shown in the table below, special fund spending rose to $104 billion in 2023-24 compared to the prior year, an increase of $29 billion or 38 percent over 2022-23, before falling back partially in 2024-25 to $84 billion. The availability of this level of special funds indicates that the programs intended to use these funds are not doing so, a sign that those taxes or fees are likely too high.

Once these special funds and bonds funds are considered, state spending actually increased significantly in 2023-24, rising 21 percent to $332 billion that year, despite the deficit. In 2024-25, total state spending declined by 10 percent from the prior year, but remained nearly 9 percent above the 2022-23 level.

Expenditures by Fund Category
Dollars in Billions

	2022-23 Actual		2023-24 Revised		2024-25 Enacted	
	$	**% of Total**	**$**	**% of Total**	**$**	**% of Total**
General Fund	$195	47%	$223	45%	$212	47%
Special Funds	$75	18%	$104	21%	$84	19%
Bond Funds	$4	1%	$5	1%	$2	1%
Total, State Funds	**$274**	**66%**	**$332**	**67%**	**$298**	**66%**
Change from previous year	1.2%		21.1%		-10.3%	
Federal Funds	$140	34%	$162	33%	$153	34%
Total, All Funds	**$414**	**100%**	**$494**	**100%**	**$451**	**100%**
Change from previous year	-6.4%		19.4%		-8.8%	

Ballot Measures Have Significant Budget Effects. Several measures on the November 2024 ballot could raise costs for the state, thus potentially increasing future deficits. The budget does not include potential spending that would result from bond measures for education (Proposition 2) and climate (Proposition 4). These bond measures originated from legislative bills that the Governor signed, rather than citizens' initiatives. Spending under those bonds could total several hundred millions dollars per bond per year, depending on the timing of actual bond sales.

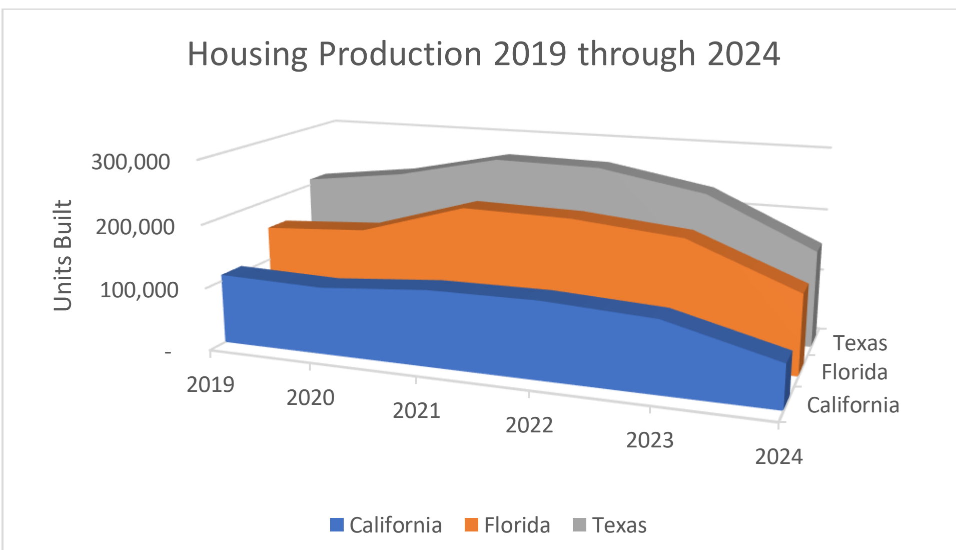
In addition, Proposition 35, placed on the ballot by health care providers, would prevent Democrats from ripping off the managed care organization tax. This would shift costs ranging from $2 billion to $5 billion back to the state General Fund in 2025 and 2026.

Housing

Key Points

- **Failure of State Housing Policies.** Lack of housing reform continues to hamper housing production and drive up the cost to build in California, limiting the number of units that could be subsidized with General Fund.
- **Multi-Family Housing.** Continues to provide $315 million in low-interest loans for new construction, rehabilitation, and preservation of rental housing for lower-income households.
- **Regional Early Action Planning Grants.** Continues to provide $260 million for the Regional Early Action Planning Grants program.
- **Reduced Funding for Housing Programs.** Includes a cut of nearly $1 billion in funding for several state housing programs, eliminating all available funding for several programs.
- **Low-Income Housing Tax Credit.** Provides an additional $500 million in tax credits within the State Housing Tax Credit program.
- **Expanded Accountability Unit.** Expands a housing accountability unit within the Department of Housing and Community Development to include homelessness efforts.

Housing Production Still Falling Short. According to the most recent data, California is on pace to permit only 104,000 housing units in 2024[1], far short of the 180,000 annual total estimated to be necessary. As shown in the chart below (data provided by the US Census Building Permit Survey), California has repeatedly failed to build sufficient housing, despite pouring billions of dollars into subsidies each year. The 2024 housing production units included in the chart below are year-to-date numbers through August 2024.



Texas and Florida both built dramatically more housing than California in recent years, despite having much smaller populations. The Democrats' attempt to spend their way out of California's policy-induced housing affordability crisis is clearly not working.

[1] Department of Finance, Finance Bulletin, September 2024 Issue (ca.gov)

Restrictive State Housing Policies Increase Costs to Build Housing. The 2024-25 budget includes significant funding reductions for several state housing programs, and projected ongoing budget deficits will likely reduce state funds for housing in subsequent years. Due to the scarcity of ongoing funding, it is more important than ever to eliminate barriers faced by developers that increase the cost to build housing. Restrictive environmental reviews, extensive and cost-prohibitive zoning restrictions, and a host of excessive fees raise the cost to build, and ultimately the purchase price of a house. As the cost to build increases, the number of housing units built with state resources will decrease, resulting in the need to provide even more General Fund as the majority Democrats try to subsidize their way out of the state housing crisis. Given the uncertainty around available revenue and funding in the future, reducing the cost to build could stretch the state's limited resources further, resulting in more housing units built, which in turn could reduce the average cost of a home in California.

Multi-Family Housing. The budget provides $315 million (originally appropriated as part of the 2023-24 budget) for the Multi-Family Housing Program, which provides low-interest loans for new construction, rehabilitation, and preservation of rental housing for lower-income households. Previously, the program received $1.5 billion in bond funds authorized by the Veterans and Affordable Housing Bond Act of 2018 (Proposition 1), but as those bond funds have been fully expended, the state has provided General Fund in recent years. While the budget does not include new General Fund, the 2023-24 funding remains available for allocation in 2024-25.

Regional Early Action Planning Grants. The budget continues to provide $260 million (original appropriation of $600 million was provided in the 2021 Budget Act) for the Regional Early Action Planning (REAP) 2.0 Program. The program works on a reimbursement basis, meaning grant recipients must spend the money first, and then bill the state for the expenditures. The Department of Housing and Community Development (HCD) indicates that it has awarded about $535 million of the original $600 million to date. Recipients have until June 30, 2026 to spend the money and seek reimbursement from the state. The original REAP program was established with $250 million in the 2019 Budget Act to support planning activities designed to accelerate housing development.

One Billion Dollars in Budget Cuts for Housing Programs. The budget includes a reduction of more than $1 billion in funding for various housing programs, which eliminates all remaining funding for the following programs:

1. **Foreclosure Intervention, Housing Preservation Program ($484 million).** The program was established via SB 1079 (Skinner, 2020), and the 2021 Budget Act provided $500 million for the program. However, HCD was slow to get the program implemented and the majority of the funding has remained unspent. The program was designed to provide a pool of money that qualified non-profit housing entities could use to make purchases of residential properties through a foreclosure bid process.

2. **Infill Infrastructure Grant program ($235 million).** The legislative framework for the Infill Infrastructure Grant program was established by SB 86 (Committee on Budget, 2007) but the program was not funded until the 2019 Budget Act, receiving allocations of $300 million in 2019-20, $250 million in 2021-22, and $200 million in 2022-23. The 2023 Budget Act provided $225 million General Fund for the program, but HCD has not yet awarded any of these funds. The additional $10 million reduction comes from the 2022 Budget Act appropriation.

3. **CalHome program ($153 million).** The CalHome program supports homeownership programs aimed at low and very low-income households to increase homeownership, encourage neighborhood revitalization, and maximize the use of existing homes. The 2022-23 budget provided $250 million General Fund, and the 2023-24 budget provided $50 million General Fund

for the program. The 2024-25 budget reverts $102.5 million from 2022-23, and $50 million from the 2023-24 budget back to the General Fund.

4. **Adaptive Reuse program ($128 million).** The Adaptive Reuse program was established in 2022-23 with an appropriation of $400 million General Fund. The program is very similar to the IIG program, and provides funding to facilitate the conversion of properties to residential use. Of the original amount, $128 million remains unallocated and will be returned to the General Fund.

5. **Veteran's Housing and Homelessness Prevention Program ($77 million).** The Veteran's Housing and Homelessness Prevention program began in 2008 as a $900 million bond-funded program that helped veterans purchase single family homes, farms, and mobile homes through the California Department of Veterans Affairs Home Loan program. Demand for the program was not as strong as anticipated, however, so in 2014, $600 million in bond funds were redirected to fund multifamily housing for veterans. Given the state's significant revenue surplus in recent years, the 2022 Budget Act provided $50 million General Fund for the program, and although an additional $50 million was provided in the 2023 Budget Act, these funds have not been allocated and will now be returned to the General Fund.

Low-Income Housing Tax Credit. The budget provides $500 million in tax credits within the State Housing Tax Credit program, which works in conjunction with two federal tax credit programs to reduce funding gaps within development projects. The program offers developers nonrefundable and transferable tax credits to subsidize the construction and rehabilitation of housing developments that have strict income limits for eligible tenants.

California Dream for All Program. A budget trailer bill, AB 166, includes direction to the California Housing Financing Agency (CalHFA) to assess outcomes from the two rounds funding provided to the California Dream for All program. The budget requires CalHFA to develop a plan for improvements to the program, develop options for a second phase of the program, and provide a report to the Legislature by January 31, 2026.

The program offers shared-mortgage loans to eligible first-time homebuyers for up to 20 percent in down payment or closing cost assistance, not to exceed $150,000, towards the purchase of a new home. When the participants sell their home, the Dream for All program receives the money contributed to the down payment, plus 20 percent of any accrued value in the home. These funds are returned to the pool of funds available to assist other first-time homebuyers.

The program received $500 million in the 2022-23 budget, and $20 million in 2023-24. So far, corresponding to expenditures of $245 million, the state has helped 2,182 new homeowners purchase a home (it can take several months for loans to close, especially if the loan is for new construction). The average Dream for All loan amount was $113,000 with an average sales price of $564,000.

Housing and Homelessness Accountability Unit. The budget establishes the Housing and Homelessness Accountability and Results Partnership (HHARP) unit within HCD. The unit is an expansion of HCD's current Housing Accountability Unit, established as part of the 2021-22 budget with 25 positions. The 2024 expansion increases the number of staff from 40 positions currently to 79 positions, which includes 22 positions shifting from the California Interagency Council on Homelessness to HCD as part of the transfer of the state's homelessness grant programs. The unit would have authority to monitor HHAP grantees' expenditures, track outcomes, work with underperforming grantees on corrective action plans, and enforce compliance. Given the state's misguided policies around homelessness, however, it remains to be seen whether adding more state staff will change outcomes significantly.

Affordable Housing Programs and Funding. The table below summarizes information on all state programs and funding available to support affordable housing development in 2024-25. The budget includes more than $2 billion ($623 million General Fund) in support of various housing programs, as shown in the table, which identifies program funding in millions of dollars.

2024-25 Housing Funding ($ in Millions)	Program	General Fund	Other Funds
Department of Housing and Community Development	Permanent Local Housing Allocation Program	$0	$192.5
	Housing Investment Program	$0	$13.8
	Mixed Income Loan Program (transfer to CalHFA)	$0	$16.6
	Farmworker Housing Program	$0	$28
	Affordable Housing and Sustainable Communities Program	$0	$857
	Community Development Block Grant Program	$0	$31.1
	Community Development Block Grant Program - Disaster Recovery	$0	$231.2
	HOME Investment Partnerships Program	$0	$48.1
	National Housing Trust Fund	$0	$62.2
California Tax Credit Allocation Committee	Continuous State Low Income Housing Tax Credit Allocation	$122.6	$0
	Enhanced State Low Income Housing Tax Credit Allocation	$500.0	$0
Total		**$623.6**	**$1,480.5**

Three Local Projects Prioritized. The budget provides $5.5 million General Fund for three local projects, including an affordable housing development in Santa Rosa ($2.5 million), a homeless shelter in Vista ($1 million), and an affordable housing, homelessness, and a workforce development initiative in the San Gabriel Valley ($2 million). Neither the Governor nor legislative Democrats offered a rationale for how these projects were selected.

Homelessness

Key Points

- **Homelessness Worsening Despite Billions Spent.** California sees a 57 percent increase in homelessness since the Governor took office, despite spending $27 billion during that time.
- **U.S. Supreme Court Ruling Could Improve Efforts to Clean Up Streets.** A recent ruling would allow cities and counties to enforce laws prohibiting homeless encampments.
- **Maintains $1.2 billion for Homelessness Programs.** Budget continues to provide $1.2 billion to support efforts to reduce homelessness, including funding to clean up homeless encampments.
- **Statewide Accountability For Homeless Programs Still Unresolved.** Includes minor new accountability measures and data collection requirements, but still fails to outline a statewide strategy.

Billions Spent for Poor Results, Republicans Offered Real Solutions. In an August 8, 2024 press release, Governor Newsom announced the state has spent more than $27 billion on homelessness prevention efforts since he took office. Yet despite the exorbitant amount of General Fund spent on the issue, the state's homeless population continues to increase. When Governor Newsom took office in 2016, California had 118,142 homeless, and now, nearly seven years later, the homeless population has ballooned to nearly 186,000 (as noted in recent reporting by Cal Matters on the unofficial count of 2024), an increase of nearly 68,000 Californians. To recap his time in office, the Governor has spent $27 billion dollars while the state's homeless population has increased 57 percent, recording the highest number of homeless individuals ever.

Despite record spending since the Governor took office, and the largest number of homeless in its history, the state has yet to develop and implement meaningful accountability metrics, such as requiring annual program evaluations, that could provide critical information necessary to determine the effectiveness of the state's numerous efforts to manage the crisis. The state's failures on homelessness are the result of a lack of accountability, as well as a misunderstanding of the causes of the problem, which stems from more than just a lack of affordable housing. Until the Majority Democrats are willing to examine results and end policies and programs that do not work, the number of marginalized Californians living on the street will continue to grow.

Recent Judicial Ruling Could Provide Direction for Local Governments. On June 28, 2024, the US Supreme Court effectively turned over *Martin v. Boise* and *Grants Pass v, Johnson*, thus allowing cities and counties within the jurisdiction of the 9th Circuit Court of Appeals to enforce laws prohibiting homeless encampments. The ruling could provide state and local officials with clear direction and authority to enforce policies to clear unsafe and unhealthy homeless encampments. The decision removes the legal ambiguities that have tied the hands of local officials for years and limited their ability to deliver on common sense measures to protect the safety and well-being of our communities. It remains to be seen, however, if state and local homeless programs will improve their efforts to clear the sidewalks given the Court's recent decision, or if the status quo will remain.

Encampment Resolution Grant Program. The budget provides $150 million General Fund in 2024-25 for the Encampment Resolution Grant Program. The budget also states intent to provide $100 million for the program in 2025-26, but given the state's projected budget deficits, it is uncertain if these funds will be included in the budget next year. The program works with local governments and provides grant funding to assist them with resolving critical encampment concerns and transitioning individuals into safe and stable housing. The program was established in 2021-22 with $50 million General Fund, and received another $300 million in 2022-23 and $400 million in 2023-24.

The program requires participating entities to develop a detailed service delivery plan, including a description of how individuals will be served with permanent housing solutions. Combined with new legal tools available following the U.S. Supreme Court's recent *Grants Pass* ruling, the program provides local governments with resources that should enable the prioritization of clean-up efforts, but performance and outcome measures will be critical in subsequent years to ensure the program is an effective tool in supporting efforts to reduce homelessness.

Homeless Housing Assistance and Prevention Program. The budget continues to provide for the allocation of $1 billion General Fund for Round 6 of the Homeless Housing Assistance and Prevention (HHAP) Program, and requires 10 percent of funds to be spent on homeless youth. The $1 billion appropriation was authorized in the 2023 Budget Act, but the funds have remained unspent. The budget also includes a reversion of $260 million in supplemental bonus funding that remains unspent from previous rounds of funding. These funds are available for return to the General Fund as the program requirements were not well thought out, incentivizing local governments to set low performance goals in order to receive funding. The supplemental bonus funding requirements were revised as part of the 2023-24 budget, with the $260 million in remaining funds shifted into 2024-25.

Additionally, a 2024-25 budget trailer bill, AB 166, includes implementation and reporting requirements for the latest round of flexible funding available to local and tribal entities. These new requirements are a response to the severe criticism leveled by the State Auditor in a recent report regarding the lack of accountability for homelessness programs. The data requirements may be a small improvement, but do not go far enough to ensure that billions spent to combat homelessness lead to reduced numbers of homeless on our streets.

Tax Policy

Key Points

- **Tax Increases on Businesses.** Suspends use of the Net Operating Loss and limits tax credit use for three years, beginning with the 2024 tax year, including refundability on tax credit limitations.
- **Governor To Decide Who Deserves Tax Filing Delays.** Includes authority for the Governor's Department of Finance to decide which taxpayers would be eligible for tax filing postponement.
- **Bad Debt Sales Tax Refund.** Eliminates the sales and use tax deduction and refund for sales and use tax previously paid on accounts charged off for income tax purposes.
- **Apportionment Factor Changes Legally Challenged.** Includes statutory changes to determine when a corporation excludes income from taxable income, a change subject to a recent legal challenge.
- **CalCompetes Tax Credit Program.** Authorizes $645 million in tax credits for the CalCompetes tax credit program.
- **Tax Credit Outreach and Tax Preparation.** Provides $12 million General Fund for free tax preparation services and outreach activities within the state's Earned Income Tax Credit program.

Net Operating Loss Suspension and Limiting Business Tax Credits. Despite Governor Newsom's claim that he is not raising taxes, the budget raises taxes by $6 billion in 2024-25, and by nearly $16 billion over a multiyear period, through business tax increases that could also drive consumer prices higher. Specifically**,** the budget suspends the use of Net Operating Losses (NOL) for medium and large businesses, and limits business tax credit use to $5 million per year for tax years 2024, 2025, and 2026.

The budget includes a statutory trigger to rescind these tax changes if revenues are determined to be sufficient in 2025 and 2026, and authorizes refundability of tax credits for all businesses impacted by the tax credit limitation. The budget assumes revenue of $850 million in 2023-24, $6 billion in 2024-25, $5.5 billion in 2025-26, and $3.4 billion in 2026-27 as a result of both the suspension and credit limitation. The revenue impact of the credit refundability would begin in 2027-28 with an estimated $1 billion General Fund revenue reduction, increasing for each of the next two years as additional refunds are claimed.

Governor To Decide Who Deserves Tax Filing Delays. In 2023, following severe winter storms in many California counties, the federal government delayed the federal tax filing deadline from the usual April 15 until November 16 for 55 of California's 58 counties. The state conformed with the federal tax filing delay for nearly all Californians, which kept the timing aligned for state and federal tax filing requirements, but caused a delay in the collection of state revenues. This delay undoubtedly helped California taxpayers, but the lack of income tax data from April 2023 increased the uncertainty regarding how much revenue to reflect in the budget. The prudent course of action would have been to build in larger reserves or "trigger" reductions to provide greater insurance against lower revenues, but Democrats did not take these precautions. When revenues arrived in November 2023 at significantly reduced levels, the 2023-24 budget deficit proved to be much higher than budgeted.

In response, the 2024 budget authorizes the Governor's Department of Finance to determine, in the event of a declared state emergency, which California taxpayers would be eligible for postponement of tax-related documents and payments. Previously, the Franchise Tax Board, with the approval of the Governor, sent out notification of conformity on a county-by-county basis. The new policy would shift the burden of proof to individual taxpayers and would require an impacted taxpayer to, among other things, request relief. Affected taxpayers <u>would</u> <u>now</u> be required to submit supporting documentation related to the declared disaster. Although this change is touted as necessary to prevent the revenue delay and uncertainty experienced in 2023, the new requirements significantly increase the burden on individual taxpayers and is likely to increase state bureaucracy in the end.

Bad Debt Sales Tax Deduction and Refund. The budget eliminates, beginning on January 1, 2025, the sales and use tax deduction and refund for a lender for sales and use tax previously paid on accounts charged off for income tax purposes (commonly referred to as bad debt). The budget includes General Fund revenue of $25 million in 2024-25, and $50 million annually thereafter. Local governments would also experience revenue growth of approximately $50 million annually from eliminating the tax deduction and refund allowance for bad debt write-offs. This tax policy change could increase the cost of credit and negatively affect auto sales in California, since car dealerships are frequent lenders. This could result in less sales tax revenues in the long run.

Apportionment Factor Methodology. The term "apportionment factor" refers to how a corporation allocates its revenues among different states or other legal jurisdictions. The budget includes statutory changes (SB 167) to require that when a corporation excludes income from taxable income, it must also exclude this income from its apportionment factor formula. The Governor's administration indicates that these changes, which were included in a late budget trailer bill, align with the Franchise Tax Board's (FTB) 2006 legal ruling and longstanding guidance on the matter. The claim is based on the matching principle that only income included in the tax base should be included in the apportionment factor. FTB estimates that without these statutory changes, the state could have been required to refund around $1.3 billion based on similar tax filings from prior years and cases currently filed with the Office of Tax Appeals. The budget would apply these provisions to taxable years beginning before, on, or after the effective date of this bill.

The California Taxpayers Association filed suit August 15, 2024 challenging the statutory changes included in SB 167, which retroactively modifies the rules used to apportion global income when determining the portion that is taxable in California. The lawsuit claims that the apportionment changes would be a retroactive tax increase that violates the rights of companies operating in California, and that the changes ignore the decisions of two unanimous panels of judges with the independent Office of Tax Appeals.

CalCompetes Tax Credit Program. The 2024-25 budget authorizes $645 million in CalCompetes tax credits. The 2022-23 budget included statutory changes that extended the tax credit program through 2027-28, and provided allocation authority of $180 million in tax credits each year. When these tax credits go unused, they are recycled back into the program. This year, due to accumulated under-allocation, underutilization, and recapture of prior awards, the CalCompetes Tax Credit program had $465 million available to award to businesses. Given the significant underutilization of tax credits within the program, one has to wonder what value, if any, this tax credit brings to California businesses trying to remain solvent in this high tax, high regulatory state.

Earned Income Tax Credit Outreach and Tax Preparation. The budget provides $12 million General Fund for outreach activities and free tax preparation services within the state's Earned Income Tax Credit Program. Base funding for these activities is $10 million annually, and the budget provides $2 million in one-time General Fund for these activities. It is disappointing that Democrats would prioritize an outreach program over disabled Californians and other worthy programs for General Fund support when the state is in a fiscal crisis.

Elimination of the Charitable Easement Deduction. The budget conforms state law to federal law for treatment of the charitable conservation easement deduction. Currently, property owners who give up development rights on lands are allowed a deduction equal to the value of the property. The budget limits deductions for charitable conservation easements to two and a half times the investment cost for the purchaser, and disallows the deduction for any taxpayer who has previously engaged in fraud, consistent with federal law changes adopted in 2023. The 2024 budget includes additional revenue of $55 million in 2024-25 and 2025-26, and $25 million ongoing thereafter.

Immediate Deduction for Intangible Drilling Costs. The budget eliminates the accelerated expensing for oil and gas intangible drilling costs beginning in tax year 2024. Currently, state law allows 70 percent of intangible oil and gas drilling costs (such as survey work and ground preparation) to be deducted in the first year, with the remainder spread over five years. Eliminating this allowance would instead apply standard tax law that allows expenses be deducted when their benefit is realized. The 2024 budget includes additional revenue of $7 million annually due to eliminating the accelerated expenses for oil and gas drilling costs.

Eliminate Enhanced Oil Recovery Costs Credit. The budget eliminates the enhanced oil recovery costs credit beginning in tax year 2024. The cost of this credit is limited and uncertain because the credit is only available if the price of domestic crude oil increases above a specific threshold. Current law allows specified independent oil producers a nonrefundable credit up to five percent of the qualified enhanced oil recovery costs for projects located in the state if oil prices fall above a specified amount for the preceding year.

Percentage Depletion Rules for Fossil Fuels. The budget eliminates the increased depletion percentage allowance for fossil fuel minerals, including oil, gas, and coal beginning in tax year 2024. Businesses may currently deduct a fixed percentage of gross income that is higher than normal cost-depletion when calculating the deduction of resource depletion for mineral and other natural resources. The 2024 budget includes additional revenue of $15 million in 2024-25 and $10 million annually thereafter.

Extends Exemption for Cannabis Businesses. The budget extends the timeline from December 1, 2025 to December 1, 2030 to specify that personal income tax law does not conform to federal income tax law that disallows credits or deductions for businesses engaged in sales of controlled substances, including commercial cannabis activity. Extending this specified timeline for non-conformity to federal law allows cannabis businesses to continue to utilize tax credits or deductions, as eligible under state tax law.

Advanced Strategic Aircraft Tax Credit. The budget extends the timeline for when the Advanced Strategic Aircraft tax credit may be used to reduce the alternative minimum tax from the current expiration date of January 1, 2026, to January 1, 2031. The 2020 revenue and tax trailer bill (AB 85) authorized Northrop Grumman to use the advanced strategic aircraft tax credit to reduce the alternative minimum tax beginning on or after January 1, 2020, and before January 1, 2026. The budget extends that timeline to be consistent with the proposed restricted treatment of business tax credits for 2024, 2025, and 2026 and the allowance of unused credits to rollover to future years.

Health

Key Points

- **More Dependent on Washington, DC than Ever.** Democrats enact two additional Managed Care Organization (MCO) tax bills in order to balance the budget using billions in new federal funds.
- **Democrats Pit Medi-Cal Providers against Each Other.** Democrats make allocations of MCO tax proceeds to certain Medi-Cal providers dependent on the failure of Proposition 35, the ballot measure that would stop Democrats from future raids of MCO tax funds.
- **Healthcare Minimum Wage Mandate Delayed.** Democrats fail to correct their misguided 2023 policy in creating the costly $25-an-hour healthcare minimum wage law, but delayed implementation until mid-October 2024.
- **Full Funding for Medi-Cal Expansion to the Undocumented.** Democrats fully fund the major Medi-Cal expansion to 1.3 million undocumented individuals, despite cuts to other areas of the budget, such as services to the developmentally disabled.
- **Only MLK Jr. Hospital Gets Relief Funding.** Although distressed hospitals at risk of closure are in every part of the state, only Martin Luther King Jr. Community Hospital in Los Angeles obtains additional relief funding in 2024.

Two Additional Managed Care Organization (MCO) Tax Bills. The 2023 Budget Act included a MCO tax, effective from April 1, 2023 through December 31, 2026, on both commercial and Medi-Cal managed care plans. In June 2023, the MCO tax was estimated to provide an additional $19.4 billion in budget resources through 2027, with $11.1 billion intended to support additional Medi-Cal provider rate increases and $8.3 billion for General Fund budget relief.

Adding to our dependency on Washington DC to balance our state budget, the Democrats' 2024 budget included two additional MCO tax trailer bills, SB 136 and AB 160, approved by the Legislature in March 2024 and June 2024, respectively, that expanded the MCO tax on Medi-Cal managed care plans in order to generate more revenues. These bills increased the total net MCO tax proceeds to a projected $26.6 billion through the life of the tax, and gave the Democrats another opportunity to swap out more General Fund spending in Medi-Cal with federal funds. Within that $26.6 billion, the Democrats choose to set aside just $3.3 billion for new Medi-Cal provider rate increases, and raid the remaining $23.2 billion to sustain their General Fund spending over multiple fiscal years. For the 2024-25 fiscal year, the enacted budget steals $7.1 billion of the total MCO tax to plug the General Fund deficit.

With additional state budget deficits likely on the horizon, it is likely that the Democrats would be tempted to break their promises to Medi-Cal providers yet again and raid the estimated $2.6 billion remaining of the funds set-aside for providers in future budgets.

If Voters Approve Proposition 35, Democrats' MCO Tax Raids Would End. Proposition 35, the November 2024 election ballot proposition supported by a large coalition of Medi-Cal providers, would permanently authorize the state to impose an MCO tax, but would restrict the use of the MCO tax proceeds to Medi-Cal provider reimbursement rate increases, thereby barring future legislatures and governors from shifting the MCO tax funds for a General Fund budget solution. If the proposition is approved by the voters, many Medi-Cal providers, such as primary care physicians and hospitals, would earn more for serving Medi-Cal patients.

While the Democrats' enacted budget does include $133 million of MCO tax funds for new Medi-Cal provider rate increases to certain providers in 2024-25, the Democrats snuck in language in the health trailer bill that would make the rate increases in the Democrat budget inoperable if Proposition 35 is approved by the voters. The list of Medi-Cal providers that would benefit from the rate increases in the Democrats' budget are not necessarily the same providers that would experience rate increases if Proposition 35 is approved.

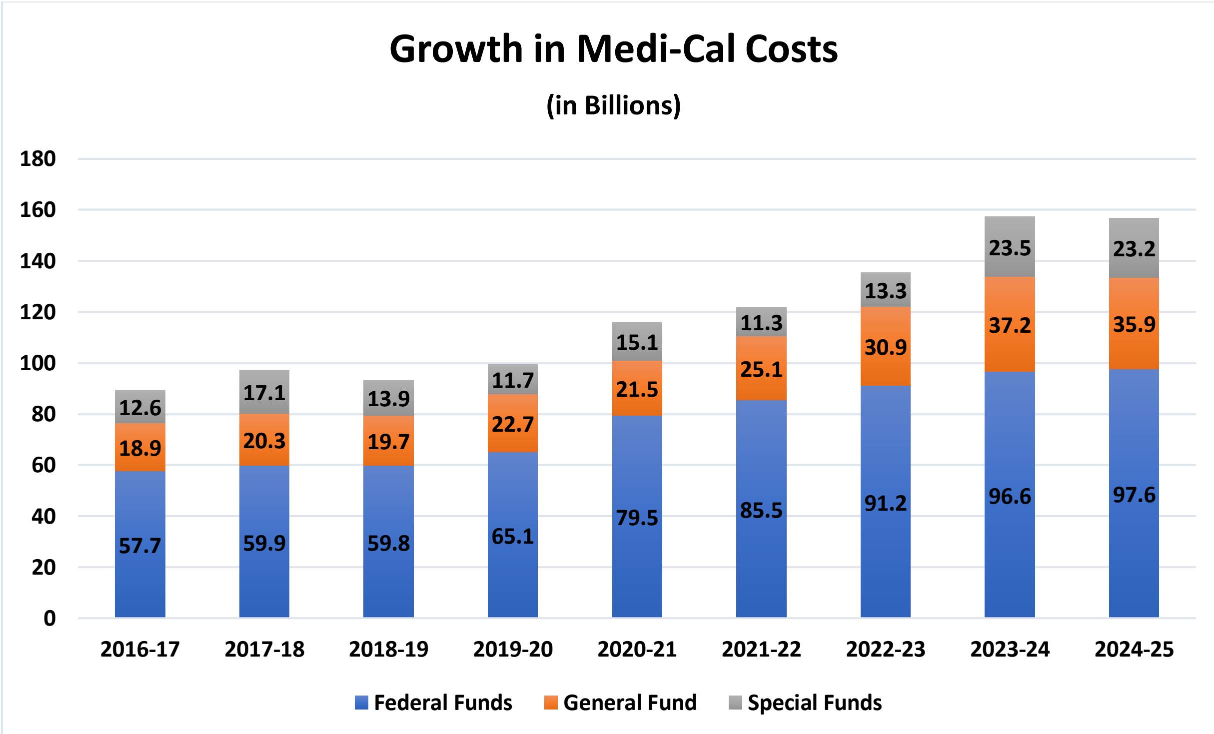
By adding the inoperability language to the limited provider rate increases approved in the budget, the Democrats are essentially forcing the public choose between two lists of provider reimbursement rate increases, pitting some Medi-Cal providers against each other politically to retain their piece of the MCO tax pie. These rate increase hijinks should signal to the public that Democrats are not really serious about actually improving how Medi-Cal is delivered.

Healthcare Minimum Wage Mandate Delayed. The 2024 budget fails to eliminate the costly $25-per-hour healthcare minimum wage mandate first placed into law by SB 525 (Durazo, 2023), but instead delayed the law's implementation to mid-October 2024. In May 2024, the Governor publicly stated that the minimum wage mandate was too expensive for the state given the budget troubles. Rather than admit that he erred in signing the bill that his own Department of Finance estimated in 2023 would cost $2 billion General Fund annually, the Governor and the Democrats' delay in this budget merely pushes the problem back by a few months. In fact, the 2024-25 budget still fails to include the realistic costs of the bill, which Democrats instead arbitrarily pegged at $100 million General Fund in 2024-25. This means that the budget is not truly balanced in all likelihood. The Department of Finance refused a recent request to update the cost estimate, so it appears the budget could be out of balance by as much as $1.9 billion (difference between the $100 million and $2 billion).

On October 1, 2024, the administration announced that an expanded Hospital Quality Assurance Fee (HQAF) would be collected in 2025 to generate more federal funding to aid in the cost of the minimum wage increases. Unfortunately, the administration has stated that details of the enhanced HQAF, including how much it will benefit the state or how much will be used to fund the wage increases, will not be available until the release of the next Governor's budget in January 2025.

No Cuts to Undocumented Medi-Cal Eligibility. The budget fully funds the previously authorized full-scope Medi-Cal eligibility (including In Home Supportive Services) to an estimated 1.3 million undocumented individuals of all ages at a cost of approximately $5.4 billion General Fund in 2024-25. This includes the final piece of the expansion, covering childless undocumented adults ages 26 through 49, launched on January 1, 2024, without any delay, despite the massive deficit, at a projected cost of $2.8 billion in 2024-25. This prioritization of Medi-Cal service expansion to a mostly healthy, able-bodied adult population is questionable when compared to the fact that the Democrats cut $306 million to the system that provides critical services to developmentally disabled children and adults, triggering service delays and waiting lists.

Despite Large Medi-Cal Caseload Decrease, Costs Remain Flat. The June 2024 budget act projects that 38 percent of Californians (15.2 million individuals) will be enrolled in Medi-Cal, at a cost of $157 billion ($37 billion General Fund), in the 2023-24 fiscal year. In fiscal year 2024-25, the budget projects a smaller Medi-Cal caseload of 14.5 million individuals (4.8 percent decrease), at a cost of $157 billion ($36 billion General Fund), a minimal 0.4 percent decrease in year-to-year costs. As reflected in the chart on the next page, much of the program cost growth is attributable to a massive influx in federal funds into the program. As mentioned previously, the General Fund impact in 2024-25 is muted because of the use of the MCO tax to draw down billions more federal funds than previous fiscal years.



$25 Million for MLK Jr. Hospital, But No New Funds for Other At-Risk Hospitals. In 2023, the Legislature created the Distressed Hospital Loan Program and allocated $300 million to help 17 hospitals deemed most at risk of closure. Thirteen additional hospitals applied to the program, but were denied any funding. In addition, many hospitals throughout the state have closed specialty wards, including dozens of labor and delivery units, in order to reduce their costs. Even for the awardees, these funds are merely loans to be paid back, and are only meant to be a bridge until long-awaited and over-promised Medi-Cal rate increases come to hospitals.

The 2024 Budget Act fails to include any additional funding for the Distressed Hospital Loan Program or any other relief funding for these at-risk hospitals, but the budget does include a new $25 million direct supplemental Medi-Cal payment to Martin Luther King Jr. Community Hospital in South Los Angeles. While there may be a credible policy rationale in support of a directed supplemental payment because of the large Medi-Cal and Medicare populations it serves, why is MLK Jr. Community Hospital the only beneficiary of direct increased support in this budget? Senate Republicans will continue the fight to secure more funding for *all* at-risk hospitals, knowing that Democrats' "healthcare for all" statement is hollow if there is nowhere to obtain healthcare.

Reductions to Recently Created Healthcare Workforce Incentive Programs. The 2024 Budget Act reduces funding for the Department of Health Access and Information's healthcare workforce initiative programs first created in the 2022 Budget Act. These programs aim to increase the number of nurses, social workers, and other health professionals in California. The budget reduces $200 million in the 2023-24 fiscal year and $300 million in 2024-25, but maintains $358 million at the department for future incentives such as fellowships, residencies, and graduate medical education.

In addition, the 2024 Budget Act reduces annual funding allocations to local public health departments by $24 million, maintaining $276 million out of the original $300 million in annual funding. Local public health departments are using the funds to recruit new personnel and build up public health infrastructure.

Use of Safety Net Reserve Contrary to Intent. The enacted budget sweeps the entire $900 million in the legislatively-created Safety Net Reserve in order to “maintain existing program benefits and services for the Medi-Cal and CalWORKs programs.” The reserve was created to help cover the costs of *increasing* caseloads in a recessionary economic climate. The 2024-25 Budget Act does not forecast a recession, projects a decreasing Medi-Cal caseload, and projects CalWORKs’ caseload to be relatively flat from 2023-24. These factors raise questions whether the use of the Safety Net Reserve is consistent with its intent. As the nonpartisan Legislative Analyst’s Office notes, “withdrawing the entirety of this reserve many not be consistent with its original design.”

Maintains Great Recession-era Budgeting Gimmick. The Democrats’ budget undoes a 2022 agreement to discontinue a Great Recession-era Medi-Cal accounting gimmick. To achieve one-time General Fund relief in the 2006 Budget Act, Medi-Cal provider reimbursement checks were delayed by two weeks in order to shift costs from the 2006-07 fiscal year to the 2007-08 fiscal year. This two-week check withhold for Medi-Cal providers has remained law ever since. The 2022 Budget Act included trailer bill language to “buy back” the two-week check withhold in 2023 at a one-time General Fund cost of $378 million, but the 2023 Budget Act delayed it until the 2024-25 fiscal year. Now in order to avoid an estimated $533 million in costs to implement the “buy back,” the 2024 budget package included trailer bill language to keep the two-week check withhold in law permanently. This is merely an accounting gimmick to make the budget appear balanced on paper without truly bringing spending in line with resources.

Behavioral Health

Key Points

- **Decline in Millionaires' Tax Revenue for Behavioral Health.** Significant drop in the Personal Income Tax revenue estimates decreases the amount of funding available for the Behavioral Health Services Act (BHSA).
- **Proposition 1 Bond Dollars for New Behavioral Health Infrastructure.** The proposition's passage in March 2024 allows Democrats to swap out General Fund for bond funds to acquire and construct new treatment facilities.
- **Noticeable Improvement in Incompetent to Stand Trial (IST) Treatment Waitlist**. Waitlist of mentally ill offenders needing competency restoration treatment cut in half.

Drop In Millionaires' Tax Revenue Decreases Available Mental Health Services Funding. The Mental Health Services Act, passed as Proposition 63 in 2004 (and reformed by Proposition 1 in 2024 as the Behavioral Health Services Act [BHSA]), imposed a 1 percent tax on personal income in excess of $1 million in order to fund state and county behavioral health programs. The forecast within the 2024-25 budget displays a significant decrease in BHSA revenues as compared to the June 2023 Budget Act, as shown in the following chart.

Drop in Projected BHSA "Millionaires" Tax Revenue			
(Dollars in Billions)	**2022-23**	**2023-24**	**2024-25**
Estimates at 2023 Budget Act	**$3.2**	**$2.7**	**$3.0**
Estimates at 2024 Budget Act	**$2.9**	**$2.5**	**$2.8**

Because of the decrease in BHSA revenue (as well as some fund shifts with the MCO tax funds, General Fund, and Proposition 1 bond funds), the enacted budget proposes a substantial decrease in BHSA-funded expenditures, as shown in the chart below. Much of the decrease, roughly $600 million in 2023-24 and $500 million in 2024-25, is in local assistance funding to the county behavioral health departments. This has resulted in counties tapping into their BHSA reserves or their own county general funds to maintain critical services. Senate Republicans will continue to hold Democrats accountable to ensure that critical programs are funded despite the state budget's overreliance on wealthy taxpayers.

Decrease in Behavioral Health Services Act Spending			
(Dollars in Billions)	**2022-23**	**2023-24**	**2024-25**
2023-24 Spending estimates at 2023 Budget Act	**$5.5**	**$3.2**	**$3.2**
2024-25 Spending estimates at 2024 Budget Act	**$2.6**	**$2.4**	**$2.7**

Proposition 1 Bond Dollars Supplant General Fund for New Treatment Beds. Approved by the voters in March 2024, Proposition 1 authorized $6.4 billion in bonds for new behavioral health treatment facilities ($4.4 billion) and housing ($2 billion). The Newsom administration claims that the $4.4 billion will result in more than 10,000 new behavioral health treatment beds in locked psychiatric and outpatient treatment facilities, as well as short-term crisis care facilities. The funding will be allocated to

county behavioral health departments and non-profit community partners to construct, acquire, and rehabilitate properties in order to increase behavioral health treatment bed capacity. A portion of the funding will also cover the rehabilitation and construction of tiny homes or small multi-bed facilities in locations where wrap-around behavioral health treatment can be administered.

Unfortunately, instead of supplementing the General Fund currently being used for the addition of these treatment facilities, the Democrats chose to swap out $375 million in previously budgeted General Fund for Proposition 1 bond dollars. Not only does this reduce the overall funding for new facilities, it also has the effect of delaying shovel-ready projects, since the bonds must be sold on the market to investors first. In 2022, Senate Republicans proposed to fully fund this program using $10 billion of the then-projected $98 billion General Fund surplus. Instead, the Democrats chose to spend the surplus elsewhere, and now the state will be saddled with interest costs on these bonds for decades. Time will tell if the voters will actually obtain the 10,000 new treatment beds they were promised.

All County Implementation of CARE Court. The Community Assistance, Recovery and Empowerment (CARE) Act is a new legal process that allows friends and families of the most severely impaired Californians to petition a court to deliver much-needed behavioral health treatment to those individuals. Several counties have implemented the CARE Act already, while the remaining counties will begin by December 1, 2024. The 2024-25 budget includes $272 million in General Fund for county CARE treatment plans. Senate Republicans support the empowerment of families to rescue their loved ones from the dangerous streets and will demand state oversight of this new program to improve it as time goes on.

Department of State Hospitals' Caseload Essentially Flat, but Still Not Enough Beds for Waitlist. The Department of State Hospitals (DSH) is responsible for the daily care and mental health treatment of more than 9,000 patients in five main hospital campuses and in dozens of contracted facilities throughout the state. Over the last decade, the population demographic has shifted from primarily civil court commitments to a forensic population committed through the criminal court system. While the 2024-25 budget estimates that caseload will slightly decrease to 9,267 patients (from 9,379 in 2023-24) at a cost of $3.3 billion ($3.1 billion General Fund), the department estimates that 709 individuals are currently on a waitlist for a DSH treatment bed. The department is actively pursuing contracts with counties for more bed space, a consequence of years of inadequate Democrat attention to this growing problem.

Substantial Improvement in the Incompetent to Stand Trial Waitlist. The enacted budget projects a dramatic decline, from 804 in 2023-24 to only 375 in 2024-25, in the number of mentally ill criminal offender patients still awaiting competency restoration treatment services. These patients are individuals charged with a felony but deemed by a judge to be incompetent to stand trial due to their current mental instability. Without restoration of competency these individuals do not have the wherewithal to stand in defense in a court of law. The state is currently under a federal court order to reduce the wait time for restoration of competency services to just 28 days by March 2025. The administration also states that of the 375 individuals on the waitlist, 124 are receiving substantive treatment service through a new early access treatment program, which will stabilize the patients' conditions before they embark on full competency restoration services.

Adding a Wellness Coach Benefit in Medi-Cal. Despite tens of billions dollars in deficits for years to come, the Democrats chose this budget as the time to add a new wellness coach benefit within Medi-Cal at a cost of $4.1 million General Fund in 2024-25 and $34 million General Fund annually thereafter. Under this proposal, starting January 1, 2025, Medi-Cal will cover the addition of wellness coaches on staff at public schools as part of the Governor's broader Children and Youth Behavioral Health Initiative to connect more kids to behavioral health services. The certified, but not licensed, coaches will be in addition to any social workers, therapists, or psychologists already on school district staff and will be tasked with “guiding” students into making proper life choices. While this benefit may slightly help the delivery of behavioral health care in schools, the state’s fiscal condition is not in a place to add new ongoing entitlement expenditures, especially one that is not critical to the delivery of health care to low-income Californians.

Human Services

Key Points

- **Foster Care Rate Reform.** Establishes a new permanent foster care rate structure that is based on the needs of the child or youth in foster care, rather than their placement type.
- **Additional CalWORKs Grant Increase.** Provides $10.5 million for an additional 0.3 percent increase to CalWORKs Maximum Aid Payment levels.
- **Eliminates Housing Support for Foster Youth.** Reduces $19 million General Fund ongoing for foster youth housing support.
- **IHSS Undocumented Immigrant Expansion.** Continues the expansion of In-Home Supportive Services (IHSS) to undocumented immigrants of all ages.
- **Moves Closer to Reimaging CalWORKs.** Pushes the state to participate in the federal work participation rate pilot and closer to reimagining CalWORKs, which seeks to modify the current welfare-to-work process, evaluate sanctions, and repeal the work participation rate penalty pass-through.

Department of Social Services

The 2024-25 budget for Department of Social Services (DSS) programs is over $50 billion from all fund sources (over $20 billion General Fund). This is $444 million (total funds) more than the revised 2023-24 total budget, but about $331 million less in General Fund costs. The table below highlights caseload projections for major programs at DSS, and the table on the following page shows the General Fund costs for these programs.

Department of Social Services Caseload Projections

Program	2023-24	2024-25	Change From 2023-24 to 2024-25	
			Amount	Percent
CalFresh	3,063,889	3,089,948	26,059	0.9
Supplemental Security Income/State Supplementary Payment (SSI/SSP)	1,099,947	1,076,332	-23,615	-2.1
In-Home Supportive Services (IHSS)	664,958	703,921	38,963	5.9
California Work Opportunity and Responsibility to Kids (CalWORKs)	348,621	354,772	6,151	1.8
CalWORKs Child Care	135,736	141,062	5,326	3.9
Child Welfare Services	112,756	111,518	-1,238	-1.1
Adoption	86,941	87,087	146	0.2
California Food Assistance Program (CFAP)	54,658	58,838	4,180	7.6
Foster Care	46,114	45,358	-756	-1.6
Kinship Guardianship Assistance Payment Program (Kin-GAP)	17,634	17,609	-25	-0.1
Cash Assistance Program for Immigrants (CAPI)	15,333	15,976	643	4.2
Total*	**5,646,587**	**5,702,421**	**55,834**	**1.0**

***Note: The total projected caseload is not unduplicated. This means that an individual could be included twice if they are receiving benefits from more than one program.**

Department of Social Services General Fund Projections (Dollars in millions)				
Program	2023-24	2024-25	Change From 2023-24 to 2024-25	
			Amount	Percent
In-Home Supportive Services (IHSS)	$7,991	$9,146	$1,155	14.5
Supplemental Security Income/State Supplementary Payment (SSI/SSP)	$3,547	$3,643	$96	2.7
Child Care	$2,099	$3,240	$1,142	54.4
County Administration/Automation	$1,455	$1,506	$51	3.5
Child Welfare Services	$1,056	$961	-$95	-9.0
CalWORKs	$1,215	$644	-$571	-47.0
All other funding under DSS (including state support)	$3,437	$1,329	-$2,108	-61.3
Total	**$20,800**	**$20,469**	**-$331**	**-1.6**

Children and Family Services

The budget includes $9.8 billion in total funding ($901 million General Fund) in 2024-25 for Children and Family Services programs. Children and Family Services programs include Child Welfare Services (CWS), Adoption Assistance, Foster Care, Kinship Guardian Assistance Payment (Kin-GAP), and relative caregiver programs.

Permanent Foster Care Rate Reform. The budget initiates the implementation of the expansive new permanent foster care rate structure that is based on the needs of a child or youth, rather than their placement type. To begin the necessary automation for the new structure, the budget includes $6.9 million total funds ($4.4 million General fund) in 2024-25 and $14 million total funds ($9 million General Fund) 2025-26. Implementation of the new rate structure is anticipated to begin July 1, 2027.

The move towards overhauling the rate system began with the Continuum of Care Reform, which is rooted in the belief that children in the foster care system need and deserve to be a part of a loving family, and not grow up in congregate settings such as group homes. Under the tiered rate structure, a child will be assessed and placed into one of three tiers based on their needs and strengths, which will determine the rates that follow the child. The rates include three components: care and supervision, strengths building, and immediate needs. The strengths building component provides funding for an array of support activities such as sports, clubs, drama classes, and transportation to religious or other cultural activities. Providing this specified funding will help support positive social connections, and allow the youth to engage in activities that have previously been deprioritized or restricted.

The budget also makes several cuts and re-appropriations to children and family services including:

- Re-appropriates $40 million for the Bringing Families Home Program to 2025-26 and another $40 million to 2026-27. The funding was originally provided in the 2022 budget, and the Governor proposed cutting the combined $80 million in the May Revision. The Legislature modified the proposal to instead re-appropriate the funding over two years. The Bringing Families Home Program serves families in the child welfare system experiencing homelessness, and seeks to prevent foster care placements by keeping families together.

- Eliminates the Los Angeles County Child Welfare Services Public Health Nursing Program by cutting $8.3 million General Fund in 2024-25 and ongoing. The budget also recognizes $7.3 million General Fund savings in 2023-24 due to the program not fully rolling out. The program was meant to maximize the use of county public health nurses in the field to provide families, whose children are at risk of being placed in the child welfare system, with preventative services to meet their medical, mental, and behavioral health needs.

- Eliminates $200,000 General Fund (GF) in 2024-25 and $19 million GF in 2025-26 and ongoing for a housing supplement for foster youth in Supervised Independent Living Placements (SILPs). The 2023 Budget Act created this supplement to the basic rate paid for a non-minor dependent placed in a SILP, with an expected rollout on July 1, 2025. These SILPs are placement options for individuals aged 18 to 21 participating in extended foster care. Providing an additional housing supplement was meant to help fill the gap between housing costs and the basic rate paid. While the cut to this funding eliminates the rollout of the supplement, once the Foster Care Tiered Rate Structure is implemented, the SILP rates will increase. However, the new rate structure is not anticipated to be implemented until 2027, and these supplements were going to begin in 2025.

California Work Opportunity and Responsibility for Kids (CalWORKs)

CalWORKs Budget and Caseload. The budget includes nearly $7 billion total funds ($614 million General Fund) in 2024-25 for CalWORKs program expenditures, and estimates an average monthly caseload of 354,772 families. This represents a 1.8 percent increase over the revised 2023-24 caseload of 348,621. The total CalWORKs funding does not include CalWORKs Stage One Child Care and CalWORKs housing programs, which area accounted for in the child care and social services housing sections.

CalWORKs Grant Increase. The 2024-25 budget includes a 0.3 percent increase to CalWORKs Maximum Aid Payment levels, estimated to cost $10.5 million in 2024-25. This increase is funded entirely by the Child Poverty and Family Supplemental Support Subaccount, a fund source that the state previously realigned to counties. While this expansion is being covered by the subaccount, it should be noted that if the subaccount ever has insufficient funding to cover this increase or any prior grant increases, General Fund will be used to backfill the difference.

Push for Federal Work Participation Pilot. The budget includes provisional language to increase the DSS budget by $2.4 million General Fund for automation costs if California is selected to participate in the federal work participation pilot. In 2023, the federal government authorized a pilot program to test alternative benchmarks to work participation rates to measure outcomes of those participating in the federal Temporary Assistance to Needy Families program (called CalWORKs in California). This budget directs DSS to apply for this pilot program, and states the Legislature's intent to continue the push to reimagine CalWORKs as part of the application for the pilot program. To meet the goals of reimagining CalWORKs, the bill authorizes DSS to consider proposals to modify the existing welfare-to-work process, limit sanctions, and repeal the federal work participation rate penalty pass-through.

Over the past decade, California has passed various policy changes that have reduced accountability in CalWORKs, including the elimination of the Maximum Family Grant rule, extension of the lifetime limits for adult recipients from 48 to 60 months, and increased "flexibility" in work participation requirements. Reimagining CalWORKs will continue to erode accountability in the program. With that said, if California is selected for the pilot program, the state would have the opportunity to test the alternative benchmarks without the threat penalties for failing to meet work participation rates. The alternative benchmarks could also potentially provide a better picture of CalWORKs outcomes and shortcomings.

Program Reductions and Eliminations. The budget also includes several reversions and reductions to services provided under CalWORKs:

- Reverts $30 million General Fund in 2023-24, and reduces $25 million in 2024-25 and 2025-26 for the Home Visiting Program. This program aims to expand educational, economic, and financial capability opportunities to support positive health development and outcomes for pregnant women, families, and infants born into poverty.

- Reduces $47 million General Fund in 2024-25 and ongoing for Employment Services Intensive Case Management. This eliminates a planned increase to 10 hours of intensive case management, and freezes the hours at the current minimum of 8.75. Intensive case management is provided to individuals needing extra support from county staff to address barriers to employment.

- Reverts $30 million General Fund in 2023-24 for Expanded Subsidized Employment, and also reduces $37 million General Fund in 2024-25. These reductions would essentially hold the funding for the program to the 2022-23 spending levels. The budget continues to provide $97 million General Fund for these services.

- Reverts $30 million General Fund in 2023-24, and reduces $37 million in 2024-25, and $26 million in 2025-26 for mental health and substance use disorder services. The budget continues to provide $89 million General Fund for these services.

In-Home Supportive Services (IHSS)

Enrollment and Cost Growth in IHSS. The budget includes $25 billion ($9 billion General Fund) in 2024-25 for the IHSS program, and reflects a $2.2 billion ($1.2 billion General Fund) increase compared to the 2023-24 revised budget. Major reasons for the substantial increase in costs is the projected caseload growth, minimum wage/cost per hour increases, and increases in the number of hours per case. Estimates put the projected caseload at 703,921 in 2024-25, representing a 5.9 percent increase over 2023-24.

Back-Up Provider System Decrease. The budget decreases the IHSS back-up provider system by $7 million total funds ($3 million General Fund) one-time to help address the budget problem. This reduction accounts for lower utilization of the program, which provides a permanent back-up provider system to serve IHSS recipients when their regular provider is unavailable.

Maintains IHSS Services for Undocumented Immigrants. The budget continues to fund the expansion of the IHSS services to undocumented immigrants, despite the Governor’s May Revision proposal to eliminate the expansion. While the estimated cost of the expansion at the January budget was nearly $400 million, updated estimates put the cost of the expansion closer to $93 million.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)

SSI/SSP Budget and Caseload. The total funding for the joint federal-state SSI/SSP program in the 2024 Budget Act is $11 billion ($3.6 billion General Fund). The budget also includes $292 million General Fund for the continuation of a 9.2 percent increase to SSP grants included in the 2023-24 budget. There is also a federal SSI cost-of-living increase of 3.2 percent in 2024 and 3.0 percent in 2025. Effective January 2024, the maximum SSI/SSP grant levels are $1,183 per month for individuals and $2,023 per month for couples. Even with these increases, the maximum grant for SSI/SSP individual recipients will still be below the federal poverty level. Those who receive SSI/SSP benefits are blind, disabled, or at least 65 years old. The funds are meant to help recipients provide for basic living expenses such as food, clothing, and shelter.

Food and Nutrition Programs

SUN Bucks (Summer EBT). The budget includes $147 million ($73 million General Fund) for outreach, administration, and automation for the SUN Bucks program, formerly known as Summer EBT (Electronic Benefits Transfer). SUN Bucks provides $40 per month in June, July, and August, or $120 per child, in federally funded food benefits for children who qualify for free or reduced-price school meals. The funding will allow California to provide an estimated $1 billion in federal SUN Bucks benefits to children, and ensure that they have access to food when school is out.

Other Human Services Programs

Guaranteed Income Pilot Program Expansion. The budget appropriates $5 million one-time General Fund for the Guaranteed Income Pilot Program for entities serving adults 60 years of age or older residing in California, and either eligible for or receiving a means-tested benefit.

Housing and Disability Advocacy Program. The budget reverts $50 million General Fund for the Housing and Disability Advocacy Program in 2025-26, and extends the expenditure deadline of up to $100 million in remaining funds until June 30, 2026.

Diaper Banks. The budget provides $9 million for diaper and wipe distribution to low income families with infants or toddlers.

Developmental Services

Key Points

- **Breaks Promise to Developmentally Disabled Community.** Instead of fully implementing the much-needed service provider rate reform in 2024-25 as promised, the budget pulled the rug out from providers and delayed the last year of funding by six months.
- **General Fund Budget Up by $2.3 Billion, Spurs Master Plan on Developmental Services.** With the caseload on a significant rise, the developmental services General Fund budget increases by an eye-opening 29 percent from 2023-24, spurring a "master plan" effort that could include future cost control changes.
- **Costly "Warm Shutdown" of Fairview Developmental Center Continues.** Despite plans to use the property for public and private sector alternatives, the department spends millions for facility to sit vacant.
- **Another Preschool Inclusion Grants Delay.** The budget delays again, for two years, support funding for preschools to adapt their facilities for toddlers with intellectual or developmental disabilities.
- **Elimination of Family Fees.** The budget permanently eliminates cost sharing fees levied on families with developmentally disabled children.

Breaks 2022 Promise to Developmentally Disabled Community by Slowing Necessary Provider Rate Increase. The 2024 Budget Act removes $306 million General Fund in 2024-25 and imposes a six-month delay in implementing the final year of the long-awaited service provider rate increases. Fiscal year 2024-25 was to be the fourth and final year of a multi-year roll-out of the rate reforms, under the timeline the Democrats endorsed in the 2022 Budget Act. Delaying the last year of funding by six months in 2024-25 breaks the promise to the developmentally disabled community and creates a disruptive impact in delivery of services to individuals. Service providers had already made hiring decisions reliant on a July 2024 scheduled rate increase, and this delay to January 2025 will exacerbate the providers' challenge to maintain adequate levels of staff.

Senate Republicans have long advocated for improving rates for services, but while tax revenues have rapidly increased over the past decade, two successive Democratic governors have repeatedly delayed the inclusion these funds for years, choosing to create and fund new programs in other areas of the budget instead (like billions allocated for newly expanded undocumented healthcare, for example). Through this budget year, Senate Republicans fought to keep the rate reform implementation on schedule in order to maintain and improve service to families with developmentally disabled individuals.

Rapidly Growing Costs at DDS Leads to Fears of Dramatic Cost Control Measures. The Department of Developmental Services (DDS) is responsible for administering the Lanterman Act, which provides services and supports through a network of regional centers to enable people with intellectual and developmental disabilities to lead more independent and integrated lives. The 2024 Budget Act has an overall budget for DDS at $15.9 billion total funds, of which $10.3 billion is General Fund, a whopping increase of 29 percent General Fund from 2023-24. This increase is largely attributable to the rapidly growing regional center caseload. The number of individuals served by regional centers is expected to reach 465,165 in 2024-25, an 8.3 percent increase from 2023-24. In addition, 302 individuals are projected to be served in state-operated facilities as of July 1, 2024.

The substantial rise in caseload and associated costs spurred DDS to create a Master Plan for Developmental Services this year. The stated purpose of the Master plan is to establish a more "quality-driven" and "consumer friendly" experience. That stated, the department made public its desire to implement a new “program management system” to “maximize the effectiveness” of investments. These vague statements alarmed many advocates with fears that the department would create a Medi-Cal-managed-care-like capitated rate payment model rather than today’s per-service payment structure in order to average out the per client annual costs and more effectively draw down federal funding. So far the Master Plan’s monthly workgroup meetings have focused on customer service topics. Time will tell if the Master Plan will indeed touch upon the rapid increase in costs at DDS.

Preschool Inclusion Grants Delay. The enacted budget delays yet again, for two years until 2026-27, the implementation of a $10 million General Fund annual grant program to support preschool inclusion efforts such as facility modifications or staff training. This program was included as part of the Early Start to special education transition process for toddlers with intellectual and/or developmental disabilities.

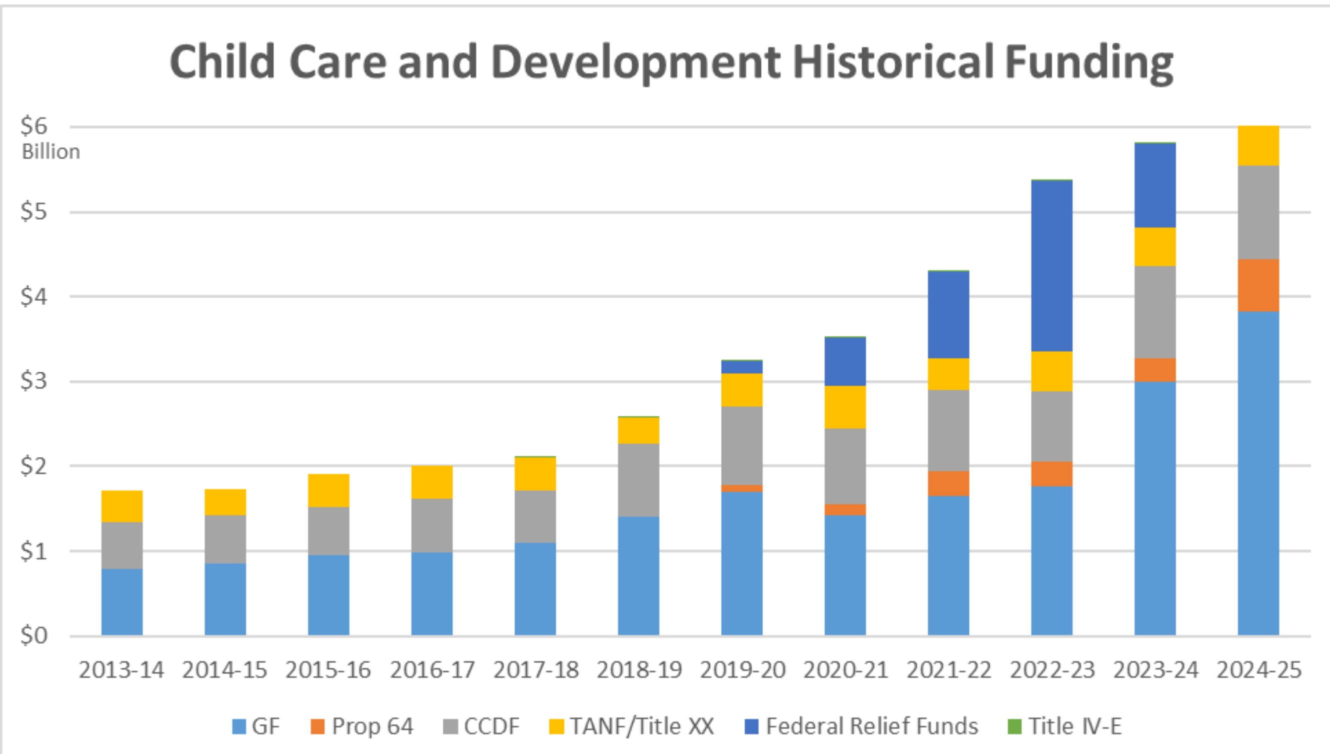
Continues Warm Shutdown of Fairview Developmental Center. The enacted budget approved yet an another extension of the warm shutdown funding for Fairview Developmental Center in Costa Mesa at a cost of $11.3 million General Fund to maintain 52 staff there. The last resident moved out of Fairview in January 2020, but the Democrats chose yet again to maintain the warm shutdown status. The use of this much money in a deficit year to maintain empty facilities, especially when tens of thousands currently live on the streets, should be a concern to the public. There are a number of better public and private uses of the valuable property, and the state should consider ways to use this asset to help close our budget deficit.

Eliminates Fees on Families with Developmentally Disabled Children. The enacted budget permanently eliminates the cost-sharing fees that were charged on families with developmentally disabled children. Those fees were intended to discourage over-utilization of services, but were cumbersome for the department to collect (often costing more to collect than revenue collected), and fostered animosity between the client family and the regional center system that did not serve the client children well. With the permanent elimination, the 2024 budget erased an unnecessary barrier to very necessary developmental disability services.

Child Care and Early Education

Key Points

- **Child Care Slots Expansion and Delays.** Expands subsidized child care slots by adding 11,000 new slots, while also delaying the further expansion of the slots by one year.
- **Alternative Methodology for Rate Reimbursements.** Requires the Governor and Legislature to establish reimbursement rates based on the alternative methodology by no later than July 1, 2025, potentially creating billions of dollars in new costs.
- **Temporarily Expands Preschool to Two-Year-Olds.** Enacts a major policy change by authorizing preschool providers to enroll two-year-old children in the California State Preschool Program (CSPP) through July 1, 2027.
- **Cuts Funding and Planned Slot Increases for Disabled Children.** Removes requirements for future expansions of reserved preschool slots for students with disabilities, and sweeps $150 million in Inclusive Early Education Expansion Program (IEEEP) grant funding.



Tittle IV-E is federal funding related to Foster Care, Proposition 64 is Marijuana Tax Funding, and TANF/Title XX is the federal Temporary Assistance for Needy Families and Social Services funding. Child Care and Development Fund (CCDF) is federal block grant child care funding.

The 2024-25 budget includes $6.1 billion ($3.8 billion General Fund) for child care programs administered by the Department of Social Services (DSS), including CalWORKs (Stages One, Two, and Three), Alternative Payment Programs, Migrant Child Care, General Child Care, Child Care for Children with Disabilities, the Emergency Child Care Bridge Program, and local supports for the programs. This reflects an increase of $828 million General Fund over the revised 2023-24 budget figures, an astonishing 28 percent increase in just one year. The chart above shows historical child care and development funding by source. Over a ten-year period, General Fund spending on child care rose by 375 percent, reaching a level nearly five times the level seen a decade ago.

Adds New Child Care Slots and Codifies Expansion Timeline. The budget sets into law a timeline for the full expansion of 200,000 child care slots. The expansion would roll out all 200,000 slots by 2027-28, a year later than the original goal of 2026-27. First initiated in the 2020-21 budget, 119,000 new child care slots have been added, with an additional 11,000 funded in the 2024-25 budget. Under this timeline an additional 44,000 slots would be added in 2026-27 and 33,000 in 2027-28, subject to an appropriation in the annual budget acts. The 2024-25 budget includes $1.6 billion to continue funding the slots that have been added since 2021-22, and includes an additional $117 million General Fund in 2024-25 for the 11,000 new slots beginning October 1, 2024.

While taxpayer-funded child care clearly assists families, the dramatic recent expansion adds billions of dollars in new costs to a budget that already faces multibillion dollar deficits. The cost for these child care slots will continue to grow as the state moves towards an alternative rate methodology, which is discussed in more detail in the next paragraph. In light of the fiscal situation facing the state, it would be prudent to slow the slot rollout, or even pause it indefinitely.

Continues to Push High-Cost "Alternative Methodology" for Rates. The 2024 budget continues the push to transition child care rates to an alternative methodology, and sets a requirement that the Governor and Legislature establish reimbursement rates based on the alternative methodology by no later than July 1, 2025. The early cost estimates to fully fund the model were in the low tens of billions of dollars annually. An updated cost has not been provided; however, the budget does direct DSS to provide this information to the Legislature within sixty days of the federal government approving the model. It should be noted that while the budget requires the Governor and Legislature to establish rates based on the methodology, funds would have to be appropriated in future budgets to achieve this. There is also no requirement on what level of the alternative methodology the rates need to be established. If the push to fund child care rates at the alternative methodology continues, General Fund spending on child care will grow at an even more startling rate.

Temporarily Expands Preschool Eligibility to Two-Year-Olds. The budget made a major policy change to temporarily allow preschool providers to enroll two-year-old children in the California State Preschool Program (CSPP) through July 1, 2027. Currently, CSPP serves three and four-year old children. While the Senate Committee on Budget and Fiscal Review never discussed this major policy change in hearings, one possible explanation is that Democrats enacted the temporary expansion to help preschool providers make up for four-year-olds they have lost to Transitional Kindergarten. On the other hand, expanding enrollment to two-year-olds, even temporarily, could create issues for child care providers that currently serve this population. The overlapping nature of the populations served by child care and early education providers has sparked "turf war" issues among these programs. While expanding the ages served by CSPP could create issues in the child care space, one could argue it also provides more options and flexibility for parents.

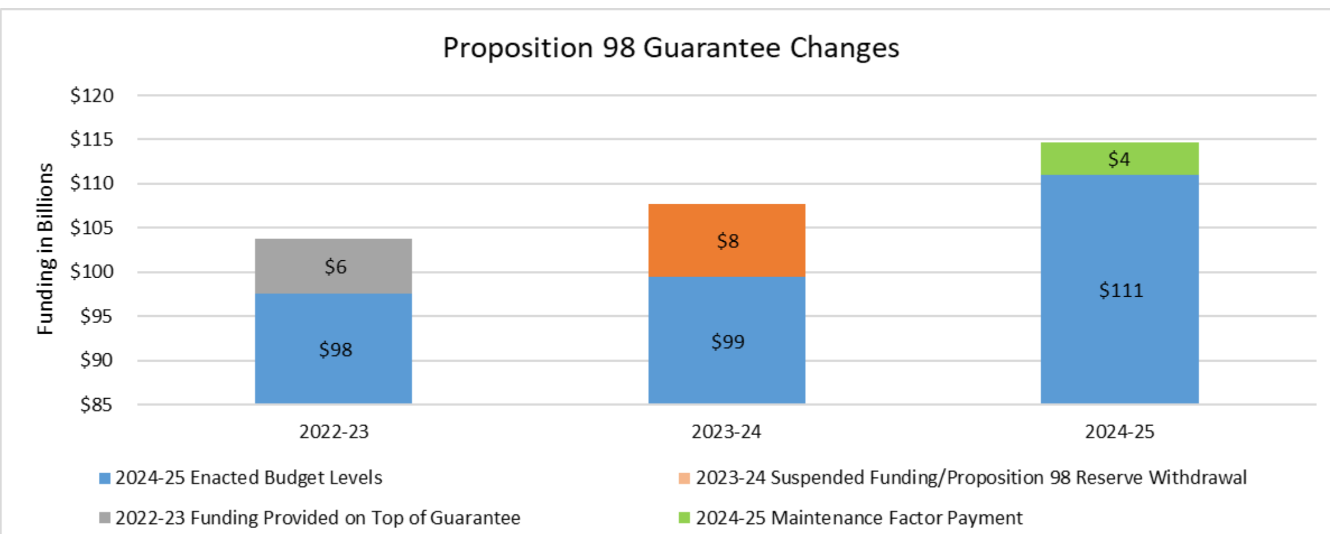
Removes Expansion of Inclusive Preschool and Cuts Grant Funding. The 2024 budget removes the requirement that starting July 2025, at least 7.5 percent of funded enrollment slots in California state preschool programs must be reserved for students with disabilities. That requirement would have ramped up by July 2026 to at least 10 percent of slots. Repealing these planned expansions of reserved slots means that the current 5 percent requirement continues indefinitely. In addition to removing the expansions, the budget also redirects $150 million in Inclusive Early Education Expansion Program (IEEEP) grant funding for other programs. The IEEEP funding was intended to increase access and the inclusion of children with disabilities and exceptional needs, including those with severe disabilities, in early care and education settings. The redirection of these funds, and the repeal of the planned slot expansions shows a lack of prioritization for children in the disabled community.

K-12 Education

Key Points

- **Proposition 98 Spending Guarantee Grows to Historic Levels.** The Proposition 98 guarantee for 2024-25 is at a historical $115 billion, and is projected to grow by over $10 billion by 2027-28.
- **Implements Unprecedented Proposition 98 Funding Maneuver.** Enacts the Governor's novel cash borrowing maneuver to manipulate the accounting of $6.2 billion in funding for schools.
- **Reduces School Facility Funding.** Cuts a cumulative $1.4 billion in planned funding for school facility programs in hopes that voters approve a school bond on the ballot this November.
- **Reverses Planned Zero Emission Bus Investment.** Reversed a planned investment of $500 million in one-time Proposition 98 General Fund for zero-emission buses.
- **Literacy Screening Training and Support Funding.** Provides $25 million one-time Proposition 98 General Fund to begin the implementation of literacy screenings.
- **Jams Numerous Policy Changes Through Budget Process.** Enacts policy changes on complex topics, including chronic absenteeism and teacher credentialing, that should have been considered through an extended policy process, not the budget.

Proposition 98 K-14 Funding. The Proposition 98 TK-14 funding levels over the three-year budget window are $104 billion in 2022-23, $99 billion in 2023-24, and $115 billion in 2024-25. However, the $99 billion in 2023-24 reflects a suspension of the guarantee by $8.3 billion, which the budget then backfills by withdrawing funds from the Public School System Stabilization Account (Proposition 98 Reserve). This brings the funding provided in 2023-24 up to $107 billion. The funding level for 2022-23 also reflects $6.2 billion in funding provided above the guarantee of $98 billion. The table below summarizes these amounts.



Overall K-12 Education Funding. The budget includes $134 billion for all K-12 education programs ($82 billion General Fund and $52 billion other funds). According to the Department of Finance (DOF), K-12 Proposition 98 per pupil expenditures are $18,339 in 2024-25, and $24,314 per pupil when accounting for all funds. The Proposition 98 funding level is an increase of $6,462 per pupil, or 54 percent, compared to five years ago in 2019-20, the year before the pandemic started.

Many Moving Pieces in Historic Education Funding Configuration. To reach the Proposition 98 figures highlighted in the prior section, this budget utilizes a number of mechanisms, including one major unprecedented action along with a few familiar steps.

- **Suspending the Guarantee.** The budget suspended the 2023-24 Proposition 98 guarantee by $8.3 billion, creating a "maintenance factor," or debt to schools, for the same amount. Maintenance factor payments will be made over time to build the guarantee back up to what it would have been absent the suspension. In certain years, Proposition 98 education spending captures about 40 percent of each new revenue dollar; however, when maintenance factor is outstanding, potentially 95 percent of each new revenue dollar is needed to meet the constitutional requirements. The 2024-25 budget makes a maintenance factor payment of $4.1 billion in the guarantee for 2024-25, leaving another $4.6 billion owed to schools. The owed maintenance factor balance accrues interest, growing the obligation in future years. Suspending the guarantee is part of the constitutionally approved funding approach, unlike the borrowing scheme described in the next paragraph.

- **Unprecedented Borrowing Scheme.** The 2024 Budget Act implements the administration's unprecedented accounting maneuver to solve for $6.2 billion in overpayments to schools in the 2022-23 fiscal year. The maneuver delays recognizing the funding paid to schools until future years, utilizing the state's cash reserves to cover the balance, essentially creating an interest-free loan. The state would begin making payments back to the cash reserve in 2026-27, continuing for nine years through the 2035-36 fiscal year, at about $621 million every year. The payments would also be recognized as discretionary General Fund, instead of Proposition 98 General Fund, creating new obligations in future years on top of the maintenance factor payments that result from the Proposition 98 suspension. The nonpartisan Legislative Analyst's Office previously heavily criticized this scheme, which results in billions of dollars in hidden debt, and described it as setting a bad precedent.

- **Billions in Funding Deferrals.** The budget also defers approximately $3.6 billion Proposition 98 General Fund from the 2023-24 fiscal year to the 2024-25 fiscal year, and an additional $246 million from the 2024-25 fiscal year to the 2025-26 fiscal year. Both of these deferrals are from June to July of their respective calendar years. Deferrals are a way for the state to make late payments to schools when the state cannot meet its funding obligations. By pushing a portion of payments to schools into the following fiscal year, it allows the state to claim one-time savings. This creates out-year cost pressures until the deferrals are paid, allowing schools to avoid cuts and operate as if no reduction has occurred.

- **School Reserve Withdrawal.** The overall education package withdraws the full Public School System Stabilization Account (Proposition 98 Reserve) balance of $8.4 billion in 2023-24 to cover costs related to the suspension. See the section below for more details.

Proposition 98 Funding by Segment and Source (Dollars in Millions Except Funding Per Student)					
	2022-23 Final	2023-24 Revised	2024-25 Enacted	Change From 2023-24	
				Amount	Percent
K-12 Education					
General Fund[a]	$65,372	$67,335	$72,711	$5,376	8.0%
Local property tax	25,890	27,295	28,410	1,115	4.1%
Subtotals	**$91,262**	**$94,630**	**$101,121**	**$6,491**	**6.9%**
California Community Colleges					
General Fund	$8,302	$8,173	$8,847	$674	8.2%
Local property tax	3,884	4,094	4,260	166	4.1%
Subtotals	**$12,186**	**$12,267**	**$13,107**	**$840**	**6.8%**
Reserve Deposit/Withdrawal (+/-)[b]	$272	-$8,413	$1,054	$9,467	-112.5%
Proposition 98 Funding Totals	**$103,720**	**$98,484**	**$115,282**	**$16,798**	**17.1%**
Enrollment					
K-12 attendance	5,405,197	5,468,503	5,508,796	40,293	0.7%
Community college FTE students	1,100,665	1,085,205	1,101,584	16,379	1.5%
Funding Per Student					
K-12 Education	$16,884	$17,305	$18,356	$1,052	6.1%
California Community Colleges	11,071	11,304	11,898	594	5.3%

[a] Includes funding for instruction provided directly by state agencies and the portion of State Preschool funded through Proposition 98.

[b] Accounts for required and discretionary changes to the Proposition 98 Reserve. Amounts consist entirely of General Fund.

FTE = full-time equivalent.

Source: The Legislative Analyst's Office. **Note:** The total for 2023-24 does not include Proposition 28 (Arts and Music) funding

Proposition 98 State Reserve Withdrawal Affects Local Reserves. The 2024 budget estimates a $1 billion balance in the Proposition 98 Reserve at the end of 2024-25. This is a decrease of about $9.8 billion compared to the projected balance at the 2023 budget act. This decrease reflects a withdrawal of $8.4 billion in 2023-24 and deposit of $1 billion in 2024-25.

Under current law, there is a cap of 10 percent on local school district reserves in fiscal years immediately after those in which the state school reserve balance is equal to or greater than 3 percent of the total K-12 Proposition 98 guarantee. The full withdrawal of the reserve in 2023-24 and balance of $1 billion in 2024-25 mean the reserve caps would not be triggered in 2024-25. The caps are also not expected to be triggered in 2025-26. Although the reserve cap is currently not triggered or expected to be in place in the coming fiscal year, Senate Republicans have previously raised concerns on these district-level caps, which reduce local control and force schools to spend more. It would be prudent to keep watch over this issue as the state continues to grapple with the present financial situation.

Local Control Funding Formula (LCFF). The budget includes a 1.07 percent cost-of-living (COLA) adjustment for the LCFF that, when combined with population growth adjustments, will result in a $983 million increase in discretionary funds for schools. The budget withdraws $5 billion from the Proposition 98 reserve to cover LCFF costs in 2023-24. The budget also uses $254 million in re-appropriation and reversion funding for ongoing LCFF costs in 2024-25. In past deficit years, the state has usually tried to contain spending by suspending annual COLAs. Not only does this budget include a COLA, it increases the COLA compared to the January budget proposal, even though the deficit worsened. The LAO recommended that the Legislature reject the COLA, and also previously noted that the Proposition 98 Reserve should be used to cover the shortfall in 2022-23. Instead, this budget creates deficits in the future by covering ongoing costs with one-time funds, and utilizes the Governor's maneuver to address the 2022-23 shortfall.

The budget also provides $89 million ongoing Proposition 98 General Fund for COLA adjustments for categorical programs such as Special Education, State Preschool, Youth in Foster Care, Child Nutrition, the Charter School Facilities Grant Program, and the LCFF Equity Multiplier.

Eliminates Planned Investments in School Facilities. This budget eliminates a planned $550 million one-time General Fund investment in the Preschool, Transitional Kindergarten, and Full Day Kindergarten Facility Grant (FDK) program, and another planned $875 million one-time General Fund investment in the School Facility Program. Both investments were intended for the 2024-25 fiscal year. The FDK program provides funding to retrofit existing school facilities or construct new facilities for transitional kindergarten, preschool classrooms, and full-day kindergarten. The School Facility Program provides grants for school districts to construct new school facilities, modernize existing school facilities, and acquire school sites.

The funding eliminations for these programs were made in anticipation of qualifying a November 2024 school bond initiative, which the Legislature passed through AB 247 (Muratsuchi, 2024). The State Allocation Board has noted that if project processing continues at the present rate, currently authorized funding for New Construction and Modernization projects (after Unfunded Approvals) may be exhausted by early 2025. The state auditor released a report in January 2022 that found California would need $7.4 billion in state funding to meet projected modernization requests over the next five years. The last approved facilities bond, Proposition 51 in 2016, authorized $9 billion in state general obligation bonds to support K-12 and community college facility construction. Considering voters rejected the most recent school bond (Proposition 13, 2020), and could potentially have bond fatigue, the Governor and Democrats are taking a risk and potentially short-changing schools by relying on a school bond passing this November.

Learning Recovery - Implements the Terms of the Cayla J. Settlement. In 2020, several Oakland and Los Angeles students and families filed a lawsuit claiming the state failed to ensure basic educational equality during the pandemic. The Governor reached a settlement in early 2024 without consulting the Legislature in which he agreed to propose legislation during the 2024 legislative session that would strengthen the planning and accountability requirements for how schools utilize the Learning Recovery Emergency Block Grant (LREBG) funding not encumbered as of July 1, 2024. Despite the Governor's heavy-handed, unilateral effort to tie the Legislature's hands, this budget codifies the terms of that settlement agreement.

While the provisions of the settlement agreement are not necessarily objectionable, all of the LREBG funding has been released to schools as of April 2023. Schools have likely created plans around how to utilize the funding, and changing the guidelines for funds after the distribution has already occurred could be quite disruptive. Some schools even noted that their LREBG funds would be fully expended by the end of the 2023-24 school year. The settlement agreement was also contingent on $2 billion in funding being available as of July 1, 2024. School are not required to report on their funding until the end of 2024, making verification of the $2 billion a guess at best.

Implements Major Attendance Recovery Policy Changes. The budget includes major policy changes to implement attendance recovery programs for pupils to make up lost instructional time, and offset chronic absenteeism. According to the California School Dashboard 2023 Statewide Summary, 24 percent of students were chronically absent in 2023-24, a decline of 5.7 percent from the prior year. However, this is still significantly above pre-pandemic levels. Available data shows 9 percent of students were chronically absent in 2018, increasing to 10.1 percent in 2019. While the changes included in the budget could mitigate student learning loss, and help LEAs recover funding, the state cannot afford these programs, and the allowed use of Expanded Learning Opportunities Program (ELOP) funding raises concerns about the potential impacts on existing ELOP programs.

Implementing attendance recovery programs also has major policy implications, and should have gone through the policy process where more time, transparency, and stakeholder feedback could have been afforded. The generous allowance for attendance recovery could also be seen as circumventing the current Average Daily Attendance process, which some view as a way to hold LEAs accountable for ensuring students are in class.

Additional K-12 Budget Adjustments. The budget also includes the following changes.

- **Proposition 28 and Arts Career Education.** The budget includes $907 million to fund Proposition 28, passed by voters in 2022. The measure requires an amount equivalent to one percent of the prior year's Proposition 98 funding received by local education agencies to be directed to schools for arts education.
- **Zero-Emission Bus Funding Cut.** The budget eliminates a planned $500 million one-time Proposition 98 General Fund investment in 2024-25 for efforts to convert school bus fleets to zero-emission through programs operated by the California Air Resources Board and the California Energy Commission.
- **Continued Support for School Nutrition.** The budget includes an ongoing increase of $179 million Proposition 98 General Fund due to program growth, and $121 million one-time Proposition 98 General Fund to fully fund the universal school meals program in 2023-24 and 2024-25. The total Proposition 98 General Fund for school meals in 2024-25 is $1.8 billion.
- **Literacy Screener Professional Development Funding.** The budget appropriates $25 million one-time Proposition 98 General Fund for professional development related to the implementation of literacy screenings for reading disabilities in kindergarten through second grade. Local Education Agencies (LEAs) are required to begin initiating these screenings in 2025-26 school year.
- **California Center for Inclusive College.** The budget appropriates $2 million Proposition 98 General Fund annually for a county office of education to administer the California Center for Inclusive College. The center would serve to support the establishment and expansion of programs on college campuses for student with intellectual disabilities through degree, certificate, or nondegree programs, which ideally include an independent living component.
- **Essentially Eliminates the Basic Skills Requirement for Teachers.** The budget specifies that completing a bachelor’s degree satisfies the basic skills requirement for a credential. Teaching credentials that require basic skills proficiency exams also require the individuals obtain a bachelor’s degree. Allowing a bachelor’s degree to meet the basic skills requirement essentially eliminates the requirement. While this would likely remove a barrier for some prospective teachers, and help address the teacher shortage, it may be at the expense of ensuring our teachers are qualified and prepared. This is a substantial policy change that, yet again, should have been considered through an extended policy committee process, rather than a budget trailer bill.
- **Prohibits Employee Layoffs for One Year.** The budget also prohibits layoffs for permanent certificated and classified employees from July 1, 2024 to July 1, 2025. While the layoff prohibition ensures stability for teachers and other LEA staff, the prohibition restricts districts in their ability to find solutions to balance their individual budgets. This is a significant intrusion by the state into local school district decision-making.

Higher Education

Key Points

- **Student Housing Cuts and Borrowing.** Continues to develop the statewide lease-revenue bond program to support community college housing projects, and provides one-time grants to three housing projects that are not appropriate for bond funds. Cuts student housing loan funds by $500 million over multiple years.
- **UC and CSU Compacts Modified.** Modifies the third year of the compacts with the University of California (UC) and California State University (CSU) by providing each system a 5 percent base increase, but states intent to defer next year's 5 percent base increase to 2026-27.
- **Expanded Educational Opportunities in Nursing.** Establishes a competitive grant program for community college districts to expand educational opportunities in the nursing field. The budget bill provides $60 million per year for community college nursing.
- **Campus "Climate Action Plan" for Protests and Free Speech.** Provides conditional funding to UC and CSU contingent upon the educational intuitions to develop a policy that balances permissible free speech and acceptable student conduct.

Overall Higher Education Budget

The table below shows the General Fund and total fund budgets for the three higher education systems. Funding for community colleges increased based on Proposition 98 requirements, while the General Fund budgets for UC and CSU remained essentially flat on net. Significant programmatic adjustments for each system are described below. Most state departments are budgeted for a 7.95 percent operating reduction in 2024-25, with specific cuts to be determined by the respective departments. However, the UC and CSU are budgeted for that level of reduction in the 2025-26 fiscal year instead, with intent to defer their 2025-26 compact base increases by one year to 2026-27.

Higher Education Budgets
(Dollars in billions. Reflects state-provided funds, but excludes tuition.)

	2023-24		2024-25		Change	
	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds
University of California	$4.9	$10.5	$5.0	$10.9	$0.1	$0.4
California State University	$5.0	$6.6	$5.2	$6.8	$0.2	$0.2
Community Colleges	$7.1	$7.9	$8.9	$9.0	$1.8	$1.1

Note: Numbers may not sum correctly due to rounding.

UC and CSU Tuition Increase Plans. In recent years both the University of California and California State University systems adopted tuition increase plans. The University of California Board of Trustees adopted a plan known as the Tuition Stability Plan in Summer 2021, which took effect the following academic year in Fall 2022. The plan is based on a cohort model in which students are "locked" into a tuition rate as long as they graduate within six (6) years. The 2024-25 cohort fees for undergraduates are $13,146 for tuition and Student Services Fees of $1,290 for undergraduates and $1,254 for graduate students.. Nonresident students have to pay a supplemental tuition of $34,200.

The California State University Board of Trustees approved a multi-year revenue sustainability plan for tuition in September 2023, which takes effect starting with the fall 2024 term. The 2024-25 tuition rate for undergraduates taking more than six units is $6,084. Tuition rates will increase 6 percent annually through academic year 2028, causing tuition to reach $7,682 by that time.

The total dollar value of these tuition increases in 2024-25 is $148 million. The budget could have helped students avoid these cost increases by providing General Fund, but the Governor and legislative Democrats chose to prioritize expansions in other areas of the budget.

Campus "Climate Action Plan" for Protests and Free Speech. In response to the significant increase in civil unrest on college campuses across the country, particularly related to the conflict in the Middle East, the enacted budget provides conditional funding to the UC and CSU. To receive $50 million, each UC and CSU campus must develop a notification policy that balances freedom of speech with appropriate student conduct and that does not conflict with other state and federal laws. Senate Republicans offered a stronger solution through legislative amendments that would have eliminated state financial aid for those students convicted of assault, battery, burglary, criminal threats, a hate crime, incitement to riot, vandalism discrimination based on religious beliefs, or conspiracy to commit any of the aforementioned crimes while on a college campus. However, Democrats refused to take this stronger stand.

University of California (UC)

UC Compact Amended. The enacted budget maintains the compact between the Governor and UC in 2024-25 by rejecting the Governor's January proposal to defer the previously approved base funding increases of 5 percent of $241 million. Although the base increase would still be provided in 2024-25, the budget states intent to defer the scheduled 5 percent increase from 2025-26 by a year to 2026-27 and defer the 2026-27 increase to 2027-28.

Resident Undergraduate Enrollment Growth Support Modified. The enacted budget upholds the 3rd year of the previous commitment to increase resident undergraduate enrollment at three UC campuses. This action rejects the Governor's January proposal to defer $31 million General Fund to offset revenue reductions from replacing 902 nonresident undergraduate students with residents. However, the enacted budget states the intent to defer the 4th year funding from 2025-26 to 2026-27, as well as deferring the 5th year from 2026-27 to 2027-28.

UC College of Law Funding. The budget approves the Governor's proposal of providing a 3 percent base increase in 2024-25 to the UC College of the Law, San Francisco, representing a $2 million ongoing General Fund commitment. This increase would be offset beginning in 2025-26 by an ongoing operations reduction of $2.2 million, which is a delayed implementation of the budget's broader 7.95 percent operations reduction.

UC Labor Center and Policy Institute Funds Maintained. Legislative Democrats rejected the Governor's May Revision proposal to reduce funding by $13 million ongoing General Fund for UC Labor Centers. These centers churn out reports that are consistently biased toward left-wing priorities and goals. Funding such biased "research" with taxpayer funds has never made sense. During a time of massive deficits in particular, the Governor's proposal to cut this spending was on point, but legislative Democrats protected these biased centers.

The budget also rejects the Governor's May Revision proposal to reduce $13 million ongoing General Fund for the UCLA Latino Policy and Politics Institute.

California State University (CSU)

CSU Compact Amended. The enacted budget maintains the 3rd year of the compact between the Governor and the CSU by rejecting the Governor's January proposal to defer the 5 percent base funding increase of $252 million. Although the base increase would still be provided in 2024-25, the budget also states intent to defer the scheduled 2025-26 increases by a year to 2026-27 and defer the 2026-27 increase to 2027-28.

Community Colleges

Increased Operating Funds. The budget provides a 1.07 percent Cost of Living Adjustment (COLA) to both apportionments (enrollment-driven funds) and categorical programs, representing $100 million Proposition 98 General Fund and $13 million Proposition 98 General Fund, respectively. This COLA is the same percent provided to TK-12 schools under Proposition 98.

Continued Proposition 98 Shenanigans. The Higher Education trailer bill (SB 155) continues to support the Governor's ill-advised education finance scheme by adjusting community college funding to conform to the Proposition 98 deal. The scheme borrows non-Proposition 98 General Fund from future years in order to keep schools whole in the short-term. See the *TK-12 Education* section for further details.

Part-Time Faculty Office Hours. The Higher Education trailer bill (SB 155) makes the Part-Time Faculty Office Hours Program more robust by increasing the reimbursement rate of 50 percent of the costs of compensation paid for part-time faculty office hours to up to 90 percent of costs.

Expanded Nursing Program Opportunities at Community Colleges. The Higher Education Trailer Bill (SB 155) establishes the Rebuilding Nursing Infrastructure Grant Program. Grant awards shall not exceed $2 million, which the state would award to community college districts. Priority is given to districts that lack access to nursing care or that can further develop existing Bachelor of Science in Nursing partnership programs. The budget provides $60 million Proposition 98 General Fund annually for five years, starting in 2024-25.

Rising Scholars Network Expansion. The budget increases the number of participating community colleges in the Rising Scholars Network from 50 to 65. The Rising Scholars Network provides community college education to currently and formerly incarcerated adults and juveniles detained in California. This program initially received $10 million one-time General Fund through the 2021 Budget Act. Then the 2022 Budget Act provided $15 million one-time General Fund that continued in the 2023 and 2024 Budget Acts to support expansion.

Student Housing

Continuing the Affordable Student Housing Bond Shift. The Higher Education Student Housing Grant Program was established in 2021. This grant aimed to support the construction of affordable student housing at the state's public higher education institutions across UC, CSU, and Community Colleges. Originally, grant awards were sourced from General Fund dollars, and then in 2023, Democrats shifted those previously allocated funds to bonds. This clawback of funds caused concerns for community colleges because they do not have the authority to issue lease-revenue bonds, unlike UC and CSU, combined with the minimal experience in constructing student housing.

To alleviate these concerns, the Higher Education trailer bill (SB 155) requires the Board of Governors of the California Community Colleges, a participating college, and the State Public Works Board to enter into an agreement for each student housing project. Provisions within the agreement include performance expectations of the parties related to the acquisition, design, and construction or renovation of the student housing project and clarification on repayment date. The total amount authorized for issuing bonds across the 13 community college housing projects cannot exceed $805 million.

The budget maintains grants in a few cases by providing $51 million one-time General Fund for three previously awarded community colleges housing projects that were determined ineligible for bond financing. The three recipients are Santa Rosa City College ($15 million), Napa Valley College ($31 million), and Imperial Valley College ($5 million).

Budget Cuts for Affordable Student Housing Loans. The budget suspends funding to the California Student Housing Revolving Loan Fund, resulting in the removal of $300 million General Fund over the 2024-25 and 2028-29 fiscal years. The budget also reverts $200 million General Fund scored to 2023-24. Considering the affordable housing crisis in California, including for students, cutting these funds while expanding the budget in other areas, such billions of dollars added for the recent expansion of health care for undocumented immigrants, it is notable that the governor and legislative Democrats chose to cut student housing assistance.

Prioritization of Seismic Safety Construction Projects. The Higher Education budget trailer bill provides intent language for community colleges' construction project funding priorities for the 2025–26 fiscal year. The top priority would go to community college projects that specifically address campus facility safety concerns regarding the use of concrete "lift slab" construction, as identified by the Division of the State Architect on June 20, 2022. A building regarded as unsafe on the campus of American River College prompted this prioritization.

Financial Aid

Middle Class Scholarship Deadline Extension for Returning and Continuing Students. Due to continuing effects from the troubled implementation of federal financial aid changes, the Higher Education trailer bill extends the Middle Class Scholarship (MCS) filing date for returning and continuing students from May 2, 2024, to July 2, 2024.

Middle Class Scholarship Funding Maintained. The budget restores total funding to the MCS in 2024-25 by rejecting the Governor's Budget and May Revision proposed cuts of $637 million ongoing and $289 million one time. Maintaining college affordability even during budget difficulties is a priority with bipartisan support.

Cal Grant Reform Foregone. The 2022-23 budget planned for expanded Cal Grant eligibility criteria and an additional $366 million General Fund spending in 2024-25. However, this expansion and funding never took effect due to a budget trigger not being met. Legislative efforts in the 2024-25 budget process attempted to modify Cal Grants by including intent language for the phased-in plan beginning 2025-26 that would have costs of $47 million General Fund in 2025-26, funded with caseload savings from 2024-25, but this revised plan was ultimately removed in negotiations with the Governor.

ScholarShare Investment Board. The budget makes two reductions to ScholarShare programs:

- Eliminates the $5 million ongoing General Fund support for financial literacy outreach through the CalKIDS college savings program.
- Claws back $10 million in unspent funds for financial literacy outreach through the CalKIDS college savings program.

California State Library

Dolly Parton Imagination Library Funding Preserved and Redirected. The Legislature rejected the Governor's May Revision proposal to cut this program by $40 million, thus maintaining the total funding of $65 million. An August budget bill reappropriates unspent amounts, up to the original $68 million total, for the Imagination Library and allocates these funds to the Dollywood Foundation directly, rather than to the State Library, which had struggled to distribute the money to communities in a timely manner. The bill also authorizes the State Library to collect information about the number of children served, books provided, and local programs.

LGBTQ Archives Preservation. The budget approves $750,000 in one-time General Fund to support the preservation of LGBTQ historical archives through the issuance of competitive grants. The majority party did not offer a rationale for this expansion, which was raised late in the budget process and received little discussion.

Labor and Workforce Development

Key Points

- **California Unemployment Debt Continues to Challenge Employers.** Despite larger principal payments via increased federal employer taxes, California continues to carry a balance of $20.5 billion for unemployment insurance (UI) loans from the federal government.
- **Shifts Portion of Unemployment Interest Payment to Special Fund.** Includes $484 million to pay the annual interest payment on the federal UI loans. Of this amount, $100 million is from the Employment Training Fund and the remainder is paid by the General Fund.
- **Employment Development Department (EDD) Modernization.** Includes $327 million in funding for EDD IT systems, improved service for claimants, and fraud prevention, continuing a five-year modernization plan initially funded in 2022-23.
- **Reductions, Delays to Workforce Programs.** Includes reductions of $225 million General Fund and delayed funding of $190 million for various apprenticeship and workforce development programs.

California Unemployment Debt Continues to Challenge Employers. California remains one of only two states to have neglected to pay off its UI debt to the federal government following the pandemic (New York is the other). California's debt balance of $20.5 billion as of October 28, 2024, has fluctuated little since January, despite increased payments via employer taxes, reflective of continued borrowing to pay benefits. Employers must pay down the debt principal through increased federal employer taxes, which ratchet up each year until the debt is paid off. In 2024, employers paid $42 more per employee in federal taxes, and in 2025, they will pay $63 more per employee.[2] Governor Newsom likes to claim he does not support broad tax increases, but by refusing to pay off California's UI debt when a surplus was available, the Governor and other Democrats chose to let those tax increases go into effect.

Shifts Portion of UI Interest Payment to Special Fund. While increased federal employer taxes pay down the principal on the federal UI loans, the state is responsible for the interest payments. The budget includes $484 million to pay the annual interest payment. Of this amount, $100 million is paid by the Employment Training Fund and the remainder is paid by the General Fund. Although this is an allowable use of the Employment Training Fund, the purpose of the fund is to invest in a skilled and productive workforce, and the money in the fund comes from employers. Since employers must already pay the principal of the UI debt through higher taxes, this fund shift would double down on making employers pay for the state's policies.

Continues Funding to Modernize the EDD. The budget includes $327 million ($163 million General Fund) for the third year of EDDNext, a five-year plan to modernize the EDD. This includes efforts to modernize EDD's benefit systems, improve customer service delivery, simplify forms and notices, develop anti-fraud analysis tools, and speed up application processing. This work is long overdue. The majority party knew over a decade ago that EDD's systems were inadequate for its mission, but Democrats prioritized many other programs in the budget. This neglect set the stage for EDD's horrendous performance and billions in fraudulent claims paid during the pandemic.

[2] This reflects a total tax of $84 per employee for the 2023 taxable year and $105 per employee for the 2024 taxable year, with taxes for each year due the following January. Absent a UI debt, employers pay $42 per employee.

Apprenticeship and Workforce Training Programs. The budget includes reductions of $225 million General Fund and delays of $190 million for various apprenticeship and workforce development programs. The largest single cut is $150 million to the California Jobs First Program. Notably, the Displaced Oil and Gas Worker Pilot program is reduced by $10 million, from $40 million to $30 million. The chart below displays the program reductions and delays. Please refer to the *Health* section for a description of changes to healthcare workforce programs.

Workforce Development Reductions and Delays
($ in millions)

Department	Program	Amounts at 2023-24 Budget Act	General Fund Reduction	Delayed Funding	Amount Remaining
Department of Industrial Relations	Apprenticeship Innovation Fund	$135	$40		$95
	Women in Construction Unit[1]	$15			$15
	California Youth Apprecticeship Program	$65			$65
Employment Development Department	Emergency Medical Technician Training	$40	$10		$30
	California Jobs First	$600	$150	$150	$450
	Displaced Oil and Gas Worker Pilot Fund	$40	$10		$30
California Workforce Development Board	High Road Training Partnerships	$135			$135
	Goods Movement Workforce Training Facility	$110		$40	$110
	California Youth Leadership Corps	$60			$60
	Low Carbon Economy Program	$45	$15		$30
Total		**$1,245**	**$225**	**$190**	**$1,020**

[1] Amounts for this program are allocated annually.
Source: Chart compiled with data from the Department of Finance.

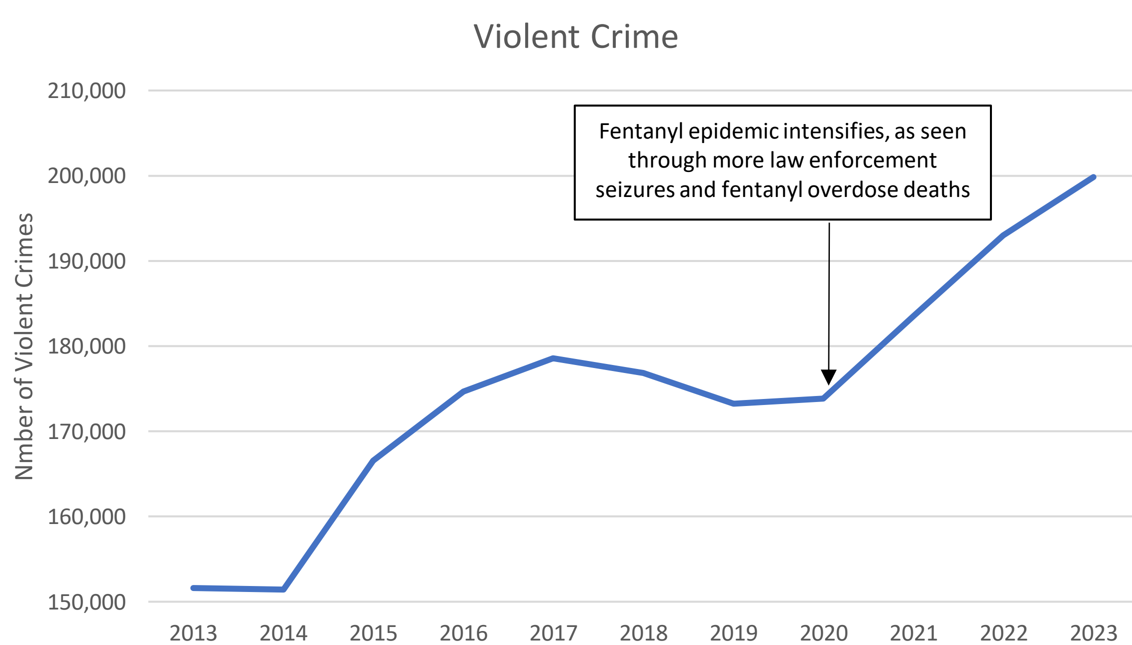
Public Safety and Judiciary

<u>Key Points</u>

- **Soaring Opioid Epidemic and Rising Crime Do Not Faze Elected Democrats.** Majority party budget again fails to invest in crime reduction efforts.
- **Housing Unit Closures Preferable to Prison Closures.** Deactivates some housing units within prisons to reflect lower inmate populations, which is preferable to closing whole prisons.
- **Unallocated Reduction and Fund Sweep are Double Whammy for Trial Courts.** Ruling party's maneuver to prop up General Fund spending leaves backlogs and delays for people in need of civil court procedures.
- **Gun Bureaucracy Swells, Ownership Gets Harder, Felons Keep Their Guns.** Recent legislation makes it harder to lawfully own guns, but ignores Attorney General's ongoing failure to disarm dangerous felons. All the while, AG's gun-regulating behemoth keeps growing.

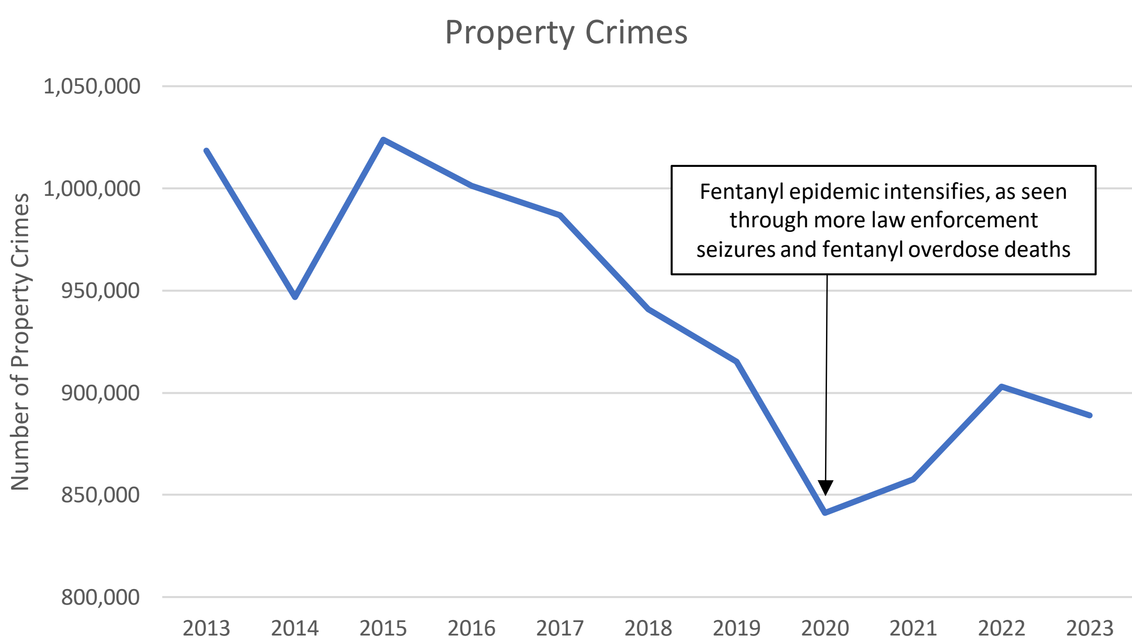
<u>Crime</u>

Budget Fails Yet Again to Address Rising Crime. As has been the case since at least 2011, this budget places a low priority on funding law enforcement, reducing crime, and holding criminals accountable. Instead, the budget spends billions of dollars on new expansions of Medi-Cal to undocumented immigrants. It is therefore unsurprising that crime continues its recent upward trend after nearly three decades of steady declines. Violent crime has increased by 32 percent over the last decade, as reflected in the chart below. Property crime continued to decrease through 2020, but has since increased by six percent. Driving this increase are motor vehicle theft, which rose by 17 percent since 2020, and larceny (non-motor vehicle theft), which increased by more than six percent.



Source: California Department of Justice, Open Justice Data Portal. Data through calendar year 2023.

Link Between Opioids and Crime. Besides the obvious crimes committed by traffickers who illegally manufacture and distribute opioids and other drugs, there is also a demonstrable link between opioid abuse and the commission of crimes. For example, a 2017 controlled study published in the journal *Drug and Alcohol Dependence* found that when males began taking opiates, their rate of committing crimes increased by 16 percent. For females, opiate use doubled the rate at which they offended.[3] It is no coincidence that recent surges in crime rates, especially property crime, correspond closely to the dramatic increase in the fentanyl epidemic beginning in about 2019-20 (see chart above and below).



Source: California Department of Justice, Open Justice Data Portal. Data through calendar year 2023.

No New Funding for Expanded Fentanyl Enforcement. Seizures of illicit fentanyl by California law enforcement agencies continue to grow at an alarming rate year-over-year, from 5,300 pounds seized in 2021, to 28,000 pounds in 2022, to 62,000 pounds in 2023.[4] Fentanyl overdose deaths in the state first exceeded motor vehicle-related deaths in 2020 and have continued to do so every year since.[5] Despite these alarming trends, the budget does not include any new funding to enhance state or local law enforcement efforts to crack down on fentanyl trafficking. The $22 million per year that has been allocated to the California Military Department and the Department of Justice for interdiction efforts since 2022-23 has been wholly inadequate, as evidenced by the rapid increases in both the amount of fentanyl seized and overdose deaths. While the budget does continue this funding for an additional two years (through 2025-26), it does not provide resources to expand enforcement efforts.

The current approach is failing and costing lives – almost 7,000 in 2023 alone.[6] This administration and the federal government should have focused less on scrambling to mitigate overdoses and more on taking the fight to the cartels who are manufacturing and distributing illicit fentanyl and the rogue nations like China that supply precursor chemicals. Because of their failure to act decisively, the state is

---

[3] Pierce, Matthias, et al., Insights into the link between drug use and criminality: Lifetime offending of criminally-active opiate users, *Drug and Alcohol Dependence* 179 (2017) 309–316. Report.
[4] LA Times, Feb 2024, Record Fentanyl Seizures.
[5] Comparison of National Highway Transportation Safety Administration vehicle fatality data for California and California Department of Public Health fentanyl overdose death data (CDPH Data).
[6] According to California Department of Public Health data, the 12-month total for fentanyl deaths for the period ending Q4 of 2024 (the most recent data available) was 6,850. CDPH Data (Display options adjusted to show only fentanyl deaths).

now in the untenable position of needing to do both. To be successful, this effort will require a much larger investment than the Governor and legislative Democrats have been willing to make so far.

Victims of Crime Act (VOCA) Backfill. The 2024-25 budget provides $103 million General Fund to backfill declining federal funds in support of VOCA. The federal VOCA grant program provides funding to states to help victims of crime recover by providing counseling, treatment, and other needed services. The General Fund backfill will allow existing VOCA-supported programs to continue providing their current level of services. It is important to ensure that crime victims have the support they need to recover. However, it should be noted that if there were fewer victims, the shrinking federal funds would go further and there would be less need for General Fund support. The soft-on-crime policies of the ruling party have resulted in more than 250,000 additional violent crimes over the past 10 years, which means there have been at least that many additional victims.[7]

Department of Corrections and Rehabilitation (CDCR)

The 2024-25 budget includes total funding of $14.3 billion ($13.9 billion General Fund) for CDCR. This is a decrease of approximately $108 million from spending levels approved in the Budget Act of 2023. The spending decrease represents a combination of $508 million in ongoing General Fund reductions, offset by a number of cost increases. The reductions include $392 million from an unallocated reduction to state operations funding and the elimination of vacant positions, $82 million from deactivating various housing units across 11 prisons, and a $15 million baseline reduction to the Department's administrative budget. The single largest offsetting General Fund spending increase is $357 million in additional salary costs.

Closing Housing Units Better Than Closing Whole Prisons. The 2024-25 Budget Act reflects the Governor's plan to deactivate 46 individual housing units across 13 prisons, totaling approximately 4,600 beds. The prison population continues to trend downward, which allows the administration to deactivate some capacity. However, the trend continues not because fewer felonies are being committed, but largely because of the Governor's massive expansion of sentence credits in response to the broad authority provided by Proposition 57 (2016).

In contrast to the shrinking prison population, violent crime has increased dramatically over the past decade. Fueled by diminished sanctions for criminal behavior provided by Propositions 47 (2014) and 57, violent crime overall has increased by 32 percent since 2013 (the last full year before Proposition 47 was enacted). Over that same period, homicides increased more than eight percent, rapes increased a shocking 84 percent, and aggravated assaults went up by 52 percent (including aggravated assaults with a firearm, which are up 87 percent, despite the ruling party's zeal in enacting ever-stricter gun control laws). It is entirely predictable that crime will continue to increase until these policies are changed.

Meanwhile, state prisons have about 15,000 empty prison beds. While advocates and legislative Democrats are pushing hard for additional permanent prison closures, the Governor has opted to instead deactivate individual housing units throughout the system, which still provides some savings while preserving bed capacity that could be reactivated if the prison population should grow. Reopening a mothballed prison is much more difficult and costly than reactivating a few housing units. Given the possible reversal of the downward population trend if violent crime continues to increase, deactivating housing units is far preferable to closing entire prisons.

[7] The sum of the difference between the number of violent crimes each year since 2013 and the number in 2013 $((C_{2014}-C_{2013})+(C_{2015}-C_{2013})\ldots+(C_{2023}-C_{2013}))$ is 255,265. Source: California Department of Justice, Open Justice Data Portal.

Other CDCR Budget Adjustments

Headquarters Lease Termination. The budget assumes $8.5 million in annual savings, beginning in 2025-26, from terminating CDCR's headquarters building lease in downtown Sacramento and moving employees to existing vacant space in several other leased facilities in Sacramento, Rancho Cordova, and Elk Grove. CDCR will retain the savings in 2024-25 to pay the costs of tenant improvements and relocating staff. Assuming CDCR is able to accomplish the move without incurring excessive costs or losing key employees who may not wish to commute or relocate, this seems like a good cost-saving strategy that could have other benefits as well. For example, if collocating key CDCR staff with California Correctional Health Care Services staff in Elk Grove results in better coordination and collaboration, the move could facilitate the eventual end to the federal receivership that currently oversees all of CDCR's inmate medical operations.

Sex Offender Management Contract Rate Increase. The budget includes a $26 million General Fund increase in 2024-25 and ongoing to address rate increases for the Sex Offender Management Program providers. CDCR last renegotiated these contracts in 2017 and they expired in late 2023. Since the last round of negotiations in 2017, contract bids increased by an average of 65 percent due to general salary and business cost increases.

Free Voice Calling for Inmates. The budget provides $32 million in 2024-25 and ongoing to expand free voice calling for state prison inmates pursuant to SB 1008 (Becker, 2022). SB 1008 essentially requires unlimited voice calling at no cost to the inmate or the person with whom the inmate is talking. The only restriction is that voice calling cannot interfere with necessary programming. This policy essentially eliminates CDCR's ability to use phone privileges as an incentive for good behavior or to suspend calling privileges as a sanction for behavioral violations. No Senate Republicans supported SB 1008.

Juvenile Justice Realignment

Transfer of Grant Authority. The 2023 closure of CDCR's Division of Juvenile Justice shifted custody of the few juvenile offenders remaining in state custody to the counties. State oversight of county juvenile justice operations was split between the Board of State and Community Corrections (BSCC) and the Office of Youth and Community Restoration (OYCR). Previously, the BSCC retained authority for most juvenile justice grant programs. This budget reflects the shift of administrative authority for the Youthful Offender Block Grant, Juvenile Justice Crime Prevention Act Grant, Juvenile Reentry Grant Programs, and the federal Juvenile Justice and Delinquency Prevention Act Title II Grant Program to the OYCR. Only the Juvenile Justice Realignment Block Grant remains with the BSCC.

Judicial Branch

The budget includes total funding of $5 billion ($3.1 billion General Fund) in 2024-25 for the Judicial Branch, including $4 billion to support the trial courts. Relative to the 2023 Budget Act, 2024-25 Judicial Branch spending levels are about $34 million lower. Funding for the trial courts is approximately $70 million lower, which is the result of an unallocated 7.95 percent reduction to state operations (details below).

Judicial Branch Special Fund Backfills Continue. The budget provides $77 million General Fund to backfill expected revenue shortfalls to the State Court Facilities Trust Fund (SCFCF) and the Trial Court Trust Fund (TCTF). Revenues to these funds, which are largely the proceeds of court user fees and financial penalties assessed on criminal convictions, have declined significantly since just before the

Great Recession. The General Fund must backfill the lost revenues to prevent reductions to court service levels (TCTF) and to avoid defaulting on its debt service obligations (SCFCF). The total backfill amount is down by approximately $84 million compared to the amount provided in the 2023 Budget Act.

Unallocated Reduction to Trial Court Operations. In keeping with the administration's plan to implement a 7.95 percent across-the-board reduction to state operations for all state departments, the budget includes a $97 million unallocated reduction to trial court operations. However, unlike most state departments, the trial courts are not funded on a workload basis. Their budget pays for an established number of judges and courtrooms, plus necessary support resources. Individual courts must address caseloads within their budget by adjusting court calendars. They attempt to balance criminal caseloads and their statutory timelines intended to safeguard the defendant's right to a speedy trial with civil caseloads, which do not have statutory timeline requirements. When budgets are reduced, civil cases, many of which already take more than a year to resolve, typically suffer significant delays.

Trial Court Trust Fund Sweep. To prop up General Fund spending temporarily, the budget transfers $100 million from the "unrestricted balance" of the TCTF to the General Fund. According to the administration, this balance is comprised of cost savings from previous General Fund allocations to the Judicial Branch. They are essentially "stranded" in the TCTF because no mechanism exists for them to revert on the natural. While this may seem reasonable at first blush, the trial courts also face the $97 million cut described above. Rather than sweeping this balance to the General Fund, where it will help some pet project of the ruling party avoid a cut, it should have been reallocated to backfill the $97 million. This would have averted the now imminent civil case backlog that will result from the unallocated reduction.

Department of Justice (DOJ)

The 2024-25 budget includes total funding of $1.3 billion ($504 million General Fund) for DOJ, an increase of $46 million above 2023-24 Budget Act spending levels.

Misguided Firearms Regulation Fuels Bureaucracy. The budget includes $16 million General Fund in 2024-25 for DOJ to continue a project to modernize its firearms IT systems ($5 million) and to implement recently chaptered firearm legislation ($11 million). As new firearm legislation is enacted at breakneck speed, DOJ's Bureau of Firearms is swelling to massive proportions. In the past five years, the Bureau has added 64 positions (a 22 percent increase) and $14 million (a 28 percent increase). Despite this growth, the Bureau struggles to remove firearms from convicted felons and other prohibited persons. This is because recent legislation has largely sought to make it more difficult for law-abiding citizens to own firearms instead of ensuring that dangerous criminals do not have them.

Climate Lawfare Will Hurt Struggling Californians. The budget includes $5 million Unfair Competition Law Fund per year for the next three years for DOJ to continue bringing lawsuits against oil companies in an effort to blame "price gouging" rather than Democrats' policies for California's sky-high gas prices. These misguided lawsuits will simply drive up the cost of oil and petroleum-based products and are more likely to hurt Californians who are already paying too much for fuel and energy than actually help the environment.

Resources & Environmental Protection

Key Points

- **Alterations to Multiyear Climate-Related Budget Packages.** Introduces several modifications to one-time and temporary funding previously agreed upon for climate, resources, and environmental programs.
- **Watershed Protection and Problematic Climate Resiliency Funding.** Provides $37 million (General Fund) to the Wildlife Conservation Board for improving watershed protection and climate resiliency, the latter of which includes unreasonable spending for programs that shouldn't be a priority during a deficit.
- **Vulnerable Community Clean-Up.** Provides $554 million (various funds) over three fiscal years for the discovery, cleanup, and investigation of contaminated properties in vulnerable communities.
- **New Fire Response Spending.** Allocates $199 million to transition CalFire firefighters to a 66-hour workweek, along with investing nearly $45 million in various wildfire-related projects.
- **Last-Minute Policy Decisions Make the Cost of Oil and Gas Unpredictable.** Includes $15 million to implement legislation that will increase the cost of oil and gas and empowers the Department of Conservation to impose additional assessments on oil and gas production.

Changes to Multiyear Climate-Related Budget Packages

Revisions to Previous Spending Agreements May Harm Legitimate Environmental Needs. To address the budget deficit, the spending plan modifies one-time and temporary funding for climate, resources, and environmental programs. Key changes include reducing program support, reallocating planned funding from the General Fund to the Greenhouse Gas Reduction Fund (GGRF), and delaying some expenditures. According to the nonpartisan Legislative Analyst's Office, these adjustments lower planned non-Proposition 98 General Fund spending by about $6.4 billion from 2021-22 through 2026-27, excluding an additional $2.3 billion in budget solutions from cuts and fund shifts in other environmental programs. Specific to 2024-25, the budget implements net reductions of $4.8 billion across various programs, as summarized in the LAO's table on the next page.

Despite reduced spending on activities like water, extreme heat, and coastal resilience, shifting funds from the General Fund to GGRF helps preserve most of the intended funding. Overall, the spending plan allocates $29 billion for these packages over seven years (2021-28), which is 79 percent of the originally planned $36 billion.

Changes to Climate Budget Packages

(Dollars in Millions)

Thematic Package	Original Multiyear Totals	2023-24 Revised Multiyear Totals	2024-25 Net Reductions	2024-25 Revised Multiyear Totals	2024-25 Percent Retained
Zero-Emission Vehicles	$10,020	$10,085	$921	$9,164	91%
Water and Drought Resilience	8,779	8,148	1,443	6,705	76
Energy	7,926	6,982	1,478	5,504	69
Wildfire and Forest Resilience	2,814	2,767	144	2,623	93
Community Resilience	1,851	1,336	106	1,230	66
Nature-Based Activities	1,565	1,409	121	1,288	82
Coastal Resilience	1,295	1,112	462	650	50
Sustainable Agriculture	1,184	1,090	9	1,080	91
Extreme Heat	649	404	108	297	46
Circular Economy	468	443	7	437	93
Totals	**$36,550**	**$33,776**	**$4,799**	**$28,978**	**79%**

Source: Legislative Analyst's Office report

The Greenhouse Gas Reduction Fund—a Primer and Reminder. The Greenhouse Gas Reduction Fund (GGRF) is a key component of California's strategy to combat climate change. It is funded primarily through the state's Cap-and-Trade program, which requires companies to purchase permits for their greenhouse gas emissions. The revenue generated from these permits is then allocated to various programs aimed at reducing greenhouse gas emissions and promoting sustainability. The GGRF supports a wide range of initiatives, including:

- Zero-Emission Vehicle (ZEV) incentives that encourage the adoption of electric and hydrogen vehicles.
- Energy efficiency projects for buildings and industrial processes.
- Sustainable community planning and development that reduces emissions.
- Natural Resources Conservation projects that protect and restore forests, wetlands, and other natural habitats.
- Climate Resilience infrastructure and programs to help communities adapt to climate change impacts.

By shifting funding from the General Fund to the GGRF, the state leverages these dedicated resources to maintain support for climate-related programs despite budget constraints.

Cap and Trade Fund Shifts. The budget redirects $5.2 billion in 2024-25 from the General Fund to the Greenhouse Gas Reduction Fund to bolster climate initiatives. The plan also channels an additional $3.6 billion from the General Fund over five years into transit, clean energy, zero-emission vehicles, and nature-based solutions, leaving the existing programs within the Cap-and-Trade Program with fewer resources to address other critical priorities. The following table includes the spending details of the 2024-25 Cap-and-Trade Expenditure Plan.

Cap and Trade Program Funding
(Dollars in Millions)

Dept.	*Program*	23/24	24/25	25/26	26/27	27/28	28/29
CARB	AB 617 - Community Air Protection		$195.0	$195.0	$195.0	$195.0	$195.0
CARB	AB 617 - Local Air District Implementation		$50.0	$50.0	$50.0	$50.0	$50.0
CARB	AB 617 - Technical Assistance Grants		$5.0	$5.0	$5.0	$5.0	$5.0
CARB	ZEV Programs (preexisting agreement)			$215.0	$301.0	$213.0	
CalSTA	Zero Emission Transit Capital Program	-$220	-$220		$230.0	$460.0	
CalSTA	Transit Inter-City Rail Capital Program and Other Transportation (Formula and Competitive (Fund Shift)	$596.0	$362.0	$368.0	$20.0		
Caltrans	Highways to Boulevards (Fund Shift)			$25.0	$50.0		
CEC	ZEV Programs (preexisting agreement)			$385.0	$299.0	$387.0	
CEC	ZEV Fueling Infrastructure Grants (Fund Shift)	$119.5				$99.0	
CEC	Drayage Trucks & Infrastructure (Fund Shift)	$157.0					
CEC	Transit Buses & Infrastructure (Fund Shift)	$28.5					
CEC	Clean Trucks, Buses, and Off-Road Equipment (Fund Shift)	$71.3					
CEC	Equitable Building Decarbonization (Fund Shift)		$25.0			$93.0	
CEC	Carbon Removal Program (Fund Shift)			$20.0			
CEC	Distributed Electricity Backup Assets (Fund Shift)			$200.0	$180.0		
CEC	Hydrogen Grants (Fund Shift)			$40.0			
CEC	Demand Side Grid Support (Fund Shift)		$75.0	$75.0			
CEC	Clean Energy Reliable Investment Plan (Fund Shift)			$50.0	$150.0	$50.0	$650.0
CPUC	Community Solar			$25.0			$25.0
CalFIRE	Fire Prevention Grants (Fund Shift)		$40.0			$42.0	
CalFIRE	Unit Fire Prevention Projects (Fund Shift)					$26.0	
CalFIRE	Prescribed Fire Liability Pilot (Fund Shift)		$20.0				
CalFIRE	Tribal Wildfire and Forest Resilience (Fund Shift)			$10.0			
CalFIRE	Monitoring and Research		$5.7				
CDFA	Livestock Methane Reduction (Fund Shift)		$17.0	$7.0			
CDFA	State Water Efficiency and Enhancement Program (Fund Shift)				$20.6		
CNRA	Ocean Protection (Fund Shift)		$27.5				
CNRA	Ocean Protection/SB 1 Implementation (Fund Shift)				$36.8		

DOC	Regional Forest & Fire Capacity (Fund Shift)					$20.0	
DOC	Oil Well Plug and Abandonment (Fund Shift)				$50.0		
DWR	Urban Flood Risk Reduction/ Systemwide Flood Programs-Little Egbert Project (Fund Shift)		$126.0				
DWR	Oroville Pump Storage (Fund Shift)			$30.0	$100.0	$100.0	
DWR	Habitat Restoration (Fund Shift)		$102.5				
WCB	Streamflow Program (Fund Shift)		$101.1				
WCB	Protecting Fish and Wildlife from Changing Conditions (Fund Shift)		$70.0				
WCB	Watershed Climate Resilience			$15.0			
DFW	Wetland Restoration (Fund Shift)		$17.2				
Cal EPA	Environmental Justice Action Grants (Fund Shift)				$5.0		
DTSC	Vulnerable Community Toxic Clean-Up (Fund Shift)		$65.0		$42.5		
SWRCB	Drinking Water/Wastewater (Fund Shift)		$224.9	$30.0			
SWRCB	Water Recycling/Groundwater Clean Up			$15.0			
OPR	California Climate Action Corps (Fund Shift)		$9.4	$9.4	$9.4	$9.4	
OPR	Extreme Heat and Community Resilience		$25.1				
Various	Salton Sea (Fund Shift)		$72.0	$3.3			
Various	Diablo Canyon Land Conservation and Economic Development (SB 846) (Fund Shift)		$40.0	$10.0	$50.0	$50.0	
CARB	ZEV Emerging Opportunities		$53.0				
	Total	**$972.3**	**$1,728.4**	**$1,782.7**	**$1,794.3**	**$1,799.4**	**$925.0**

(Source: Assembly Budget Committee)
*Dollars in Millions
*Does not include baseline support items for various departments.
[1]Previously funded by General Fund; now being shifted to GGRF as part of solutions.

Impact of Revisions to Climate Spending Agreements. While it is unclear how revisions to past climate spending agreements will affect existing projects or programs, it is important to note that many of these changes run counter to the state's overall climate change policies. Some reductions only affect Democrats' climate vanity projects, but what is more concerning is that some are tied to funding for legitimately valuable programs and projects, such as addressing the state's water supply and reliability issues. The following paragraphs describe one example of how these budgetary tradeoffs will significantly impact resources available for one of the state's most pressing issues: water management and reliability.

Background on Funding Allocations. In past fiscal years, budget surpluses provided $8.9 billion for Water and Drought Resilience programs and activities across the five-year period from 2021-22 through 2025-26. Despite years of legislative Republicans calling for more investments in the state's crumbling water infrastructure, Democrats belatedly reacted to extreme droughts followed by severe winter storms in December 2022 and January 2023 by amending the Budget Act of 2021-22. This amendment provided emergency funding for flood-related activities to address the impacts of these unprecedented storms, alongside existing drought expenditures, to enhance water supply and reliability across the state through various management strategies.

The 2021-22 and 2022-23 budget agreements included nearly $8.8 billion in funding for Water and Drought Resilience programs and activities over the five-year period from 2021-22 through 2025-26. While this funding did not fully compensate for years of neglect by legislative Democrats in safeguarding the state's water supply from drought and protecting surrounding communities from catastrophic flooding, it was a step in the right direction.

The state's complex framework for disbursing funding for water-related programs—through various grants and low-interest loans with differing eligibility requirements—makes it difficult to predict how changes to the original multi-year budget agreements will impact critical projects. This year's budget reduces the original allocation from $8.8 billion to $6.7 billion to help address the budget deficit, resulting in a net reduction of $1.4 billion, as shown in the LAO's chart earlier in this section.

Potential Impacts of Funding Cuts. While the decrease in funding is intended to help the state manage its current budget constraints, cutting support for certain programs may hinder progress on critical environmental issues such as flood mitigation, overall water supply management, extreme heat mitigation, and coastal resilience. The spending plans' heavy reliance on the Greenhouse Gas Reduction Fund (GGRF) also introduces funding uncertainty, as these funds are subject to fluctuations based on Cap-and-Trade revenues. Additionally, delaying action by postponing expenditures might delay the implementation of important projects, potentially exacerbating environmental problems in the short term.

The paragraphs below detail how programs in general might be affected by the majority party's spending priorities.

Zero-Emission Vehicles (ZEVs): Funding for ZEV incentives and infrastructure has been reduced and shifted to the GGRF, affecting the pace of adoption and infrastructure development.

Water and Drought Programs: Programs aimed at improving water supply reliability and drought resilience have seen reduced support and delayed funding, potentially impacting water management efforts.

Energy Programs: Initiatives focused on renewable energy development and energy efficiency have experienced funding cuts and shifts, which may slow progress in these areas.

Wildfire and Forest Resilience: Funding for wildfire prevention and forest management has been reduced, which could affect the state's ability to mitigate wildfire risks.

Nature-Based Activities: Programs promoting conservation and restoration of natural habitats have faced budget reductions and delays, impacting environmental conservation efforts.

Community Resilience: Efforts to enhance community resilience to climate impacts, such as extreme heat and sea-level rise, have seen funding shifts and delays, potentially affecting preparedness and response capabilities.

Coastal Resilience: Projects aimed at protecting coastal areas from erosion and sea-level rise have experienced funding cuts and delays, which may hinder coastal protection efforts.

Sustainable Agriculture: Programs supporting sustainable farming practices and reducing agricultural emissions have faced budget reductions and shifts, impacting the agricultural sector's climate resilience.

Circular Economy: Initiatives promoting waste reduction and recycling have seen funding cuts and delays, affecting progress towards a circular economy.

Extreme Heat Programs: Efforts to mitigate the impacts of extreme heat on vulnerable populations have experienced funding reductions and delays, potentially affecting public health and safety.

Watershed Protection and Climate Resiliency Funding

Supports Programs That Focus on Watersheds and Land Acquisitions. The budget allocates $37 million from the General Fund to the Wildlife Conservation Board, aimed at enhancing watershed protection and climate resiliency. This funding is divided equally between two key programs:

1. Cascades and High Sierra Upper Watersheds Program: This program receives $18.5 million to focus on the protection and restoration of critical watersheds in the Cascades and High Sierra regions. These watersheds are vital for maintaining water quality, supporting biodiversity, and providing essential ecosystem services. The funding will be used for activities such as:

- Restoration Projects: Implementing projects to restore natural hydrology, improve water retention, and reduce erosion.
- Habitat Conservation: Protecting habitats for endangered and threatened species, ensuring the preservation of biodiversity.
- Community Engagement: Involving local communities in conservation efforts through education and participation in restoration activities.

2. Land Acquisition and Habitat Enhancement Program: This program also receives $18.5 million to acquire land and enhance habitats across the state. The primary goals of this program include:

- Land Acquisition: Purchasing critical parcels of land to protect them from development and ensure their conservation for future generations.
- Habitat Enhancement: Improving existing habitats to support wildlife, increase biodiversity, and enhance ecosystem resilience.
- Climate Adaptation: Implementing measures to help ecosystems adapt to the impacts of climate change, such as increasing vegetation cover and improving soil health.

Half of this funding is well-placed and crucial for maintaining the health and sustainability of watersheds that provide clean water and other essential services to communities across the state. However, the other half could be better spent in ways that make more sense to taxpayers rather than on land acquisition and habitat enhancement because of the nuances associated with the expansion of publicly owned land. Potential drawbacks of funding these types of programs include:

Maintenance Costs: Acquiring land is just the first step; maintaining and managing these lands can incur significant ongoing costs. These expenses will undoubtedly strain the budget further, requiring additional funding in the future to ensure these lands are properly protected.

Private Property Rights: Expanding public land holdings can sometimes lead to conflicts with private property owners. There continue to be concerns about the government overstepping and infringing on private property rights, which can lead to legal disputes and public discontent.

Effectiveness and Efficiency: Land acquisition as a conservation strategy is questionable. The state should invest in better conservation methods, such as incentivizing private landowners to adopt sustainable practices, which would not only allow property owners to participate in how their tax dollars are spent but yield better results at a lower cost.

Opportunity Costs: The funds allocated for land acquisition and habitat enhancement could potentially be used for other environmental programs that offer more immediate benefits, such as pollution control, renewable energy projects, or climate change mitigation efforts.

Public Access and Use: Acquired lands may have restrictions on public access and use, which can limit the recreational and economic benefits these lands could provide to local communities. In the past, this has led to public dissatisfaction in instances where the ands are not accessible for activities like hiking, fishing, or other recreational uses.

Vulnerable Community Clean-Up General Fund Solution

Continues to Address Cleaning Up Toxic Materials. The budget continues its commitment to environmental safety by allocating significant funds to address toxic materials, a critical issue for public health and the environment. The budget includes $554 million from the General Fund, GGRF, and Toxic Substances Control Account. As a part of the solutions to reduce the immediate cost burden on the General Fund, this allocation spans three fiscal years (2021-22, 2022-23, and 2023-24) and covers activities such as the discovery, cleanup, and investigation of contaminated properties. Key activities funded include the discovery of new contaminated sites, the cleanup of existing hazardous areas, and thorough investigations to prevent future contamination. This continued investment is expected to significantly reduce environmental hazards, ensuring safer communities and a healthier ecosystem in California.

New Wildfire Response Spending

Provides Funding for Firefighters to Shift to a 66-Hour Workweek. Despite the current budget conditions, the spending plan includes significant new expenditures for environment-related activities, primarily funded by the General Fund. Specifically, it allocates $199 million ($197 million from the General Fund) and 338 positions in 2024-25 to begin implementing a shift to a 66-hour workweek for firefighters at the California Department of Forestry and Fire Protection (CalFire), as outlined in a 2022 memorandum of understanding (MOU) between the state and the firefighter union. Currently, CalFire operates on a 72-hour workweek.

The costs of implementing this shift are expected to rise to $770 million ($756 million from the General Fund) annually, with 2,457 permanent positions by 2028-29. Following the approval of the budget act, the Legislature ratified an MOU with the union representing CalFire, which includes implementing the 66-hour duty week. These terms will further increase costs as the reduction in weekly hours is phased in beyond the amounts initially projected in the budget.

Other Wildfire Prevention and Response Investments. The budget also provides nearly $45 million in much-needed support to CalFire for deferred maintenance and special repair projects at existing CalFire facilities to accommodate additional hand crews. Providing support for deferred maintenance and special repair projects at CalFire facilities is crucial as the department transitions to a 66-hour work week for additional hand crews. Well-maintained facilities enhance operational efficiency, improve safety and working conditions, boost morale and retention, and increase firefighting capacity. These investments include:

- $2.6 million for deferred maintenance and special repair projects at existing CalFire facilities to accommodate additional hand crews.
- $10.4 million General Fund to CalFire to provide funding to the University of California, San Diego's ALERTCalifornia for purposes of digital imagery to support its fire camera mapping system.
- $31.6 million General Fund to CalFire for the acquisition phase of establishing a new, additional CalFire training facility. Total estimated cost of this project is $631.5 million.

This proactive approach ensures long-term cost savings by preventing minor issues from becoming major problems and ultimately strengthens CalFire's ability to protect California's communities from increasingly severe wildfires.

Increases the Regulatory Burdens on Californians

Last-Minute Negotiations Over Implementation of Oil Setback Legislation. Just four days before the end of the 2024 legislative session, the majority party introduced amendments to the 2024 Budget Act with last-minute policy changes. These changes include an appropriation of $15 million from the Oil, Gas, and Geothermal Administrative Fund to implement the provisions of SB 1137 (Gonzalez, 2022). SB 1137, which did not receive Republican support, bans new oil and gas wells within 3,200 feet of occupied buildings and imposes new requirements on existing wells. These changes add further regulatory challenges for businesses.

New Fee Authority for the Department of Conservation. The policy changes included in the last-minute negotiations over SB 1137 implementation authorize the Department of Conservation to levy a supplemental assessment on oil and gas to provide additional funding for conservation efforts and address budget shortfalls within the department's non-General Fund budget. This approach is problematic for several reasons:

Inappropriate Deficit Management: Addressing the impact of the deficit on the budgets of the state's regulatory agencies through this method is inappropriate, as it can exacerbate the affordability crisis many Californians face today. Supplemental assessments are temporary solutions that do not address underlying fiscal issues, such as the majority party's out-of-touch spending on offshore wind generation despite the lack of a reliable electrical grid. Imposing additional fees on the oil and gas industry can lead to broader economic repercussions, increasing operational costs for these companies, which are likely to be passed on to consumers as higher energy prices. Increased fees can also raise the regulatory burden on the industry, potentially discouraging investment and innovation, and may lead to legal challenges and pushback from stakeholders.

Lack of Public Scrutiny: Making these decisions so late in the budget process avoids public scrutiny, impacting the affordability of goods and services for everyone while leading to a lack of accountability.

Economic Impact: According to the California Council on Science and Technology (CCST), the net cost for plugging oil and gas operations in California is estimated to be at least $9 billion. With no parameters or cap on adjustments, this new fee authority could lead to an increase in the price of oil and gas products, affecting consumers and businesses alike.

Potential Adverse Impacts of the Assessment Authority in the Budget. The assessment authority provided in the budget could backfire at the expense of Californians in several ways:

Increased Consumer Costs: Oil and gas producers, facing higher operational costs, are likely to pass these expenses on to consumers through inflated prices for goods and services. According to data from the U.S. Energy Information Administration, despite lower commodity prices, U.S. oil and gas production reached a record high in 2023, with costs falling by six percent. However, operators have started to report seven percent to 15 percent cost inflation, which could lead to higher prices for consumers.

Disproportionate Impact on Non-Electric Vehicle Owners: The changes included in the budget will disproportionately affect those unable to transition to electric vehicles (EVs). As traditional fuel costs rise, individuals and businesses reliant on conventional vehicles would face escalating transportation expenses without feasible alternatives. The University of California, Davis recently reported that although California aims for all light-duty vehicles sold by 2035 to be zero emissions, currently, only one in four new cars sold in the state is an EV, indicating a slower transition rate than desired.

Exacerbation of High Living Costs: The last-minute policy changes will likely exacerbate California's already high cost of living, prompting more residents and businesses to seek more affordable locations. The cost of living in California is 38 percent higher than the national average, with housing costs 97 percent higher and utilities 22 percent higher. This could further strain residents and businesses, potentially leading to an exodus from the state.

It's Not Rocket Science—Just a Little Thing Called Reason. Instead of defaulting to more fees as a revenue source, a more reasonable way to address this year's budget deficit would have recognized the uncertainty that many Californians experience every day: Can they afford to stay? Will the neglect of forests, water infrastructure, and the business climate make it safe to stay? These unknowns have become major concerns for many California, increasing in significance since the state moved into one-party rule. Implementing a long-term financial strategy for the Department of Conservation can address budget shortfalls more sustainably by:

- Improving Budget Forecasting: Advanced forecasting tools could be used to predict and manage budget shortfalls. States like New York and Texas have adopted economic forecasting models to better anticipate economic downturns, helping to make their budgeting processes more resilient.
- Enhancing Efficiency: Reviewing expenditures to identify and eliminate waste would also help. New York City's ***Mayor's Management Report*** provides a good example of how continuous tracking of agency performance can help maintain fiscal responsibility.
- Engaging Stakeholders: A transparent and inclusive budget process should be developed. This process should extend beyond the oil and gas industries and environmental advocates to include representatives from sectors like tech, agriculture, and small businesses, ensuring that California's diverse economic base is considered in budget decisions.

Residents in a state with the highest median monthly housing expenses should not be burdened by additional costs resulting from supplemental assessments on energy producers, which lead to higher utility prices. According to the U.S. Energy Information Administration, California households already pay about 30 percent more for electricity than the national average. This increase disproportionately impacts low-income families, who spend a larger share of their income on energy. The California Public Utilities Commission reports that a 10 percent rise in energy prices could push many households into energy poverty, where they spend more than 6 percent of their income on energy bills.

California contributes only one percent of global emissions, yet the impact of “climate-forward” policies on residents’ daily lives is significant. Striking a balance between environmental sustainability and economic vitality is critical. It is possible to balance fiscal responsibility and prosperity with environmental protection, without imposing undue burdens on residents. All it requires is a more reasonable approach.

Energy and Utilities

Key Points

- **Clean Energy Programs.** The budget includes $147 million for various clean energy programs, reflecting reductions and delays of $884 million in 2024-25. This funding is part of a multi-year package now totaling $6.5 billion, reflecting program reductions of $1.5 billion.
- **Clean Energy Reliability Investment Plan (CERIP).** Delays $850 million for CERIP from 2023-24, 2024-25, and 2025-26 to instead be allocated in future years.
- **Broadband Investments.** Provides authority for up to $500 million within the Department of Technology for the development and construction of a statewide open-access middle-mile broadband network. Reduces $125 million for the financing of local broadband projects, leaving only $50 million for this purpose, and delays $200 million for last-mile projects to future years.

Clean Energy Incentive Programs Reduced. The budget includes $147 million in 2024-25 to incentivize various types of clean energy projects, reflecting reductions and delays of $884 million in 2024-25. Prior budgets beginning in 2021 included multi-year packages totaling $9 billion for various energy programs and projects. These packages were adjusted over the past few years and, as of the 2024-25 budget, now total $6.5 billion, reflecting a decrease of $1.5 billion from amounts planned at the 2023-24 Budget Act. A table on the next page summarizes the reductions and remaining expenditures, which are also described in the paragraphs below.

- ***Equitable Building Decarbonization Program-Rebates ($397 million reduction):*** Incentivizes installation of low-carbon building technologies, such as heat pumps, space and water heaters, and other efficient electric technologies. This program also includes funds for accelerating the adoption of lower polluting refrigerants in grocery and convenience stores.
- ***Residential Solar and Storage ($350 million reduction):*** Grants for low-income customers installing solar plus battery storage.
- ***Transmission Financing ($225 million reduction):*** Funds for financing electricity transmission projects through the IBank's Climate Catalyst Revolving Loan Program.
- ***Demand Side Grid Support ($112 million reduction):*** Provides incentives to reduce customer electricity use during extreme events.
- ***Distributed Electricity Backup Assets ($63 million reduction):*** Incentivizes the construction of cleaner and more efficient distributed energy assets that serve as on-call emergency supply or load reduction for the state's electrical grid during extreme events.
- ***Hydrogen Grants ($60 million reduction):*** Incentivizes in-state projects for the demonstration or scale-up of the production, processing, delivery, storage, or end use of clean hydrogen. These projects aim to reduce sector-wide emissions.
- ***Incentives for Long-Duration Storage ($57 million reduction)*****:** Incentivizes energy storage projects, such as compressed or liquid air technologies, flow batteries, thermal storage, or hydrogen demonstrations. Specifically excludes pump storage and lithium-ion based storage technologies.
- ***Strategic Reliability Reserve ($55 million reduction):*** Funds extend operation of existing power plants scheduled for retirement, purchase additional temporary natural gas generators, and enter additional power purchase agreements. Incentivizes installation of air emission reduction technologies on fossil-fueled backup power generators, deployment of zero or low

emission backup generation, upgrades at existing generation facilities to provide more generation capacity, and load reduction during extreme events.

- ***Carbon Removal Innovation Program ($54 million reduction):*** Incentivizes research, development of direct air carbon capture technologies. Excludes projects that would benefit petroleum or gas production, processing, or refining, through enhanced oil or gas recovery.
- ***Industrial Grid Support and Decarbonization Program ($50 million reduction):*** Incentivizes projects to enable participation in utility load reduction programs, electrify existing fossil fuel processes, incorporate energy storage or renewable resources, increase energy efficiency, or develop new decarbonization technologies. Prohibits geologic storage of captured carbon.
- ***Food Production Investment Program ($39 million reduction):*** Incentivizes projects to enable participation in load reduction programs, electrify fossil fuel processes, incorporate solar, storage, or other renewable resources, increase efficiency, or develop new decarbonization technologies at food production and processing facilities. *This program was reduced by $10 million last year.*

Summary of Energy Reductions and Remaining Spending

($ in millions)

Department	Program	Package Amounts at 2023-24 Budget Act	Reductions	New Energy Package Totals
Energy Commission	Incentives for Long Duration Storage	$330	$57	$273
	Hydrogen Grants	$100	$60	$40
	Industrial Grid Support and Decarbonization	$90	$50	$40
	Food Production Investment Program	$65	$39	$26
	Equitable Building Decarbonization	$922	$397	$525
	DOE Grid Resilience Match	$5		$5
	Energy Modelling Support	$7		$7
	Distributed Electricity Backup Assets	$595	$63	$532
	Demand Side Grid Support	$295	$112	$184
	Carbon Removal Innovation	$75	$54	$21
	Energy Data Infrastructure & Analysis	$5	$4	$1
California Air Resources Board	Ultra Low Global Warming Potential Refrigerants	$40		$40
Department of Water Resources	Oroville Pump Storage	$240		$240
	Support Resources for Reliability	$3		$3
	Distributed Electricity Backup Assets	$100		$100
	Investments in Strategic Reliability Assets	$2,370	$55	$2,315
California Public Utilities Commission	Residential Solar + Storage	$630	$350	$280
	Capacity Building	$30	$30	$0
	Distributed Energy Workload	$5		$5
	Equitable Building Decarbonization	$145		$145
IBank/GO Biz	Transmission Financing	$225	$225	$0
	Hydrogen Hub	$5		$5
Department of Community Services & Development	California Arrearage Payment Program	$651		$651
Various	AB 525 Implementation	$4		$4
	Offshore Wind Infrastructure	$45	-$16	$61
	Clean Energy Reliability Investment Plan	$1,000		$1,000
Total		**$7,982**	**$1,480**	**$6,503**

(Source: Compiled with information from the Department of Finance)

Clean Energy Reliability Investment Plan (CERIP). Separate from the investments detailed above, the proposed budget delays $850 million for CERIP across 2023-24, 2024-25 and 2025-26, and instead plans to spend the funds in future years. SB 846 (Dodd, 2022) provided that upon appropriation by the Legislature, a total of $1 billion would be available over a three-year period for the CERIP, to accelerate the deployment of clean energy resources, support demand response, assist ratepayers, and increase energy reliability. Notably, the proposed delays would spread the funds over five years rather than three. At this time, it is unknown how the proposed delays will impact existing projects and programs or the state's overall climate goals.

Diablo Canyon Power Plant Loan. The budget includes authority for a planned loan of $400 million from the Department of Water Resources to Pacific Gas and Electric (PG&E) for costs related to the operating extension and federal relicensing of the Diablo Canyon Power Plant, as authorized by SB 846 (Dodd, 2022). This is the final portion of the $1.4 billion in loans authorized by SB 846. In conjunction with the authorization of the loan, a budget trailer bill, SB 156, requires biennial reporting on the $1.4 billion PG&E loan, including the loan balance, detailed use of funds, efforts to secure federal funding, and loan repayment forecasts.

While some members may not agree with the loan, Diablo Canyon supplies 10 percent of California's electricity, or power for more than 3 million homes. If the operating licenses are not renewed, California's grid reliability is at risk, though one could certainly argue the Diablo Canyon extension is only necessary because of energy policies and decisions California Democrats have made over the past decade.

Broadband

Broadband Middle Mile Initiative. The budget provides $250 million General Fund, includes provisional language to authorize an additional $250 million if certain reporting requirements are met, and requires the California Department of Technology (CDT) to prioritize last-mile connections to unserved and underserved areas for the middle-mile broadband network. When Governor Newsom signed SB 156 in July 2021, CDT took responsibility for part of the state's Broadband for All Action Plan. CDT oversees the acquisition and management of contracts for the development, construction, maintenance, and operation of the open-access Middle-Mile Broadband Network. The budget also requires that if utilizing standalone construction projects led by Caltrans for last mile network connections, CDT must prioritize segments necessary for last-mile projects with grant awards from the Broadband Equity, Access, and Deployment (BEAD) program, the California Advanced Services Fund program, and the Federal Funding Account program in order to maximize use of federal funds available to the state. The 2021 Budget Act provided $3.25 billion to CDT to begin building an open-access middle-mile broadband network in underserved areas of California.

Last-Mile Broadband. The budget cuts $125 million from the Loan Loss Reserve Fund, used to finance local broadband infrastructure development, leaving only $50 million for this program. These cuts result in less funds available for local governments, tribes, and non-profits to finance last-mile public broadband networks. Additionally, $200 million for last-mile broadband infrastructure grants is delayed from 2024-25 to 2027-28. Planned future funding of $350 million for 2025-26 and 2026-27 is also now planned for 2027-28, leaving the funding whole, but significantly delayed.

However, the budget includes $1.86 billion in federal funds for the BEAD program. These funds may be used for the planning, deployment, or upgrading of internet in unserved or underserved areas, adoption of digital equity programs, and workforce development programs. Notably, the federal funds cannot be used to supplant state funds and would also not be available as a financing mechanism under the federal laws authorizing the BEAD program.

Transportation

Key Points

- **Gasoline Taxes Increase Again.** The automatic annual gas tax increase raised the price of gas by 1.7 cents per gallon, effective July 1, 2024.
- **Transit Bailout.** Includes $3.4 billion to bail out failing transit systems, despite decreased demand and non-viable business models.
- **Zero-Emission Vehicle and Infrastructure Subsidies.** Includes $350 million for zero-emission vehicle (ZEV) subsidies, infrastructure, and equity projects.
- **High-Speed Rail Office of the Inspector General**. Includes $3 million for the High-Speed Rail Office of the Inspector General.
- **High-Speed Rail.** In addition to spending previously appropriated bond funds, the budget includes $1.1 billion in 2024-25 from Cap and Trade funds.

Gasoline and Diesel Taxes Rise Again. Pursuant to SB 1, the 2017 gas and car tax bill, gas and diesel taxes are adjusted for inflation each year on July 1. On July 1, the tax on gasoline increased by 1.7 cents per gallon, and the diesel excise tax increased by 1.3 cents per gallon. These increases will generate about $262 million in tax revenues, bringing total gas and diesel tax revenue to an estimated $9.5 billion for 2024-25. This is an increase of $2 billion (26 percent) compared to the $7.6 billion in tax revenue raised the first full year of SB 1's implementation[8].

Transit Bailout. The budget includes $3.4 billion[9] ($2.3 billion General Fund, $871 million Greenhouse Gas Reduction Fund, and $190 million Public Transportation Account) to bail out transit entities statewide via the Formula Transit and Intercity Rail Capital Program (TIRCP) and the Zero-Emission Transit Capital Program. All of these funds can be used for operations and/or capital outlay expenses. Additionally, $1.7 billion is planned, but not guaranteed, in future years as part of the $5.1 billion multi-year package.

Although transit ridership and revenues took a hit during the pandemic, ridership was dramatically decreasing before COVID. In fact, between 2014 and 2018, California lost over 165 million annual transit boardings, a decline of more than 11 percent. Given these types of statistics and the massive budget deficit that had to be addressed in this budget, prioritizing such a large amount of money for a failing industry is mindboggling.

Active Transportation Projects. The budget includes $100 million General Fund for projects to incentivize walking and biking, like sidewalks, trails, and bike lanes. This reflects a small portion of the $600 million multiyear package originally enacted in 2021, of which $100 million is promised for 2025-26 and the remaining $400 million is cut, but could be appropriated in future years if the state's fiscal situation improves.

Zero-Emission Vehicle Subsidies and Infrastructure. The budget includes $350 million ($273 million GGRF and $77 million federal funds) for zero-emission vehicle (ZEV) subsidy, infrastructure, and equity projects, including $220 million for ZEV transit vehicles and infrastructure projects.

---

[8] Over the same time period, demand for gasoline increased by 16 percent and demand for diesel increased by 3 percent, based on projected consumption figures for 2024-25 provided by the Department of Finance.
[9] Includes $2.2 billion in 2023-24 and $1.2 billion in 2024-25. All funds are available for expenditure until June 30, 2030.

In prior budgets, the Governor committed more than $10 billion over five years to transition Californians to ZEVs, aligning with state regulations to ban the sale of gasoline cars by 2035. This budget reduces that commitment by about $900 million, maintaining $9.2 billion ($4.8 billion General Fund, $3.7 billion GGRF, $663 million other funds) over seven years. A little more than half of the funding was allocated previously and about $3.2 billion is planned for future years. This continues to be a hefty price tag for California taxpayers, with little return on investment. Despite billions in subsidies, the share of passenger ZEVs registered in California remains around 5 percent, based on the most recent data available on the state's dashboard. Changes to multi-year program allocations are displayed in the table below.

Zero-Emission Vehicle Investments
(Dollars in Millions)

Investment Category	Program	Agency	Package Amounts at 2023-24 Budget Act	Program Reductions	Delayed Funding	Revised ZEV Totals
Passenger Vehicles	Clean Vehicle Rebate Project	CARB	$525	$0	$0	$525
	Clean Cars 4 All & Other Equity Projects	CARB	$656	$0	$45	$656
	ZEV Fueling Infrastructure Grants	CEC	$870	$144	$219	$726
	Equitable At-home Charging	CEC	$300	$20	$80	$280
Big ZEVs	Drayage Trucks & Infrastructure	CARB	$445	$0	$48	$445
		CEC	$500	$81	$50	$419
	Drayage Trucks & Infrastructure Pilot Project	CARB	$40	$14	$0	$26
		CEC	$25	$9	$0	$16
	Transit Buses & Infrastructure	CARB	$140	$0	$0	$140
		CEC	$60	$0	$0	$60
		CalSTA	$910	$0	$460	$910
	School Buses & Infrastructure	CARB	$1,390	$375	$0	$1,015
		CEC	$410	$125	$0	$285
	Clean Trucks, Buses and Off-Road Equipment	CARB	$1,100	$0	$0	$1,100
		CEC	$670	$138	$137	$532
	Ports	CARB	$185	$0	$0	$185
		CEC	$130	$0	$0	$130
	Near-Zero Heavy Duty Trucks	CARB	$45	$0	$0	$45
Other	ZEV Consumer Awareness	GO-BIZ	$5	$0	$0	$5
	ZEV Manufacturing Grants	CEC	$250	$7	$0	$243
	Community-Based Plans, Projects and Support / Sustainable Community Strategies	CARB/CalSTA	$339	$0	$100	$339
	Emerging Opportunities	CARB	$100	$0	$0	$100
		CEC	$100	$7	$0	$93
	Hydrogen Infrastructure	CEC	$0	$0	$0	$0
	Charter Boats Compliance	CARB	$100	$0	$20	$100
	Transportation Package ZEV	CalSTA	$790	$0	$0	$790
		Totals	**$10,085**	**$921**	**$1,159**	**$9,164**

(Source: Compiled with data from the Department of Finance)

California High-Speed Rail

High-Speed Rail Office of the Inspector General. The budget includes $3 million (Public Transportation Account) and 15 positions for the operation of the High-Speed Rail Office of the Inspector General (OIG) to oversee the project. The HSR OIG, established by SB 198 (Committee on Budget and Fiscal Review, 2022), has broad authority to initiate audits and reviews, conduct independent fiscal analysis, identify best practices, recommend efficiencies, and evaluate contracts. It is unknown if the proposed resources are sufficient to provide meaningful oversight. Time will tell if this is another fig leaf maneuver by the Governor and Legislative Democrats to give the appearance that something is being done to rein in the out-of-control train to nowhere.

High-Speed Rail Authority. The 2022-23 budget included $4.2 billion in remaining Proposition 1A (2008) bond funds for the High-Speed Rail Authority to continue the construction of the Merced to Bakersfield high-speed rail line. While previously appropriated, these funds will be spent over several years. For context, $1.6 billion in Prop 1A funds were spent in 2022-23, and updated estimates reflect $1.7 billion spent in 2023-24. In addition to previously appropriated bond funds, the budget includes $1.1 billion in Cap and Trade revenues for the project in 2024-25.

The 2024 Business Plan indicated the total cost of completing HSR is up to $128 billion, with no estimated completion date, though much of the data remains based on operations from San Francisco to Los Angeles beginning in 2033. In December 2023, the federal government announced an award of $3.1 billion to the High-Speed Rail Authority. Despite these additional funds, California remains more than $100 billion short of the total needed to build a San Francisco-to-Los Angeles train.
Despite this outlook and years of criticism, Democrats have yet to offer any plausible plan for how to obtain funds to complete the project. Instead, they continue to throw good money after bad in their HSR fantasyland and call on California taxpayers to foot the bill.

The federal government also awarded $3 billion to the Brightline West high-speed rail line from Los Angeles to Las Vegas. That effort is largely funded by private investors who are willing to put up their own money, indicating a much stronger underlying business case. In contrast, the state's project has received no private investment.

Local Government

Key Points

- **Fresno's Infrastructure Funds Delayed.** Delays General Fund for Fresno's public infrastructure plan, including funds for a high-speed rail station, until 2026-27.
- **Insufficient Educational Revenue Augmentation Fund.** Provides $74 million General Fund to San Mateo County, Mono, and Alpine County for vehicle license fee insufficiencies.
- **Local Governments Get Minor Relief for Mandates.** Includes $130 million General Fund to repay local agencies for some costs related to state mandates**.**

City Of Fresno Infrastructure Plan General Fund Prioritized. The 2023-24 budget included $50 million for the City of Fresno's Public Infrastructure Plan, and committed $100 million more in both 2024-25 and 2025-26, for a total of $250 million over three years. The 2024-25 budget does not include any funding for the plan, and delays additional funding until the 2026-27 budget year. The funds would be used to support several infrastructure projects, including for investment in a high speed rail station, parking, green space, walkability, and water supply projects in the downtown area. Many local governments have infrastructure needs, and Governor Newsom and Democrats never provided a rationale as to why they selected Fresno to receive a unique allocation of state General Fund.

Educational Revenue Augmentation Fund Backfills. The budget provides $74 million General Fund to reimburse San Mateo County, Mono County, and Alpine County for Vehicle License Fee (VLF) insufficiencies driven by insufficient Educational Revenue Augmentation Fund (ERAF) revenues. ERAF revenues generally provide relief to counties for lost VLF revenue as a result of previous state law changes.

Local Governments Get Minor Relief for Mandates. The budget includes $130 million General Fund to repay local agencies for some costs related to state mandates. The inclusion of a portion of the state's outstanding mandate debt, especially in light of the state's General Fund deficit, is a step in the right direction, but the state continues to owe local agencies hundreds of millions of dollars in outstanding mandate costs. Unfortunately, the state missed an opportunity to fully repay this debt while budget surpluses were in the tens of billions of dollars, and now, given the long-term deficits facing the state, it is unclear when local governments will receive full payment of these debts.

Local Government Budget Sustainability Fund Reversion. The 2024 budget reverts $50 million General Fund (the last remaining funding for this purpose) originally provided as part of the 2022 budget to provide grants to local governments to support revenue stability in counties with high unemployment rates. The 2022 budget provided $300 million for this effort, but the 2023 budget shifted $250 million away from the program and redirected it towards the Downtown Fresno Infrastructure plan.

General Government

Key Points

- **New Savings Account to Hold Surplus Revenue.** The value of a new temporary surplus savings account depends on Democrats' willingness to restrain spending.
- **Name Change for Burgeoning Bureaucracy.** Name change for the Governor's Office of Planning and Research could hide explosive growth of bureaucracy, which continues despite the deficit under Governor Newsom.
- **State Capitol Building Annex Project.** Provides $300 million General Fund to continue the construction of the Capitol Annex Project, even while other state services are cut.
- **Real Estate Fee Increases**. Increases fees within the Department of Real Estate and increases the statutory maximum fee cap by 30 percent.

Projected Surplus Temporary Holding Account. The budget establishes, until December 31, 2030, the Projected Surplus Temporary Holding Account in the State Treasury as a reserve to hold a portion of General Fund surplus funds temporarily for use in future years. The stated intent is that the budget would allocate funds to the temporary account for a year, allowing time to see how much revenue actually arrives. Funds placed in this account would be regarded as "spent" within the budget. . If the account is properly managed, it could avoid repeating the mistakes of recent years, in which revenue forecasts proved dramatically too high. However, there is no requirement that the budget allocate any funds to this account, nor any protection on withdrawing the funds early. Thus, the effectiveness still depends on the majority Democrats' and Governor's willingness to restrain spending. Such restraint has not been shown in the Newsom regime in particular, so time will tell whether or not this idea turns out to be helpful in providing stability in the state's expenditures.

Name Change for Governor's Office of Planning and Research Could Hide Explosive Bureaucracy. The Governor's Office of Planning and Research (OPR) will receive nearly $324 million General Fund in 2024-25. This level of funding is in addition to the $160 million, $320 million, and $450 million provided in the 2023 Budget Act, 2022 Budget Act, and the 2021 Budget Act respectively.

The budget includes a statutory name change for OPR, now to be known as the Governor's Office of Land Use and Climate Innovation, or GO-LUCI for short. This name change is not only unnecessary for the governance of the state, but could hide the explosive growth the office has experienced under Governor Newsom's direction. Since 2017-18, Governor Newsom has expanded what used to be the research arm of the Governor's Office from $54 million in expenditures to a behemoth bureaucracy of more than $1 billion in expenditures in 2024-25. With a new name, a new civil service designation, and an even catchier acronym (GO-LUCI), future data searches on the "new" department will make it seem as if the "entity formerly known as OPR" has always been a $1 billion, traditional civil service department rather than what it was created to be, a small niche research and planning think tank for the state's governors. The functions of GO-LUCI are largely duplicative of existing departments, and the Newsom administration has never offered a rationale as to why this new bureaucracy is needed. Cynics could be forgiven for thinking that Governor Newsom does not trust his own departments to carry out his schemes.

Several of the notable funding commitments within OPR are as follows:

- $1 million and six positions to continue to transition OPR to civil service employees. In 2023-24, OPR received $7 million and 15 new positions.

- $2.3 million and nine new positions to implement SB 149 (Stats of 2023), a judicial CEQA streamlining bill.
- $5 million General Fund and 15 positions to establish an Information Technology Unit within OPR to support internal departmental oversight and administration of information technology needs.

Governor Newsom's Bureaucracy Flourishes Despite Deficit. In addition to OPR's name change, the budget establishes a new office within OPR, the Governor's Office of Service and Community Engagement (or GO-Serve for short), yet another new entity created by the Governor in his six short years in office. GO-Serve will include programs such as CalVolunteers and OPR's media office, among others, and will have a budget of nearly $250 million in base funding resources in 2024-25. The creation of yet another state bureaucracy will result in additional long-term costs for staffing and administrative expenditures, including the establishment of a Director of the Office, IT system changes, contract revisions, and education and outreach activities. Although the 2024-25 budget does not include any new General Fund for the Office, it is likely the Legislature will soon receive a request for new resources given this Administration's proclivity for explosive program growth.

Several of the notable funding commitments within the new GO-Serve include:

- $83 million General Fund for the Youth Job Corps established in 2021-22 within Cal Volunteers.
- $78 million General Fund for the College Corps,
- $15 million for the Office of Community Partnerships and Strategic Communications.
- $4.7 million for Climate Action Corp established in 2021-22 within Cal Volunteers.

With the state facing multibillion deficits each of the past two years, including a $62 billion deficit for 2024-25, brand new, feel-good programs with scant justification should have been prime targets for reductions.

Small Business Technical Assistance Expansion Program. The budget continues to provide $23 million in base General Fund to the Governor's Office of Business and Economic Development's (GO-Biz) technical assistance program, which offers assistance, expertise, and funding to establish consulting and training services. The program fills opportunity gaps for small business owners trying to do business in this heavily regulated state.

State Capitol Building Annex Project. The budget includes $300 million General Fund in 2024-25, and states intent to commit an additional $250 million in 2025-26 and $150 million in 2026-27 to continue the design and construction of the State Capitol Building Annex. The budget also provides the Annex Project with an exemption from the California Environmental Quality Act through the end of the project. As the Governor and Democrats cut funds for disabled services as a result of the deficit, their willingness to spend on their own building stands in contrast.

Local Government Infrastructure Financing. The budget provides $25 million General Fund in 2024-25 to infuse additional capital into the Infrastructure State Revolving Fund (ISRF) Loan Program at the California Infrastructure and Economic Development Bank (IBank) within the State Treasurer's Office. The ISRF provides relatively low-interest loan financing to local governments for public infrastructure projects.

Real Estate Fee Increases. The budget modifies the Department of Real Estate's (DRE) current fee schedule and increases the statutory maximum fee cap by 30 percent, allowing the DRE to increase real estate license fees in the future via regulations rather than through statutory changes. The budget also attempts to improve process transparency, as DRE is required, in the course of requesting a regulatory fee increase, to report on the financial status of the department and conduct at least one meeting to which statewide membership organizations are invited. The reporting requirement is intended to ensure the department is using its resources efficiently to avoid proposing unnecessary fee increases in the future. DRE's current fees have not been increased since 2009, and are set at their statutory maximum. The budget assumes $12 million in revenue in 2024-25 from these fee increases.

California Arts Program. The budget provides $19 million for the California Arts Grant program, and maintains $12.5 million in 2024-25 for the Performing Arts Equitable Payroll program.

County of Mendocino Audit. The budget provides $800,000 General Fund and requires the California State Auditor to conduct an audit of the County of Mendocino. The audit should include any potential waste, fraud, abuse, and mismanagement of the county's administration of elections in 2024 and contracting and procurement processes, by January 1, 2026. Recent concerns have surfaced regarding potential mismanagement of county funds, as well as questionable election efforts, including printing errors and the receipt by some voters of three ballots for the March 2024 primary election. Additionally, the Mendocino County Auditor-Controller was suspended in October 2023 after charges were levied about misappropriation of county funds. An audit could help shed some light on the administrative and legal challenges within the county.

Design-Build Authority. The budget repeals the January 1, 2025 sunset date for the use of design-build in state projects, permanently authorizing the use of design-build in specified circumstances. The Department of Transportation, the Department of General Services, the Military Department, and the Department of Corrections and Rehabilitation are authorized to use the design-build process. The Department of Water Resources has also been granted the authority to use design-build for projects at the Salton Sea. This is an alternative project delivery process in which both the design and the construction of a project is procured from a single entity, which appears to improve project completion times and provides an opportunity for reduced project costs overall.

California Military Department. The budget provides $15 million General Fund in both 2024-25 and 2025-26 for the Drug Interdiction Task Force. The budget also includes $3.1 million to align pay of state active duty employees, provides $554,000 and seven new positions for Consolidated Headquarters staffing, provides $8.6 million for pay and benefit adjustments due to poor budget management, and provides $5.4 million for Taskforce Rattlesnake expenditures.

Youth Empowerment Commission. The budget continues to provide $1.5 million General Fund in 2024-25, 2025-26, and 2026-27, and specifies that, beginning with the 2027-28 budget, the Youth Empowerment Commission's budget would be subject to appropriation by the Legislature. Given the budget constraints facing the state, continuing to fund this commission is demonstrative of the Democrats' questionable priorities.

State Employee Compensation and Retirement

Key Points

- **Dubious Shift in Pension Contributions.** Provides $6.9 billion in state contributions for state pension costs, which is artificially lower than the previous year by $1.6 billion, largely thanks to a legally dubious shift of debt repayment funds to current pension contributions. .
- **Pay Increases for State Employee Unions.** Approves pay increases for three bargaining units at the end of the legislative session.
- **Vacant Position Savings.** Reduces the statewide operating budget by $1.5 billion to reflect elimination of vacant positions, but it remains unclear whether these savings can be achieved in reality.
- **Payroll Deferral Gimmick.** Defers roughly $3.2 billion in state employee payroll costs from June 30, 2025 to the next day as a gimmick to address the deficit.

State Employee Growth Outpaces Population Dramatically. Over the past decade, the state population has grown by only 1 percent, to about 39 million people, and has been flat over the past seven years. Over the same period, the number of state employees has grown nearly 18 percent, to a projected 426,000 in 2024-25, including a jump of 12 percent, or about 44,000 employees, since the pandemic started. The number of state employees per 1,000 residents will be nearly 11 in 2024-25, the highest level for at least 50 years. This is particularly notable considering that the state “realigned” significant prison and human services responsibilities to counties roughly a decade ago, which should have decreased the number of state employees per resident.

Employee Compensation and Collective Bargaining Costs. The budget includes $1.2 billion ($640 million General Fund) for previously bargained pay increases, other increased employee compensation, health care costs for active state employees, and retiree health care prefunding contributions for active employees.

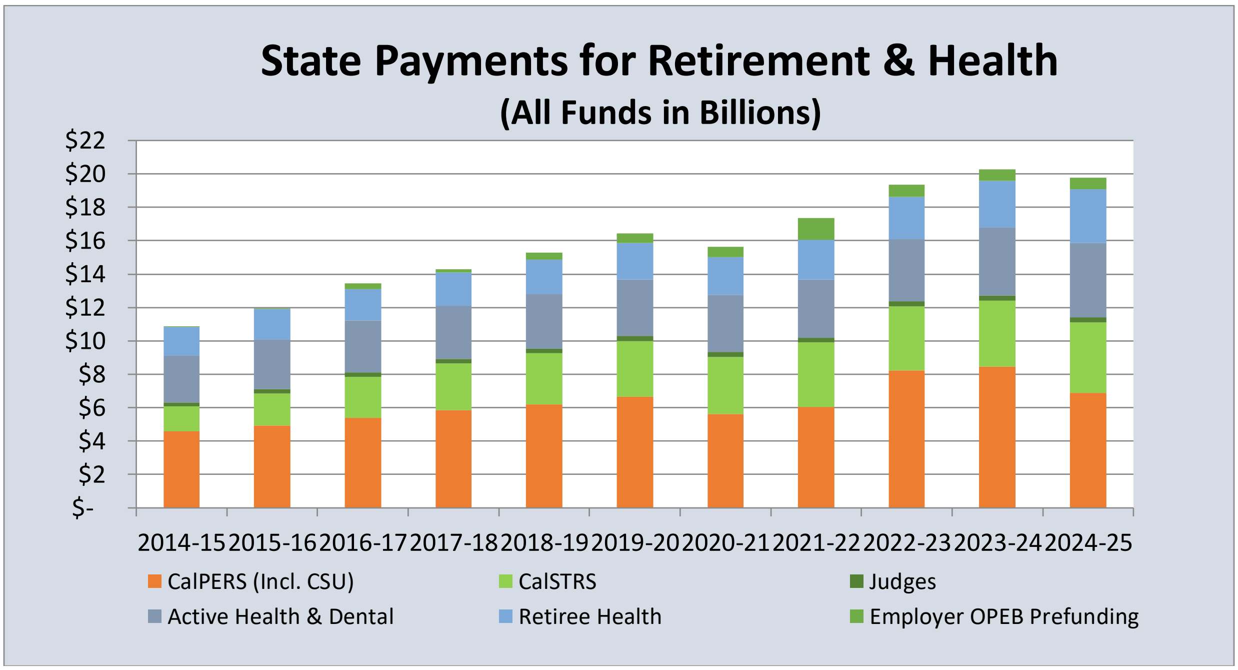
The state approved Memoranda of Understanding with three bargaining units representing Highway Patrol Officers, State Firefighters, and professional scientists, whose contracts expired in summer 2024. These contracts are estimated to cost $137 million in 2024-25. The budget package enacted in June included an unknown dollar amount as a set-aside for these bargaining unit contracts. The Department of Finance has not disclosed the amount, so it is not clear whether the actual contracts result in new costs beyond those approved in the budget package previously. If these contracts were higher than anticipated, the MOUs would contribute toward budget deficits in 2024-25 and potentially the years ahead.

Vacant Position Savings. The budget states that a permanent reduction of $1.5 billion ($763 million General Fund) would be achieved through reducing departments’ budgets for vacant positions in 2024-25. Given the growth in state staff, as described above, and future deficits, it is justifiable to permanently delete vacant positions. However, the means for achieving these savings is left to each department, and it is unclear whether those departments can actually achieve these savings in practice.

Payroll Deferral Gimmick. In an attempt to address the projected budget deficit, the budget defers state employees’ payroll costs from June 30, 2025 to July 1, 2025. This estimated $3.2 billion ($1.6 billion General Fund) deferral would shift payroll costs from 2024-25 to 2025-26. However, this change would only be reflected in accounting and would not affect the timing of payments issued to state employees. This one-time gimmick appears to help solve the deficit on paper, but does nothing to truly bring spending in line with revenues.

Total State Cost for Retirement and Benefits. To highlight the costs over time of various benefit actions, the graph below illustrates combined budgetary costs for employer contributions to PERS and STRS, along with costs for retiree health, active health, and other retirement prefunding over the past decade. These components are discussed further below.

As shown in the graph, state pension, retiree health, and other benefit costs combined will drop just below $20 billion in 2024-25. This is somewhat misleading, as discussed further below, because the budget offsets $1.3 billion in normal PERS contributions with Proposition 2 funds in 2024-25. During that same period the state's overall budget nearly doubled as well.



Dubious Shift in CalPERS Pension Costs. The budget authorizes $6.9 billion in total funds ($3.5 billion General Fund) in employer contributions to CalPERS for state employees' retirement costs, and $609 million General Fund for California State University employees. This is up $2.3 billion compared to ten years ago, an increase of 50 percent, but down about $1.5 billion compared to 2023-24. This apparent decline is largely misleading, however. The enacted budget applies $1.3 billion in mandated Proposition 2 funding previously transferred to CalPERS to offset 2024-25 General Fund costs in order to achieve budget year savings. The nonpartisan Legislative Analyst's Office raised a concern that using Proposition 2 payments in this manner, rather than to pay down debt, is likely unconstitutional.

The budget also includes $337 million in one-time Proposition 2 supplemental pension payment to further reduce the state plans' unfunded liability, $1.3 billion less than the 2023-24 budget allocation, as noted in the *Statewide Debts and Liabilities* section.

Teacher Pension Costs Also Grow. The budget includes $4.3 billion General Fund for state contributions to CalSTRS, the teachers' pension fund. This is roughly a $318 million increase from 2023-24.

Retiree Health Care Benefits. The budget includes approximately $3.2 billion ongoing for health care benefits for state retirees, California State University retirees, and dependents. Retiree health care benefits continue to be paid out mainly on a “pay-as-you-go” approach, which has created a $82 billion unfunded liability. It also includes $360 million in one-time Proposition 2 debt repayment funding in 2024-25 for the employer’s share of contributions to pay for future retiree health benefits.

Statewide Debts and Liabilities

Key Points

- **Special Fund Borrowing Utilized to Close Budget Gap.** Budget borrows $2.1 billion from special funds to pay for ongoing spending.
- **Continues Payments on Unemployment Insurance (UI) Debt.** Provides $484 million in one-time funding ($384 million General Fund) to make the annual interest payment on the state's UI debt.
- **Bonds on the Ballot.** Bonds appearing on upcoming and recent ballots stand to add over a billion dollars per year in debt service payments from the General Fund.

State Debt Estimate Declines to $253 Billion. The state continues to face voluminous debts from various sources, which are estimated to reach $253 billion. This is a decline of $12 billion (5 percent) in estimated state liabilities from $265 billion last year. The largest factor is a decrease in the actuarial liability for state retiree health costs of about $13 billion, which is due to updated actuarial assumptions, rather than to any extra contributions by the state. These state debt totals do not count pension and other retiree debts faced by the University of California ($42 billion) or teacher pension debts held by local school districts ($77 billion). The table on the following page summarizes these debts.

Continued Special Fund Borrowing. Now that the state's fiscal situation has shifted from surplus to deficit, the state's budget falls back on borrowing once again to close the budget gap. The budget approves nearly $2.1 billion in loans from various special funds to the General Fund, the largest of which is $500 million from the AIDS Drug Assistance Program Rebate Fund. Borrowing is a one-time solution that the Governor and legislative Democrats are using to pay for ongoing spending, thus contributing to unsustainable spending levels.

Unemployment Insurance (UI) Debt. As described more fully in the *Labor and Workforce Development* section of this report, the budget provides $484 million in one-time funding ($384 million General Fund) to meet the annual interest payment on the state's UI debt. Of this amount, $100 million will be funded by the Employment Training Fund. The budget also includes $50 million from the Employment Training Fund for this purpose in 2025-26. The default course of action under federal law is for this debt to be repaid by a surcharge on employers beginning in 2023. The state itself is legally responsible only for the interest on the UI debt, not the principal, but nearly all other states used federal stimulus funds or their own resources to pay off their debts entirely. California is now one of only two states that still have a UI debt balance, and California's $20 billion balance is far higher than the next highest state, New York, at $6 billion (as of September 24, 2024).

State and Other Public Debts and Liabilities			
(Dollars in Millions)	At Start of 2023-24	At Start of 2024-25	Difference
Special Fund Loans	$2,736	$2,089	-$647
State Retirement Liabilities			
State Retiree Health	$95,510	$82,413	-$13,097
State Employee Pensions	$70,818	$69,515	-$1,303
Teachers' Pensions (state portion)	$10,256	$8,391	-$1,865
Judges' Pensions	$2,771	$2,646	-$125
SB 84 Loan from Surplus Money Invst. Fd.	$2,780	$2,264	-$516
Deferred payments to CalPERS	-	-	$0
Subtotal	$182,135	$165,229	-$16,906
Other State Debts			
Long-Term Bonds - General Obligation & Lease-Revenue	$79,159	$84,613	$5,454
Suspended Local Mandates	$486	$549	$63
Education Mandates	$876	$876	$0
Subtotal	$80,521	$86,038	$5,517.00
State - Total Debt	**$265,392**	**$253,356**	**-$12,036**
<u>Other Public Debts</u>			
Unemployment Insurance*	$18,002	$20,468	$2,466
Teachers' Pensions (Local Districts)	$75,547	$77,180	$1,633
University of California Liabilities**			
UC Employee Pensions	$21,800	$19,600	-$2,200
UC Retiree Health	$19,600	$21,900	$2,300
UC Total	$41,400	$41,500	$100
Total - Other Public Debts	$176,349	$180,648	$4,299
Total, State and Other Public	**$400,341**	**$392,504**	**-$7,837**

* The state pays the interest on the Unemployment Insurance debt, while employers pay the principal through higher payroll taxes. However, the state could chooose to pay down the debt

** 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.

Proposition 2 Debt Payments. The Budget Act includes nearly $1.5 billion to pay down the state's current debts and liabilities, as required by the state constitution under Proposition 2, which votes enacted in 2014. These debt payments include the following components:

- $337 million for state employee pension liabilities.
- $360 million for state retiree health debt.

- $836 million to pay a state pension loan previously authorized by SB 84 in 2017.

Normal Bond Debt Service. According to the State Treasurer, the state currently has outstanding general obligation bonds totaling $72 billion and has authorization to issue $27 billion more. Additionally, outstanding lease-revenue bonds total $12 billion. The state must pay $5.9 billion in debt service costs for these outstanding and planned general obligation and lease-revenue bonds in 2024-25, as required by the constitution and debt covenants.

Bonds on the Ballot. The Governor and Legislature passed legislation to place two bonds on the ballot this November. Combined with the recently enacted mental health bond, state debt service costs (principal and interest combined) could total more than $1 billion per year over the next 30 to 40 years, including these potential new bonds:

- *Proposition 2, School Facilities Bond.* Enacted as AB 247 (Muratsuchi), this measure would authorize $10 billion in bond debt for various K-12 and community college facilities. If approved on the November 2024 ballot, this debt would cost about $500 million per year for 35 years to repay.
- *Proposition 4, Natural Resources and Climate Bond.* Enacted as SB 867 (Allen), this measure would authorize $10 billion in bond debt for various water, forest, and climate-related purposes. If approved on the November 2024 ballot, this debt would cost about $400 million General Fund per year for 40 years to repay.

In addition, voters enacted Proposition 1 on the March 2024 primary ballot, authorizing $6.4 billion in bond debt for mental health treatment facilities. This debt will result in repayments of about $310 million per year for 30 years. In the spring of 2022, Senate Republicans proposed using $10 billion from that year's surplus[10] to provide these much-needed facilities and treatment beds faster and without interest expenses. Instead, Democrats chose to spend the surplus elsewhere, thus delaying new treatment bed availability by two years and incurring hundreds of millions of dollars in interest expenses annually.

[10] Senate Republican letter, April 2022.

Appendix: Trailer Bills

Bill	Subject (Date Chaptered)
SB 136	**Medi-Cal: Managed Care Organization Provider Tax. (Chaptered March 25, 2024)** Increased the monthly per-enrollee tax on Medi-Cal managed care plans in order to generate an additional $1.5 billion in General Fund resources.
SB 106	**Budget Acts of 2022 and 2023. (Chaptered April 15, 2024)** This "budget bill junior" enacts $1.6 billion in early action solutions from the current or previous years to address the state's budget deficit.
AB 107	**Budget Act of 2024. (Chaptered June 26, 2024)** This budget bill represents the placeholder agreement between Democrats in the Assembly and Senate only, not the Governor.
SB 108	**Budget Act Of 2024 (Junior). (Chaptered June 29, 2024)** This "budget bill junior" for 2024-25 amends the previous budget bill to reflect the legislative Democrats' agreement with the Governor on the 2024-25 budget package.
SB 109	**Budget Act Of 2023 (Junior). (Chaptered June 29, 2024)** This "budget bill junior" amends the 2023-24 budget to conform to the budget package agreed upon by the Governor and legislative Democrats.
SB 153	**Education Finance. (Chaptered June 29, 2024)** Authorizes billions in funding and makes a number of policy and administrative changes pertaining to transitional kindergarten, and K-12 Education, including funding for literacy screener professional development, establishing an assistance center to provide support for inclusive college opportunities for disabled students, and creating Attendance Recovery Programs. The bill also implements the convoluted Proposition 98 package, including the $6.2 billion cash-borrowing maneuver, and includes $3.8 billion in deferrals.
SB 154	**Prop. 98: Suspension (Chaptered June 26, 2024)** Suspends the Proposition 98 minimum guarantee for K-14 education funding in 2023-24 fiscal year, and declares the minimum guarantee is $98.5 billion. This creates an $8.3 billion "maintenance factor" to be repaid in the future based on constitutional formulas.
SB 155	**Higher Education. (Chaptered July 2, 2024)** (1) Develops the structure for the community college student housing lease revenue bond; (2) establishes a competitive grant program for community college districts to expand educational opportunities in the nursing field; (3) continues to support the Governor's questionable education finance scheme by adjusting community college funding by borrowing non-Proposition 98 funds from the future to keep schools whole in the short-term.
SB 156	**Public Resources. (Chaptered July 2, 2024)** Among other provisions, this trailer bill includes the following: 1. $554 million from various funding sources to address specific environmental and public resource concerns.

	2. Mandatory additional reporting requirements from Pacific Gas and Electric to the Department of Water Resources regarding the extension of the Diablo Canyon Power Plant's operation. 3. New fee authority for regulatory agencies to establish fees without legislative oversight, including retroactive fee collections. 4. Extension of the State Park Adventure Pass for fourth graders.
SB 159	**Health. (Chaptered June 29, 2024)** (1) Authorizes some Managed Care Organization (MCO) tax-funded Medi-Cal provider reimbursement rate increases, pending the failure of Proposition 35 on the November 2024 ballot; (2) delays implementation of the healthcare minimum wage law by several months; (3) creates a supplemental directed payment for children's hospitals; (4) Adds new administrative fees on licensed health care facilities and managed care plans.
AB 160	**Medi-Cal: Managed Care Organization Provider Tax. (Ch. June 29, 2024)** Increased, yet again, the monthly per-enrollee tax on Medi-Cal managed care plans in order to generate additional General Fund resources.
AB 161	**Human Services. (Chaptered July 2, 2024)** Makes changes to numerous human services programs, including implementing the new Permanent Foster Care Rate Structure, extending the duration of the California Safe Drinking Water Pilot Program, establishing the State Emergency Food Bank Reserve Program, and continues to push reimagining CalWORKs.
AB 162	**Developmental Services. (Chaptered July 2, 2024)** (1) Delayed the scheduled developmentally disabled service provider rate increase by six months; (2) Eliminated the annual family program fees charged to some consumer families.
SB 163	**Childcare. (Chaptered July 2, 2024)** Makes a number of policy and administrative changes pertaining to preschool and subsidized child care programs, including initiating the creation of a streamlined application process for current child care and preschool providers, codifying the child care slot expansion timeline, temporarily expanding preschool eligibility to two-year-olds, furthers the implementation of alternative rate methodology, and removes the planned expansion of preschool inclusivity requirements for students with disabilities.
SB 164	**State Government. (Chaptered June 29, 2024)** Authorizes an audit of Mendocino County, renames a state bureaucracy, increases real estate fees, reprioritizes broadband projects, raises prescription drug fees, permanently authorizes design-build for state projects, extends reporting deadline for Racial Equity Commission, among other changes.
AB 166	**Housing. (Chaptered July 2, 2024)** Appropriates $150 million to the Department of Housing and Community Development for the Encampment Resolution Grant Program, requires a plan be developed for a second phase of the California Dream For All mortgage sharing program, includes an administrative cap of three percent for the Behavioral Health Infrastructure Bond Act, includes data elements and implementation requirements for the latest round of flexible local homeless funding, among other changes.
SB 167	**Taxation. (Chaptered June 27, 2024)** Implements a three-year limitation on the use of business tax credits over $5 million, implements a three-year suspension of the net operating loss deduction, provides

	when a corporation must exclude income from its apportionment factor formula, eliminates the use of a "bad debt" reduction and refund for tax purposes, and authorizes the Administration to determine eligibility for delayed tax filing in cases of declared emergencies, among other revenue and taxation policy changes.
AB 168	**Public Safety. (Chaptered July 2, 2024)** Streamlines the flow of documents in the clemency process. Expands automatic criminal history record expungement for felons. Deletes statutory references to closed prisons. Appropriating $116 million General Fund for the Community Corrections Performance Incentives Grant Program.
AB 169	**Juvenile Justice. (Chaptered July 2, 2024)** Shifts administration of all juvenile justice funding grants away from the public safety-focused Board of State and Community Corrections to the healthcare-focused Office of Youth and Community Restoration. Appropriates $209 million General Fund annually for the Juvenile Justice Realignment Block Grant program, which supports county probation departments' efforts to provide custody, care, and supervision of juveniles in the justice system.
AB 170	**Courts. (Chaptered July 2, 2024)** Reduces the annual amount the Judicial Council is required to hold in reserve for emergencies on behalf of the trial courts. Temporarily expands the mission of the Habeas Corpus Resource Center to include representing formerly condemned inmates whose sentences have changed to life without the possibility of parole. Reduces the frequency with which County Law Library governing boards are required to meet. Extends the sunset on remote court proceedings for civil, juvenile, and criminal matters.
AB 171	**Labor. (Chaptered July 2, 2024)** Among other provisions, this labor budget trailer bill includes a one-day June-to-July state payroll deferral, a supplemental pension payment, emergency hiring provisions for the Department of Industrial Relations, an extension of time to expend funds within the California Jobs First grant program, and changes to timelines in the workers' compensation process.
AB 173	**Transportation. (Chaptered July 2, 2024)** This transportation budget trailer bill makes various changes including expanded authority and clarifications for the High-Speed Rail Office of Inspector General, reporting on the zero-emission vehicles in the Caltrans fleet, an increase in the amount of high-speed rail bond funds available for administrative costs, authority to backfill cuts to grade separation projects, and an appropriation of $100 million for walking and biking projects
SB 174	**CEQA: Capitol Annex. (Chaptered July 2, 2024)** Appropriates $700 million General Fund for the Capitol Annex Project, exempts the remainder of the project from the California Environmental Quality Act requirements, and authorizes the Department of Finance to augment funds for the project in a given year as long as overall project costs remain the same.
SB 175	**Taxation. (Chaptered June 29, 2024)** Further implements SB 167, a 2024-25 taxation trailer bill, including the addition of trigger language in the case of sufficient revenues and the addition of refundability for all businesses impacted by the tax credit limitation included in SB 167, among other changes.

AB 157	**Budget Act Of 2024 (Junior). (Chaptered September 30, 2024)** Makes a long list of changes to the 2024 Budget Act, some of which are minor and technical. Others, however, are substantive. Includes resources to implement the revised Private Attorneys General Act (PAGA) cure process.
AB 158	**Budget Act Of 2022 & 2023 (Junior). (Chaptered September 30, 2024)** Makes various changes to previously enacted budget bills from 2022 and 2023. Implements the Managed Care Organization (MCO) tax fund rip-off by allowing the MCO funds to be used for general Medi-Cal costs instead of provider rate increases, thus breaking the deal made in the previous budget.
AB 176	**Education Finance: Education Omnibus. (Chaptered September 30, 2024)** Makes various changes pertaining to child care, preschool, TK-12, and higher education. These changes include increasing the number of community colleges in the Rising Scholars Network, and providing day care centers with temporary relief from new building code regulations. The bill also makes clarifying and technical changes to major policy implemented in the budget, including the temporary expansion of preschool to two-year-olds, attendance recovery programs, and furthering the child care alternative rate methodology.
AB 177	**Health. (Chaptered September 30, 2024)** (1) Created a statewide mental health bed capacity tracking IT system; (2) Added a supplemental directed Medi-Cal payment for Martin Luther King Jr. Community Hospital in South Los Angeles.
AB 178	**Public Resources Trailer Bill. (Chaptered September 30, 2024)** Includes two additional appropriations for implementing provisions of SB 1137, which established health protection zones 3,200 feet from sensitive receptors. Also establishes monitoring and leak detection plans for oil and gas operations.
AB 179	**State Government. (Chaptered September 30, 2024)** Establishes a new revenue holding account, extends timelines for two programs that provide compensation for victims, clarifies authority for several state departments to process and review fingerprint images and criminal history information, includes several administrative changes within the Department of General Services intended to increase efficiencies and reduce costs, and requires GO-Biz to adopt guidelines to implement the Performing Arts Equitable Payroll program, among other changes.
AB 180	**Budget Act of 2024 (Junior). (Chaptered September 30, 2024)** This bill amends the 2024 Budget Act to reflect last-minute changes that are not necessary to implement the budget agreement. Rather, bill would appropriate $12.5 million from the Oil, Gas, and Geothermal Administrative Fund to implement the provisions of SB 1137 (Gonzalez, 2022), which Republicans did not support.
AB 181	**State Bargaining Units. (Chaptered September 30, 2024)** Approves Memoranda of Understanding with three state bargaining units (BU), including California Highway Patrol (BU 5), CAL FIRE (BU 8), and California Professional Scientists (BU 10). Provides general compensation increases for employees of CAL FIRE and California Highway Patrol, and special salary adjustments for all three bargaining units.

AB 218	**Oil And Gas: Trailer Bill. (Chaptered September 30, 2024)** This last-minute oil and gas trailer bill allocates $2.6 million to the State Water Resources Control Board from the Oil, Gas, and Geothermal Administrative Fund to implement SB 1137 (Gonzalez, Chapter 365, 2022) related to oil well setbacks. It extends deadlines, authorizes the Department of Conservation to assess and levy a supplemental assessment until January 1, 2027, and permits continued collection of unpaid assessments and penalties after repeal.

Senate Republican Fiscal Staff Assignments

Kirk Feely, Fiscal Director

Contact Number: (916) 651-1501

Assignment Area	Consultant
Overall Budget, Higher Education, and Employee Compensation	Kirk Feely
K-12 Education and Social Services	Megan De Sousa
Public Safety, Judiciary, Corrections	Matt Osterli
Natural Resources & Environment	Emilye Reeb
Health & Veterans Affairs	Anthony Archie
Revenue, General Government & Housing	Chantele Denny
Transportation, Energy, and Labor	Heather Wood
Fiscal Assistants	Spencer Winkle, Jesse Herzer

For more information, please visit our website at https://cssrc.us/