



CALIFORNIA SENATE REPUBLICANS

Highlights and Analysis of the 2022-23 Enacted Budget

Updated October 6, 2022

**SENATE REPUBLICAN
FISCAL OFFICE**



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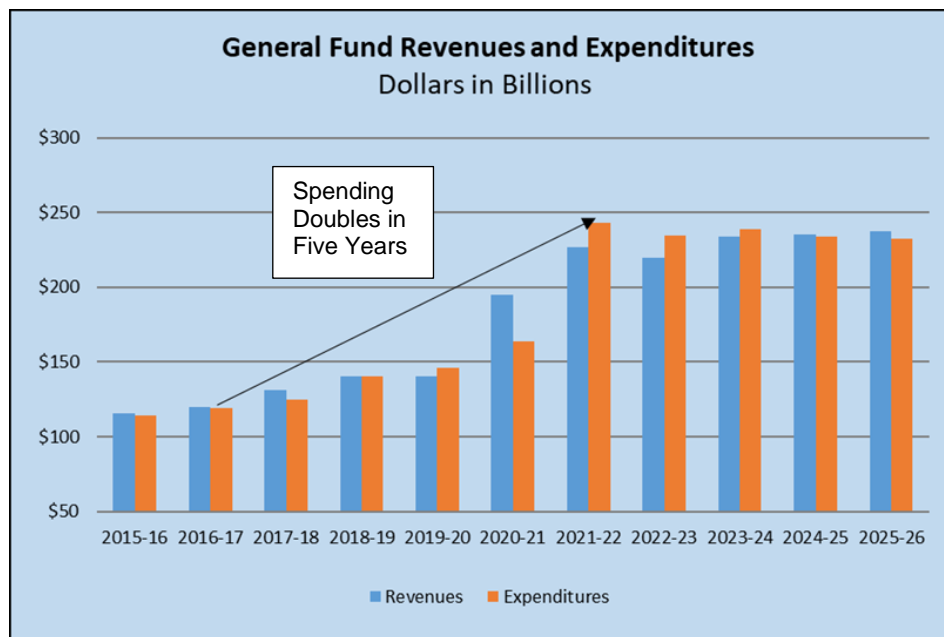
Executive Summary

Overall Budget

Revenues Rise Significantly in 2021-22, Then Flatline. The budget enacted in June reflects an increase to forecasted revenues, compared to expectations in January, just six months prior. General Fund revenues for the completed 2021-22 are budgeted at nearly \$233 billion, which is dramatically higher than the original 2021-22 Budget Act level by \$54 billion, or 30 percent. This is partly due to substantial capital gains from the pandemic stock market surge, which only appeared in the budget retroactively. However, state revenues are projected to drop by 4.3 percent to \$223 billion for the 2022-23 budget year, and to show minimal average growth of 0.53 percent annually for the four years after the 2021-22 year, as illustrated in the chart below. Even these projections may be overly optimistic, based on preliminary data that shows General Fund tax receipts have fallen 8.4 percent below budget through August, following enactment of the budget in June.

Expenditures Increase Rapidly, Double in Five Years. General Fund spending would reach nearly \$243 billion for the revised 2021-22 year, an astounding increase of \$47 billion, or 24 percent, from the level authorized by the 2021 Budget Act. This spending is twice the level seen just five years prior, in 2016-17, as indicated by the arrow in the chart below.

Spending would then decline to \$234 billion in 2022-23. Though lower than the *revised* 2021-22 level, the 2022-23 spending level would be 19 percent higher than the original 2021-22 budget.



A Surplus for Now. Governor Newsom first declared at his May Revision press conference that the state had a surplus of \$97.5 billion. However, that figure does not yet account for mandatory spending on education under Proposition 98 and reserve and debt requirements under Proposition 2. The Governor indicated the figure that reflects these obligations is \$49 billion, while the nonpartisan Legislative Analyst's Office (LAO) later estimated the surplus to be \$52 billion. Even these lower estimates indicate a historically high surplus, at least for the moment.

Spending Leads to Operating Deficits. Despite the Governor's claims that 93 percent of the surplus spending is "one-time," the data show that more than two-thirds of the \$32 billion "one-time" spending in

the 2022-23 budget repeats or is replaced by other “one-time” spending the following year. The spending levels launched by this budget would outpace even the historically high revenues, leading to operating deficits in the years following 2022-23, including a deficit of \$6.3 billion in 2023-24.

Reserves. The enacted budget provides an estimated \$37 billion in total reserves, including the following categories:

- \$23 billion in the Rainy Day Fund
- \$9.5 billion in the Proposition 98 Rainy Day Fund
- \$3.5 billion in the discretionary reserve (the Special Fund for Economic Uncertainty)
- \$900 million in the Safety Net Reserve Fund

While these reserves are a record in dollar terms, they are lower than pre-pandemic levels in percentage terms. Additionally, the point of reserves is to prepare for unknown budget difficulties, not preplanned overspending.

Democratic Budget Falls Short on Senate Republican Priorities. The Senate Republican Caucus set out budget priorities through letters¹ issued in advance of both the Governors’ January and May budget proposals. These priorities, which are summarized beginning on page 17, focused on using the budget surplus for one-time purposes that would address major challenges for Californians, such as reducing the cost of living, addressing drought through expanded water storage, and preparing more swiftly for catastrophic wildfire. While the Democratic budget takes some steps in the right direction on a few issues, the budget overall falls short of meeting the greatest needs across multiple challenges facing the state.

State “Gann” Spending Limit. The budget estimates that state spending would be under the constitutional Gann limit for the combined 2020-21 and 2021-22 years by \$11 billion, and would also be under the limit for 2022-23 by \$12 billion. These calculations reflect budget adjustments to increase Gann-exempt spending and tax “refunds.” The budget package also redefined “state subventions” for local government spending as an accounting gimmick to create \$21 billion in additional “room” under the limit over two years.

“Trigger” For Additional Spending Commitments. The budget includes a “trigger” that would authorize several spending increases prioritized by Democrats, contingent upon future legislation and subject to a determination in the spring of 2024 that sufficient revenue exists. The spending increases include CalWORKs benefit increases and Medi-Cal expansions, among others.

Taxes

Tax Refunds. The budget provides \$9.5 billion General Fund for the Better for Families Tax Refund plan to provide one-time payments to Californians to help offset the impacts of high gas prices and other growing costs due to inflation. The “refunds” are not tied to what a taxpayer actually paid, but instead would be distributed based on a three-tier income structure and would include an additional payment for dependents. The payments would range from \$200 for an individual making up to \$250,000 per year, and up to \$1,050 for a couple with dependents and a joint income below \$150,000.

¹ Senate Republican January letter: [Senate Republicans Want Budget Surplus To Invest in a Better California | Republican Caucus \(cssrc.us\)](https://cssrc.us).

Senate Republican May Letter: [Senate Republicans Outline Priorities for a Better California ahead of May Revision | Republican Caucus \(cssrc.us\)](https://cssrc.us)

Legislative Democrats Reject Gas Tax Relief. The Governor proposed, but legislative Democrats rejected, suspending the July 1 inflationary increases on gas and diesel excise taxes. As a result, on July 1, 2022, gasoline and diesel taxes increased by 2.8 and 2.1 cents per gallon, respectively.

Partial Diesel Fuel Sales Tax Suspension. The sales tax rate on diesel is currently 13 percent. The budget suspends for one year, from October 1, 2022 until September 30, 2023, a portion of the sales and use tax assessed on the sale of diesel fuel, equivalent to 3.94 percent, providing an estimated \$439 million in relief at the diesel pump over a one-year period.

Paycheck Protection Program (PPP) Conformity. The budget updates conformity of state tax law to the federal PPP grant period. Previous conformity actions excluded an extension of the federal PPP grant program by two months in spring of 2021. The budget allows all federal PPP grants to be excluded from the definition of income for the purposes of state taxation.

Restoration of Business Credits. The budget reflects reduced revenues of \$5.5 billion as a result of budget actions taken to reverse pandemic tax increases. Republicans previously called for these tax actions to be reversed in 2021, but the Governor and Democrats delayed fixing the unnecessary tax increases until February 2022.

Young Child Tax Credit Expansion. The budget expands the Young Child Tax Credit (YCTC) to families that file tax returns without income, but otherwise qualify for this credit, and would index the credit to inflation starting in the 2022 tax year. This expansion would cost more than \$150 million General Fund by 2025-26, and would grow each year thereafter.

Lithium Tax. The budget establishes a volume-based tax on lithium extracted from geothermal brine. Counties impacted by the lithium extraction will receive 80 percent of the tax revenue. The remaining 20 percent will be used for Salton Sea maintenance, operations, and restoration activities. While this seems attractive, there are concerns the tax rates will make California lithium uncompetitive in the marketplace. Additionally, the budget does not actually include any tax revenue, since the new revenues are not expected until at least 2023-24.

Lithium Sales and Use Tax Exclusion. Provides an additional \$15 million of tax exclusions for three years for projects that manufacture, refine, extract, process, or recover lithium.

Cannabis Tax Reform. The budget eliminates the cannabis cultivation tax and sets the cannabis excise tax at 15 percent for three years. After that, the excise tax would adjust to compensate for the elimination of the cultivation tax, but is capped at 19 percent. The budget provides up to \$150 million in General Fund to backfill lost tax revenues supporting various youth prevention and substance abuse treatment programs, environmental programs, and public safety-related activities.

Cannabis Equity Operator Subsidies Increased. This budget provides \$10,000 tax credits to equity licensees and allows equity licensees who are also retailers to retain 20 percent of the cannabis excise tax they collect.

Skilled Nursing Facility Tax. The 2022-23 budget imposes a new version of a tax called the "Quality Assurance Fee" on skilled nursing facilities. While the industry has supported past versions of the Quality Assurance Fee, this version was strongly opposed by the nursing home industry. In addition, the trailer bill gave two health departments new fee authority, including one that strictly enforces union-dictated staffing ratio laws.

Labor Union Giveaways Continue. The budget provides a new refundable tax credit of up to \$100 for dues paid to a labor organization, with projected revenue loss of \$400 million annually. A previous

trailer bill, SB 189, chaptered on June 30, 2022, included trigger language that specified a union dues tax credit would be prioritized for additional General Fund spending beginning in 2024-25, only if revenues were available to support that spending in spring 2024. Majority Democrats, however, chose to implement the new tax credit without this required fiscal determination.

Housing and Homelessness

State to Become “Silent Partner” in Home Ownership. The budget includes \$500 million General Fund for the new California Dream for All program, and provides authority to issue an additional \$1 billion in bonds annually for the next 10 years. The program is a shared mortgage assistance program where the state will provide up to 20 percent in down payment or closing cost assistance for first-time homebuyers. Specific eligibility parameters are still unknown, but this program would put the state in the unusual and risky position of being a part owner of individual houses.

Sets Aside General Fund to Forgive Rental Assistance Loans. The budget provides nearly \$2 billion General Fund to allow for the forgiveness of General Fund loans made to local governments for the Emergency Rental Assistance Program, which provided money to tenants with overdue rent payments.

CalHome-Homeownership Support Program. The budget includes \$250 million for the CalHome program, which enables low and very-low income households to become or remain homeowners. The program provides grants to local agencies and nonprofits for direct homeowner and housing rehabilitation assistance (including mobile homes).

New Program for Adaptive Reuse Developments. The budget includes \$150 million General Fund for a new program within the Department of Housing and Community Development (HCD) that would provide grants to local jurisdictions. Adaptive reuse is the process of changing the use of an existing building for any purpose other than its original design. This grant program could help remove cost impediments to adaptive reuse projects (e.g., structural improvements and plumbing/electrical design) and could accelerate conversions to residential use.

Homeless, Housing Assistance, and Prevention Program. The budget provides \$1 billion to the Homeless Housing and Assistance Prevention program. The program also requires ten percent of the funds to be spent on providing services to the state’s homeless youth.

Encampment Resolution Grant Program. The budget provides \$300 million for the Encampment Resolution Grant program within the California Interagency Council on Homelessness. The program, established with \$50 million in the 2021 Budget Act, partners with local governments and provides grant funding to assist them with resolving critical encampment concerns and transitioning individuals into safe and stable housing.

Homekey Program. The budget includes \$1.3 billion for the Homekey program. Homekey helps fund the purchase, conversion, and rehabilitation of properties (such as hotels, motels, and office and commercial buildings) to provide shelter and services to the state’s homeless population, including an eight percent set-aside for homeless youth projects.

Health

Pandemic Response Reduced but Still Significant. The budget provides \$2.3 billion for various pandemic-related efforts, down from \$3.7 billion last year. This includes a \$250 million “contingency”

fund within the Department of Public Health budget that is available for the Governor to direct, subject to a 10-day notice to the Legislature.

New Abortion Programs. The 2022-23 budget includes \$207 million in new proposals that prop up the abortion industry, including an abortion expansion pilot program in LA County, an abortion travel support fund, security and IT upgrades at abortion clinics, and scholarships and loan repayments for abortion clinic workers.

All Low-Income Undocumented Immigrants in Medi-Cal. The 2022-23 budget includes another Medi-Cal eligibility expansion in 2024 for roughly 700,000 undocumented individuals ages 26 through 49, at an estimated cost of \$2.1 billion General Fund annually. This expansion follows recent eligibility expansions of roughly 104,000 undocumented children (2016), 99,000 young adults age 19-25 (2020), and 235,000 undocumented older adults age 50 and above (started in spring 2022). Once fully implemented, the state will spend more than \$5 billion annually on Medi-Cal for roughly 1.2 million undocumented enrollees.

No-Bid Contract for Insulin Factory. The 2022-23 budget includes \$100 million for the state to enter into a no-bid contract with a current drug manufacturer to construct a California-based facility where insulin (and eventually other drugs) will be produced. The state will then contribute ongoing funds to finance the insulin production by the chosen manufacturer at the new facility and to sell that insulin on the global market. This venture is risky as the state could be on the hook for cost overruns, production setbacks, and even product liability.

New Bureaucracy to Impose Healthcare Price Controls. The enacted budget includes the creation of an Office of Health Care Affordability that would impose financial penalties on hospitals and other providers in the healthcare industry who fail to meet the state's dictated healthcare "cost targets." The new office will cost roughly \$30 million annually and employ more than 100 enforcement staff, a third of which will be attorneys. Strictly enforced, these price controls could lead to rationing of health care services.

Healthcare Worker Staff Bonuses. The 2022-23 budget adds \$1.2 billion for up to \$1,500 in one-time retention payments for workers at hospitals, skilled nursing facilities, and healthcare clinics. This would be provided to both licensed and non-licensed health care personnel. The state will provide \$1,000 per employee automatically and for some employees an additional \$500 of state funding could be available if it is optionally matched by an equivalent amount by the employer.

Inadequate Spending on Mental Health Beds. The enacted budget falls short of the legislative Republican proposal to use \$10 billion of our surplus to permanently end the treatment bed deficit in this state. The 2022-23 budget includes just \$1.7 billion for county behavioral health departments and non-profit community partners to construct, acquire, or rehabilitate properties in order to increase mental health treatment bed capacity, and another \$1 billion for the counties to provide tiny homes and other short-term shelters for those individuals with serious mental illnesses.

Energy

Strategic Energy Reliability Reserve. The budget includes \$2.95 billion General Fund for a Strategic Reliability Reserve. The program's goal is to find more power for the grid because California's reliance on intermittent power resources has made the grid unreliable and at risk of rolling blackouts. Experts predict California could face electricity shortages of 1,700 megawatts (MW) this summer. This program will only provide up to an additional 529 MW of power this summer, but will have greater benefits in future years.

Clean Energy Incentives. The budget includes \$647 million to incentivize various clean energy projects. Given the lack of diverse resources on California's electricity grid, and the need for power generation when the sun stops shining and the wind stops blowing, these types of projects are needed to keep the lights on. However, some new programs increase demand on an already strained electrical grid.

Financing for Energy Transmission Infrastructure. Provides \$200 million via the California Infrastructure and Economic Development Bank (IBank) for clean electricity transmission projects.

Climate Innovation Program. Provides \$100 million for a new program to incentivize development and commercialization of technologies expediting emission reductions and decreasing the cost of those reductions, or increasing resilience to the impacts of climate change.

Transportation

Transportation Infrastructure. The budget includes a General Fund investment of \$5.4 billion General Fund in the transportation system. While a substantial portion of this funding is for non-road Democrat priorities, General Fund dollars for these projects means California's transportation-specific dollars can remain focused on more conventional projects that may actually improve roads.

Port Infrastructure and Goods Movement. The budget includes \$670 million General Fund for port-related projects, workforce training, and process and operational improvements to increase goods movement.

Billions for High-Speed Rail Comes with Increased Oversight. After more than a year of negotiations between the Legislature and the Governor, this budget includes \$4.2 billion in remaining bond funds for the high-speed rail project. The funds come with significant increased oversight of the project, including the creation of the High-Speed Rail Authority Office of the Inspector General.

Zero-Emission Vehicle Subsidies and Infrastructure Investments. The budget includes \$3.4 billion to subsidize ZEVs and ZEV infrastructure, focused on low-income consumers and communities, heavy-duty trucks, transit buses, and school buses. The budget promises another \$2.7 billion in future years. However, there is no binding obligation to provide the promised funding in future years.

Resources and Environment

Details Lacking on Future Spending Plans. The budget includes intent language contains over \$2.2 billion in spending for programs and activities earmarked for climate, wildfire, and drought in 2023-24.

Some Wildfire Prevention Efforts, but More Funds Delayed. The budget provides \$600 million in 2022-23 to better prepare the state for wildfire seasons in the years ahead, but defers additional funds to next year.

Water and Drought Resilience. The budget includes \$3.6 billion to provide drought relief in some areas while excluding investments in water storage projects.

Increases Fines and Penalties. A Resources trailer bill continues the attack on affordability to enhance spending flexibility for departments to implement programs and activities previously approved by the legislative majority and opposed by Republicans.

Business and Employment

Fails to Sufficiently Address the Unemployment Debt. The budget appropriates a measly \$250 million for payments towards the Unemployment Insurance Fund Loan, which has an astonishing balance of roughly \$18 billion. Further, the budget provides no unemployment insurance tax relief for businesses.

Supplemental Paid Sick Leave Extension and Grants. The budget includes \$250 million for grants up to \$50,000 to offset costs incurred by small businesses and nonprofits, with 26 to 49 employees, due to providing required COVID-19 Supplemental Paid Sick Leave. The budget package also extended the COVID-19 supplemental paid sick leave provisions an additional three months from September 30, 2022 to December 31, 2022.

Continues to Push “High Road” Standards. Launches a number of potentially beneficial apprenticeship and job training programs. However, these also incorporate “High Road” employment standards, which CalChamber has characterized as, “...simply a euphemism for the policy agenda of the labor movement.”

Plans to Modernize the Employment Development Department (EDD). The budget provides \$136 million (\$68 million General Fund) one-time for EDD Next, a five-year plan to modernize the EDD. Some immediate improvements include call center redesign, online portal enhancements to improve the online experience for claimants and employers, and expanded fraud data analytics.

Displaced Oil and Gas Worker Pilot Programs. The budget includes \$40 million one-time General Fund to create a pilot program to provide assistance for displaced oil and gas workers as a result of the state’s attempts to dismantle the fossil fuel industry. It also provides \$20 million one-time General Fund to support training displaced oil and gas workers in Kern and Los Angeles Counties to cap open and abandoned wells.

Paying Down Unfunded Pension Liabilities. The budget appropriates \$2.9 billion in one-time Proposition 2 debt repayment from the General Fund to reduce the unfunded liabilities of the CalPERS state plans.

Developmental Services

Acceleration of Developmental Services Provider Rate Increases. The budget includes \$264 million (\$159 million General Fund) to accelerate the implementation of the service provider rate study by six months. Accelerating the implementation of the rate study will help providers increase compensation for frontline staff and potentially aid in closing the staffing gap.

Recognizes Growing Workforce Issues in Developmental Services. The budget provides \$185 million General Fund one-time to establish several workforce stabilization programs to address challenges in recruiting and retaining professionals in the disabled services system.

Human Services

Extends Assistance for Overdue Utility Bills. Provides \$1.2 billion in one-time General Fund to continue the California Arrearage Payment Program (CAPP) to help pay down past due bills for residential customers as a result of the COVID-19 pandemic.

Major Increases to CalWORKs Grants. The budget includes \$296 million for an 11 percent increase in CalWORKs maximum aid payment levels. It also includes \$816 million one-time over the next three fiscal years to increase CalWORKs grants by an additional 10 percent for a total increase of 21 percent beginning October 1, 2022.

Continues the Low Income Household Water Assistance Program (LIHWAP). The budget continues the administration of LIHWAP through June 30, 2026 or until \$200 million in one-time federal fund authority is expended, whichever occurs first.

Food Assistance for Undocumented Immigrants with No Accountability. The budget provides \$35 million General Fund to expand the California Food Assistance Program (CFAP) program to Californians aged 55 and older regardless of immigration status. The budget also removes the requirement that undocumented applicants comply with federal CalFresh work requirements that citizens still must meet. This means that citizens receiving assistance will be held to a higher standard than undocumented immigrants.

Services for Undocumented Immigrants at the Border. The budget includes \$175 million one-time General Fund for the Rapid Response Program, which was established in 2019. The program directs the Department of Social Services to award grants or contracts to entities providing assistance such as food, clothing, shelter, transportation, and medical aid mostly to undocumented immigrants.

Child Care Programs

Expands Child Care Access. The budget allocates \$932 million to continue expanding the number of Alternative Payment Program, General Child Care and Migrant Child Care slots.

Child Care Stipends. The budget includes \$354 million (\$34 million General Fund) for one-time child care stipends for children enrolled in subsidized child care.

Maximum Certified Hours of Care. The budget allocates \$114 million to extend the reimbursement for providers based on the maximum authorized hours of care, regardless of attendance.

Extends Family Fee Waivers. The budget provides \$136 million one-time federal funds to extend the waiver for family fee collections by one year, to June 2023, and authorizes reimbursement to contractors for family fees not received.

Child Care Providers Health and Retirement Benefits. The budget includes \$100 million one-time General Fund for the Department of Social Services (DSS) to implement a labor agreement regarding health and retirement access.

Education

All Time High for K-12 Education. The 2022 Budget Act supports another banner year for California's estimated 5.9 million student body, with total funding for K-12 education at \$128 billion. Of this amount, \$78.6 billion is supported by the General Fund and the remaining \$50 billion from other funds. Per pupil spending would reach \$16,993 in Proposition 98 funds and \$22,893 in all funds. This represents an increase of \$8,276 per pupil (49 percent) compared to ten years ago.

Local Control Funding Formula (LCFF). The budget includes the largest LCFF cost-of-living adjustment in the history of the LCFF, a 6.56 percent adjustment. Additionally, the budget includes an ongoing Proposition 98 base funding adjustment of \$4.32 billion (6.28 percent) to the LCFF. This additional infusion of funding toward the base is to help school districts and charter schools address ongoing fiscal pressures, staffing shortages, and other operational needs.

Learning Recovery Emergency Block Grant. The budget establishes the Learning Recovery Emergency Fund with \$8.6 billion in one-time Proposition 98 General Fund. Of this amount, \$7.9 billion will go to K-12 schools through the 2027-28 fiscal year, and \$650 million will support the California Community Colleges.

Higher Education. This year's budget reflects multi-year compacts with the University of California, the California State University, and the California Community Colleges, with each segment receiving an ongoing base increase each year over five years. Total funding for all higher education entities is \$42 billion (\$29 billion General Fund/Local Property Tax and \$13 billion other funds).

Middle Class Scholarship Improvements. The budget adds \$515 million for the Middle Class Scholarship program and revises program rules to allow funds to help cover the costs of housing, food, and transportation.

Cal Grant Reform, Maybe. The budget authorizes significant reforms to the Cal Grant program, but only beginning 2024-25, depending on the availability of fund . If the multiyear forecast has sufficient funds, the Cal Grant Reform Act will replace the existing Cal Grant program with a new version that provides a Cal Grant 2 for eligible California Community College students with financial need, and provides a Cal Grant 4 for eligible four-year university students with financial need.

Public Safety

Crime Reduction. The budget provides approximately \$140 million for crime reduction efforts, which include the following:

- \$107 million to crack down on organized retail theft
- \$23 million for fentanyl enforcement by the Department of Justice and the California Military Department
- \$5.5 million for a sideshow task force and \$4 million for a highway violence task force within the California Highway Patrol

Notably, the budget fails to include the \$20 million the Governor proposed in January for grants to small businesses victimized by organized retail theft.

Clamping Down on Gun Ownership. The budget includes nearly \$35 million to buy back guns, track guns and gun parts, enhance firearm data systems, and fund gun violence research that will lead to more gun control laws and make it more difficult to lawfully own a firearm. The bulk of this funding (\$25 million) would support local gun buyback programs, despite research that shows buybacks to be ineffective. These funds would be better spent removing guns from dangerous felons who illegally possess them or attacking the growing catalytic converter theft problem.

New Judgeships. The budget includes \$43 million to fund 23 new judgeships, which accounts for all of those that are established in law but to date have been unallocated due to a lack of funding. It also

includes about \$54 million for facilities modifications necessary to accommodate the new judgeships. This funding reduces the statewide need for new judgeships from 139 in 2020 to about 116 (as identified in the 2020 updated judicial needs assessment). This is a good start, but still leaves more than 80 percent of the need unmet.

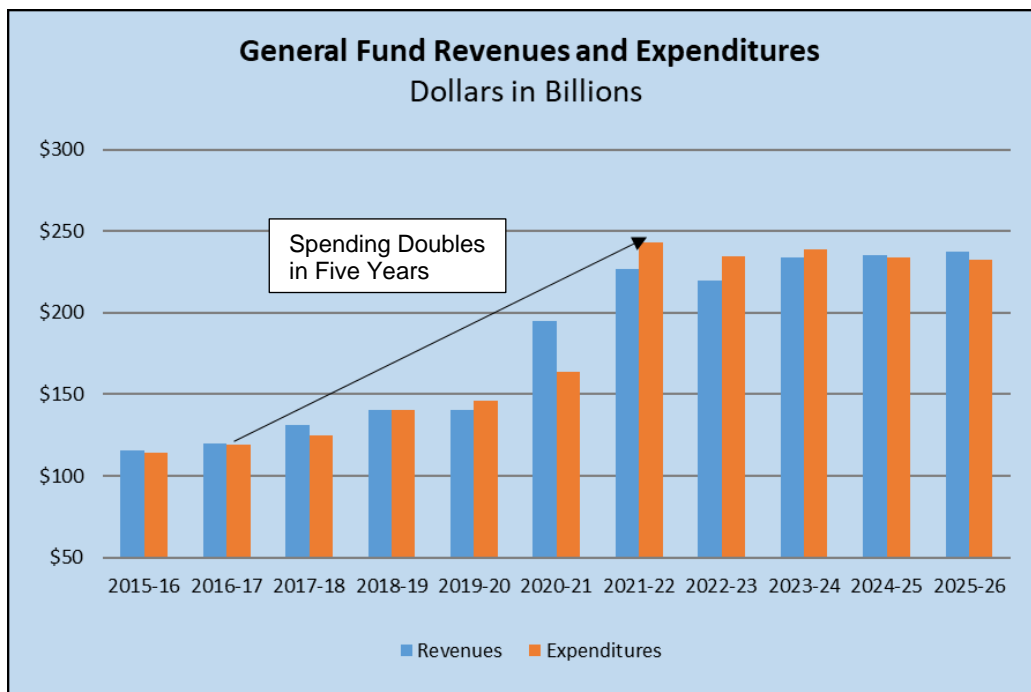
Firearm Relinquishment Program. The enacted budget provides \$40 million one-time General Fund to establish a court-based firearm relinquishment pilot program in six courts for the safe removal of firearms from individuals prohibited from possessing them. Considering that the courts have been required since 2016 (by Proposition 63) to follow up on mandatory firearm relinquishments to ensure they have taken place, this funding is long overdue.

Overall Revenues, Expenditures, Reserves, and Limits

Key Points

- **Revenues Spike, Then Flatline.** Revenues adjust dramatically upward again for 2021-22, but then remain flat or potentially decline for the foreseeable future.
- **Expenditures Double in Just Five Years, Lead to Operating Deficits.** Expenditures would outpace revenue growth in the near term, leading to operating deficits in the near future, despite record revenues.
- **State “Gann” Spending Limit.** Democrats manipulate Gann spending rules for the second year in a row in effort to remain below the constitutional spending limit.
- **Laundry List of New Spending Without Oversight.** Democrats approve a long list of new spending items with minimal public review and oversight, increasing the chances for wasteful, duplicative, and ineffective spending.
- **Reserve Percentage Should Be Higher.** Reserves would reach \$37 billion overall but would be below the pre-pandemic high as a percent of revenues.

Revenues Spike, Then Flatline. The enacted budget reflects another upward adjustment to forecasted revenues, compared to expectations just six months ago, at least for the short term. General Fund revenues began to surge in 2020-21, despite early fears of a budget deficit that year as the pandemic took hold. Revenues for 2021-22 are now budgeted at nearly \$233 billion, which is higher than the original 2021-22 Budget Act level by \$54 billion, or 30 percent. However, the June budget projected revenues would drop by 4.3 percent to \$223 billion for the 2022-23 budget year, and then show minimal average growth of 0.53 percent annually for the four years after 2021-22. The recent trend and forecast (as of June 2022) are shown in the chart below.



Capital Gains Drive Revenue Surge. The recent revenue surge is partially due to atmospheric capital gains from the pandemic stock market surge, which only appeared in the budget retroactively as

taxpayers filed returns. The initial 2020-21 Budget Act assumed capital gains would reach \$9.9 billion, or 8.4 percent of total General Fund revenue. The latest “true-up” for that year pegs capital gains at more than \$23 billion, or 12.7 percent of the total that year, for a \$13 billion upward adjustment. Similarly, capital gains for 2021-22 were revised upward by \$7.2 billion compared to the original estimates. Thus, unexpected capital gains from those two years accounted for \$20 billion of the state surplus. These adjustments also fed into higher projections for capital gains moving into 2022-23.

Actual Revenues Appear to Be Lagging. The enacted 2022-23 budget built in a small revenue decline of 4.3 percent, as noted above, though early data casts some doubt on whether that is sufficiently cautious. General Fund tax receipts for June 2022 arrived at \$2.4 billion General Fund less than assumed in the enacted budget. For 2022-23, General Fund tax receipts for July and August combined have arrived at 8.4 percent less (\$2 billion) than assumed in the 2022 budget package. A few months of data do not make or break the year, but when combined with the decline in the stock market from highs seen in late 2021, the data so far raise questions about revenues moving forward.

Expenditures Increase Rapidly. General Fund spending would reach nearly \$243 billion for the revised 2021-22 year, an astounding increase of \$47 billion, or 24 percent, from the level authorized by the 2021 Budget Act. Spending would then decline to \$234 billion in 2022-23. Though the 2022-23 spending level is lower than the *revised* 2021-22 level, it still would be 19 percent higher than the *original* 2021-22 Budget Act.

Spending from all state funds, including the General Fund and various other funds such as gas taxes, would reach \$308 billion in 2022-23, an increase of 17 percent compared to the level authorized by the 2021 Budget Act. This represents a decline of \$11 billion from the revised 2021-22 level, though.

Revenues and Expenditures by Fund Category						
<i>Dollars in Billions</i>						
	June 2021 Budget Act 2021-22		June 2022 Revised 2021-22		June 2022 Enacted Budget 2022-23	
Revenues - General Fund	\$179		\$233		\$223	
<i>Change from 2021 Budget Act</i>			30.2%		24.5%	
Expenditures	% of Total		% of Total		% of Total	
General Fund	\$196	43%	\$243	48%	\$234	52%
Special & Bond Funds	\$66	14%	\$76	15%	\$74	16%
Total, State Funds	\$263	57%	\$319	63%	\$308	68%
<i>Change from 2021 Budget Act</i>			21.5%		17.3%	
Federal Funds	\$194	43%	\$191	37%	\$144	32%
Total, All Funds	\$457	100%	\$510	100%	\$451	100%
<i>Change from 2021 Budget Act</i>			11.6%		-1.2%	

Democrats Double Down in Five Years. The recent revenue spike has led Democrats to ramp up spending rapidly. The revised General Fund spending level of \$243 billion in 2021-22 is double the spending level of \$120 billion seen in 2016-17, just five years prior, as shown by the arrow in the chart above. This is an astonishing spike in spending over such a short time. The state needed roughly 18

years for the previous doubling of state spending, from 1998-99 to 2016-17, which is more than three times as long as the recent time span for doubling.

The spending level reached in 2021-22 is partly the result of spending leftover surplus revenue that only appeared retroactively for 2020-21 (partly in the form of capital gains, as noted above), and thus could not be spent that year. Note in the chart that revenues in 2020-21 exceeded expenditures by \$31 billion. Democrats are spending that part of the surplus over the subsequent years, which is why expenditures are higher than revenues following 2020-21.

The table below shows how spending changed over that five-year period by broad program category. The K-12 Education budget showed the largest dollar gain at \$29 billion, followed by Government Operations (nearly \$20 billion), Health and Human Services (\$18 billion), and Legislative, Judicial, and Executive (over \$15 billion). In percentage terms, though, other program areas showed larger increases, such as Environmental Protection at more than 5,500 percent.

General Fund Expenditures by Agency <i>(Dollars in Millions)</i>					
Agency	2016-17 Budget Act	2021-22 Revised Budget	2022-23 Budget Act	2021-22 Dollar Change from 2016-17	2021-22 Percent Change from 2016-17
Legislative, Judicial, Executive	\$3,508	\$18,964	\$14,501	\$15,456	441%
Business, Consumer Services, Housing	\$494	\$2,291	\$2,393	\$1,797	364%
Transportation	\$225	\$2,772	\$1,275	\$2,547	1132%
Natural Resources	\$3,078	\$12,740	\$8,162	\$9,662	314%
Environmental Protection	\$90	\$5,112	\$1,174	\$5,022	5580%
Health and Human Services	\$34,685	\$53,092	\$67,925	\$18,407	53%
Corrections and Rehabilitation	\$10,944	\$14,401	\$14,747	\$3,457	32%
K-12 Education	\$50,714	\$79,717	\$78,205	\$29,003	57%
Higher Education	\$14,591	\$22,341	\$23,619	\$7,750	53%
Labor and Workforce Development	\$179	\$1,577	\$1,478	\$1,398	781%
Government Operations	\$938	\$20,731	\$5,865	\$19,793	2110%
General Government & Statewide	\$1,975	\$9,207	\$15,023	\$7,232	366%
Total, General Fund Expenditures	\$121,421	\$242,945	\$234,367	\$121,524	100%

Haste Makes Waste. This enacted budget marks the second straight year of approving a lengthy laundry list of new spending. In the 2021-22 budget, the LAO counted roughly 400 new items, and this enacted budget approves a few hundred more. For example, in January the Governor proposed more than 20 new one-time workforce training proposals, which were spread across multiple departments at a cost of \$2 billion.

The state legislature's practices for oversight and review are simply not sufficient to adequately assess such a rapid increase in spending. The record-spending budget saw a minimum of public testimony and review. One-party rule allowed the Democrats to hold only 8 budget hearings in the critical post-May Revision time period, compared to 18 hearings in a more typical year. The likelihood of money being wasted under these circumstances has increased dramatically as Democrats fund myriad overlapping proposals with minimal public hearing and input.

Laundry List of New Spending Demands Oversight. With such a smorgasbord of new spending authorized in such a short period of time, it is highly doubtful that all these new allocations are thoughtfully planned and carefully coordinated with similar existing programs. Furthermore, the probability is slight that the majority party will engage in oversight after the fact to evaluate whether any

funds were wasted. The LAO prudently recommended in 2021 that the Legislature first evaluate its recent spending increases before approving new proposals, but that did not happen. Instead, the majority party approved billions in additional expansions and new programs for two years in a row.

“Trigger” For Additional Spending Commitments. The budget would authorize future spending for several Democrat priorities, subject to a determination in 2024 that “sufficient” revenues exist. These potential increases include benefit increases and eligibility expansions within CalWORKs and Medi-Cal, among others. The budget does not identify the total cost of these priorities, but it is likely expenditures could be in the billions of dollars annually. Given the pending deficits under existing spending levels, ramping up spending even more would set the stage to overrun reserves and necessitate retraction of new benefits.

A Surplus for Now. Governor Newsom first declared in his May Revision press conference that the state has a surplus of \$97.5 billion. However, that figure did not yet account for mandatory spending on education under Proposition 98 and reserve and debt requirements under Proposition 2. The Governor acknowledged the figure that reflects these obligations is \$49 billion, while the nonpartisan Legislative Analyst’s Office (LAO) later estimated the surplus to be \$52 billion. Even these lower estimates indicate a historically high surplus, at least for the moment.

Despite the Governor’s claims that 93 percent of the surplus spending is “one-time,” the data show that more than two-thirds of the \$32 billion “one-time” spending in the 2022-23 budget repeats or is replaced by other “one-time” spending the following year.

Operating Deficits to Resume. The spending levels launched by this budget would outpace even the historically high revenues, leading to operating deficits in the years following 2022-23, including a deficit of \$6.3 billion in 2023-24. Building deficits into the forecast despite the record revenues, and prior to considering a possible recession and downturn in tax revenues, shows the majority party has a clear spending problem.

Reserves to Reach \$37 Billion. The state’s Rainy Day Fund (Proposition 2 of 2014) is projected to be \$23 billion by the end of 2022-23. The mandated balance would exceed 10 percent of revenues, which means the state would also spend \$465 million on infrastructure this year, plus between \$1.5 billion and \$2 billion annually for the next three years. However, existing infrastructure spending in the budget may be regarded as meeting this requirement, rather than mandating an additional increase.

Under the rules of Proposition 2, the budget also would make a deposit of \$2.2 billion into the Public School Stabilization Account in 2022-23. This balance would reach \$9.5 billion by the end of 2022-23, but use of this amount is limited to schools and would not help address broader General Fund deficits.

The enacted budget also includes a discretionary reserve of nearly \$3.5 billion and a Safety Net Reserve of \$900 million. When combined with the Rainy Day Fund, the total reserves would reach \$37 billion, or 16.7 percent of revenues.

Reserves Short of Previous High in Percentage Terms. The LAO argues that the reserves are less than the 20 percent level seen in the 2019-20 budget and that the Legislature should add reserves beyond the Governor’s proposal. One reason that reserves are not already higher is the ill-advised decision by the Governor and legislative Democrats to withdraw \$7.8 billion from reserves in the 2021 budget process, despite the surplus that materialized after the short-lived 2020 deficit scare.

As the Department of Finance noted last year, “An annual General Fund revenue loss in the range of \$30 billion to \$40 billion for several years compared to the Budget forecast would not be unreasonable.”

Given this observation and the operating deficits already forecast in the Governor's budget, as noted above, building additional reserves would have made sense.

State "Gann" Spending Limit. The budget estimates that state spending would be under the constitutional Gann limit for the 2020-21 and 2021-22 years by \$11 billion, and would also be under the limit for 2022-23 by \$12 billion. The Governor's May Revision proposal previously estimated the state would be under the limit by only \$2.6 billion for two years ending in 2021-22, but over the constitutional limit by \$3.4 billion for 2022-23.

However, the enacted budget takes several steps to allegedly bring the budget under the limit. These changes, compared to the May Revision, include the following:

- Freed up \$10 billion in 2021-22 and \$11 billion in 2022-23 by redefining some "state subventions" for local governments as an accounting gimmick to count under local limits rather than the state limit.
- Claimed that an additional \$6.6 billion 2021-22 and \$1.2 billion in 2022-23 are Gann-exempt "emergency" expenditures.
- Shifted spending to Gann-exempt capital outlay by \$2.6 billion in 2022-23.

It is worth remembering that the Governor and legislative Democrats made one-sided changes in the 2021 budget to create \$16.9 billion in room under the Gann limit cap for the two-year period of 2020-21 and 2021-22. Several of those changes stretched the limits of definitions in the state constitution, and legislative Republicans sent a letter to the Governor calling some of these changes into question. Some changes in this enacted budget also stretch credulity on the definition of emergency spending, as well as play loosely with normal budget appropriation practices.

Senate Republican Budget Priorities

Key Points

- **Senate Republican Budget Priorities.** Senate Republicans issued letters in January and May to set out budget priorities for California, including lowering the cost of living and preparing more swiftly for wildfire and drought.
- **Enacted Budget Largely Misses the Mark.** The Democrats' enacted budget misses the mark on many essential actions the state needs to take to improve Californians' lives.

Senate Republicans Set Out Priorities. The Senate Republican Caucus set out budget priorities through letters² issued in advance of both the Governors' January and May budget proposals. These priorities focused on using the budget surplus for one-time purposes that would address major challenges for Californians, such as reducing the cost of living, addressing drought through expanded water storage, and preparing more swiftly for catastrophic wildfire.

In addition, Senate Republicans and Assembly Republicans joined together in April to focus on the state's mental health crisis and its effects on homelessness and substance abuse.³ Specifically, this letter called for using \$10 billion of the surplus to develop new county mental health and addiction treatment facilities, as well as new centers for behavioral-health focused education to expand the treatment workforce in order to help Californians struggling with mental health and substance abuse.

Enacted Budget Misses Mark for Most Priorities. Despite the clear need to address the challenges outlined by Senate Republicans, the enacted budget misses the mark on many of these priorities, such as providing water storage to mitigate drought, avoiding taxes on businesses for state-mandated unemployment, providing sufficient mental health treatment beds, and reducing costs for Californians. In other areas, the budget takes some positive steps toward helping students pay for college. The table below summarizes these priorities and indicates whether the budget enacted by the majority party addresses these significant needs for Californians.

Senate Republican Priority	Enacted Budget
Prepare for Long-Term Drought. Use \$3.3 billion from surplus funds to build Sites Reservoir and other water conveyance in the Central Valley.	Failed to provide additional funds for surface storage, despite the drought. Democrats' inaction on storage in recent years mean California is now years behind in providing a meaningful expansion of water infrastructure.
Address Mental Health and Homeless Needs. Provide \$10 billion to build mental health treatment bed capacity.	Takes small steps but falls short. Includes \$1.7 billion for counties and non-profits to increase mental health treatment bed capacity, plus \$1 billion to provide tiny homes and short-term shelters for those with serious mental illnesses.

² Senate Republican January letter: [Senate Republicans Want Budget Surplus To Invest in a Better California | Republican Caucus \(cssrc.us\)](#).

Senate Republican May Letter: [Senate Republicans Outline Priorities for a Better California ahead of May Revise | Republican Caucus \(cssrc.us\)](#)

³ Senate Republican April mental health letter: [Legislative Republicans Prioritize Mental Health Crisis with Investment of \\$10B | Republican Caucus \(cssrc.us\)](#)

Help People Through Local Government. Send surplus funds to locals to both meet spending limit requirements and enable locals to assist their residents.	Failed to provide local governments with unrestricted funds. Additionally, Democrats manipulated spending rules instead of living within clear parameters of the Gann spending limit.
Lower the Cost of Living: Renter's Tax Credit. The high cost of rent in California is well-known and ongoing problem.	Failed to include a renter's tax expansion. Provided one-time payment of past due rent for people who struggled during the pandemic, but did nothing to address high rent on an ongoing basis.
Lower the Cost of Living: Suspend the Gas Tax. The state does not need to charge drivers 54 cents per gallon in gas taxes.	Failed to suspend the gas tax, or even to include the Governor's January proposal to pause the additional tax increase that took effect July 1. Democrats claimed that their tax "rebate" checks, scheduled to begin going out in October, dealt with the cost of living challenges.
Lower the Cost of Living: Reverse Business Tax Increases. End the business tax increases enacted in 2020 when the state thought, erroneously, that the budget would be in deficit.	An "early action" trailer bill passed in February 2022 reversed the limits on research tax credits and net operating losses, though these actions should have been taken in 2021.
Prevent Wildfire. Accelerate fire prevention efforts by providing billions in forest management and other efforts.	Provides \$550 million for various preventive measures through 2022-23. States "intent" for another \$650 million in 2023-24, but that is contingent on a future budget. The overall commitment falls short.
Reduce Government-Imposed Debt for Job Creators. A bipartisan group of legislators called for paying down the Unemployment Insurance debt down by \$7 billion.	Falls far short by providing only a minimal reduction of \$250 million to the state's remaining \$18 billion Unemployment Insurance debt to the federal government, which is less than the Governor's January proposal, despite an increase in the surplus.
Invest in School Facilities. Set aside \$10 billion to build and modernize school facilities without incurring debt.	Takes a small step by providing \$1.4 billion for school facilities, but falls short of the total need. States "intent" to provide another \$2.9 billion in the next two years, but these amounts are not certain.
California Student Tax Credit. Provide a tax credit to help offset costs for housing, transportation, or other school expenses.	Though not a tax credit, the budget takes a positive step by increasing the Middle Class Scholarship program by \$515 million and modifies the program to include housing, food, and transportation, consistent with Republican goals.

Pandemic Response and Federal Assistance

Key Points

- **State Pandemic Response Still Significant.** Provides \$2.3 billion for various pandemic response efforts, down from \$3.7 billion last year.
- **State Shifts Some Federal Funds.** Shifts nearly \$2 billion in federal pandemic funds to replace “lost” revenue, freeing up General Fund for program spending and reducing federal oversight.
- **Smaller “Contingency” Fund Authorized.** Includes \$250 million in flexible “contingency” funds that are available for Governor to direct, subject to 10-day notice.

Pandemic Response Reduced but Still Significant. The budget provides over \$2.3 billion in state funds for pandemic response activities, down 37 percent from 2021-22. The table below summarizes the various program areas that will receive funds and compares them to the prior year.

**COVID-19 Direct Response Activities
2022-23 Budget Act Compared to 2021-22 Revised Budget**

Cost Category ^{1/}	2021-22 Revised Total Funding ^{2/}	2022-23 Budget Act	2022-23 Budget Act Over 2021-22 Revised
Statewide Testing	\$1,430,621,000	\$659,759,000	(\$770,862,000)
Vulnerable Populations and Other Support Services ^{3/}	\$0	\$420,025,000	\$420,025,000
Vaccine Distribution and Administration	\$789,128,000	\$364,501,000	(\$424,627,000)
State Response Operations	\$773,115,000	\$332,636,000	(\$440,479,000)
Contingency	\$0	\$250,000,000	\$250,000,000
Therapeutics	\$0	\$158,129,000	\$158,129,000
Hospital and Medical Surge	\$561,019,000	\$110,149,000	(\$450,870,000)
Contact Tracing	\$20,590,000	\$18,284,000	(\$2,306,000)
Surveillance	\$0	\$16,465,000	\$16,465,000
Hotels for Healthcare Workers	\$33,237,000	\$1,056,000	(\$32,181,000)
Procurements	\$59,317,000	\$859,000	(\$58,458,000)
Information Technology (CalREDIE)	\$6,000,000	\$0	(\$6,000,000)
Project Hope	\$84,000	\$0	(\$84,000)
Housing for the Harvest	\$69,000	\$0	(\$69,000)
Totals	\$3,673,180,000	\$2,331,863,000	(\$1,341,317,000)

^{1/} An additional \$8.4 million was appropriated to the Department of General Services in the current year from 2019-20 Mission Tasking.

^{2/} Includes Control Section 11.91 transfers.

^{3/} In April 2021, \$360 million General Fund was provided through the Disaster Response Emergency Operations Account (DREOA) to the California Department of Public Health for administering emergency response activities at the border, of which \$57.4 million will be carried over to 2022-23.

Public Health Response. The budget includes the following adjustments, totaling roughly \$2 billion, for the Department of Public Health response activities. Reimbursement for these costs from the federal government is anticipated to be at 90 percent for costs incurred after July 1, 2022, compared to 100 percent for costs prior to that deadline.

- **Medical Staffing**—\$100 million to support facilities needing additional medical surge staff, including \$40 million to prepare for the release of vaccines for children under five years old, continue second boosters, and increase staffing capacity at pediatric sites.
- **Testing**—\$530 million to purchase additional antigen test kits, support school testing activities with end-to-end vendors, continue rapid testing and treatment sites, and support laboratory network costs.
- **Vaccines**—\$93 million to prioritize vaccination of youth under five years old, additional boosters for eligible populations over 50 years old, and continuation of mobile vaccination sites through the end of 2022-23.
- **Public Education and Outreach**—\$230 million for the Office of Community Partnerships and Strategic Communications to support vaccine-related public education and outreach campaigns previously implemented by the Department of Public Health.
- **Enhanced Surveillance**—\$16 million for tracking and monitoring of transmission of COVID-19 through wastewater surveillance, epidemiologic data analysis, modeling of future data trends, and research on the long-term impacts of COVID-19.
- **Test-to-Treat Therapeutics**—\$158 million to implement a Test-to-Treat Program for therapeutic treatment targeted at low-income, uninsured, and underinsured populations.
- **Border Operations**—\$468 million for border operations that will continue the state’s COVID-19 response and humanitarian activities at the southern border in anticipation of increased arrivals. An additional \$9 million is provided for the Office of Emergency Services to continue its portion of these border response operations.
- **Operations Support**—\$183 million for the COVID-19 call center, contractor support and contract costs, and the Public Health Reserve Corps.
- **Emergency Contingency Funds**—\$250 million to support unanticipated COVID-19 emergency response needs.

State Shifts Some Federal Funds. The federal American Rescue Plan Act of 2021 provided \$27 billion for state fiscal relief, which can be spent through 2024. The budget includes an update to how the state plans to use those funds, as summarized in the table on the next page. The most significant change is to shift nearly \$2 billion from specific program spending to counting as replacing “lost” state revenue.

Hindsight shows that California’s budget actually grew substantially during the pandemic, but federal law allows states to calculate how much they “lost” according to a specific formula and assumptions. The budget would use General Fund to replace the shifted federal funds, meaning there is no net change in state or federal spending from this change. However, the state now no longer has to report on these programs to the federal government or justify using the federal funds for those purposes, thus reducing oversight and freeing up General Fund.

Revised Allocation of \$27 Billion Coronavirus State Fiscal Recovery Fund

(Dollars in Millions)

Coronavirus State Fiscal Recovery Fund Allocations	2022-23 Governor's Budget ^{1/}	2022-23 Budget Act	Difference
Address Public Health Impacts	\$738.8	\$738.8	\$0.0
COVID-19 Direct Response Costs	\$208.8	\$208.8	\$0.0
Behavioral Health Continuum Infrastructure Program	\$530.0	\$530.0	\$0.0
Address Negative Economic Impacts	\$11,328.8	\$9,353.4	-\$1,975.4
Address Increased Homelessness and Housing Shortages	\$4,750.0	\$4,750.0	\$0.0
Community Care Expansion	\$450.0	\$450.0	\$0.0
Relief for Unpaid Water and Energy Utility Bills and Arrearages	\$2,000.0	\$2,000.0	\$0.0
Child Savings Accounts to Address Equity Gap and Increase Opportunities for Higher Education	\$1,407.9	\$0.0	-\$1,407.9
Small Business Grants	\$1,500.0	\$1,500.0	\$0.0
Training and Education Support for Displaced Workers	\$472.5	\$0.0	-\$472.5
Emergency Financial Aid for Community College Students	\$250.0	\$250.0	\$0.0
Youth Workforce Development	\$185.0	\$185.0	\$0.0
Californians for All College Service Program	\$127.5	\$127.5	\$0.0
Revitalize California Tourism	\$95.0	\$0.0	-\$95.0
Legal Aid for Renters	\$80.0	\$80.0	\$0.0
Federal Tracking, Accountability, and Cost Recovery	\$10.9	\$10.9	\$0.0
Replace Lost State Revenue ^{2/}	\$11,158.3	\$13,133.7	\$1,975.4
Broadband Infrastructure, Access, and Affordability	\$3,772.4	\$3,772.4	\$0.0
Reserve for Accountability and Oversight	\$18.6	\$18.6	\$0.0
Total	\$27,017.0	\$27,017.0	\$0.0

Note: These figures reflect 2021-22 appropriations. Unless otherwise stated, any budgetary adjustments made to these figures will be reflected in fiscal year 2021-22. This table also reflects point-in-time budgetary adjustments. Future adjustments may occur pursuant to Control Section 11.96, subject to notification to the Joint Legislative Budget Committee.

^{1/} This column incorporates an early action shift of \$1.9 billion in programs funded by the State Fiscal Recovery Fund to either the General Fund or other state funds to maximize funding flexibility and streamline federal reporting activities in the 2021 Budget Act.

^{2/} The net amount in the 2022-23 Budget Act reflects the state's updated revenue loss estimate and an additional \$4.1 billion set-aside reserve for potential compliance risks above what was estimated at Governor's Budget.

Excessive Delegation of Spending Authority Continues at Reduced Level. To the great concern of those who value the separation of powers in government, much of the spending associated with the state's pandemic response in 2020-21 was unilaterally authorized by the Governor, using emergency spending authority pursuant to the California Disaster Assistance Act. This act allowed the Governor to spend unilaterally, including hundreds of millions of dollars on no-bid contracts, with minimal notice to the Legislature. Elected officials and the public were often left to learn details from reporters who filed public records requests. Both the nonpartisan Legislative Analyst's Office and the State Auditor raised concerns last year about the Governor's emergency spending, but legislative Democrats neglected to hold the Governor accountable.

The 2021 Budget Act improved upon this scenario by granting the Governor more limited authority over \$1.7 billion General Fund appropriated to nine state agencies, along with authority to shift those dollars around after 10-day notification to the Legislature.

The 2022 Budget Act continues to grant the Governor authority to move certain federal and state funds appropriations, subject to either a 10-day or 30-day notice to the Legislature, depending on the type and purpose of the transfer. However, the amount provided for open-ended contingencies is \$250 million within the Department of Public Health, rather than the \$1.7 billion provided in 2021.

The Governor claimed in a press [statement](#) that only five percent of emergency orders were still in place as of July 1, 2022. Even those are excessive, as are the budget's continuing delegation, albeit at a reduced level, of spending authority to the Governor.

Housing

Key Points

- **Spending Billions on Housing Reflects Failure of State Housing Policies.** Follows recent tradition by continuing to throw money at the housing crisis without reforms.
- **California Dream for All Program.** Includes \$500 million and establishes a new shared-mortgage program that authorizes the state to provide up to 20 percent down-payment assistance.
- **Rental Assistance.** Provides nearly \$2 billion in General Fund for rent relief, and authorizes loan forgiveness for the program's previous cash-loan structure.
- **CalHome Program.** Includes \$250 million for homeowner and housing rehabilitation assistance.
- **Housing Accelerator Program.** Includes \$250 million for the Affordable Housing Accelerator Program, which provides gap funding for shovel-ready projects.
- **Infill Infrastructure Grant Program.** Provides \$200 million General Fund, and expands eligibility and allowable activities for infill parcels and projects.
- **Adaptive Reuse Program Infrastructure Grants.** Establishes a new program and includes \$150 million to provide grants for adaptive reuse purposes, including infrastructure needs.
- **New Federal HOME Program.** Authorizes \$135 million in federal funds for a new program that provides housing and supportive services for people experiencing housing instability.

Spending Billions on Housing Reflects Failure of State Housing Policies. The 2022-23 budget follows recent tradition by continuing to throw money at the housing crisis, but it fails to include reforms that could reduce the cost and increase the number of housing units built across California. The state is in need of broader policy changes that deal with the underlying cause of expensive housing. These include restrictive environmental reviews, extensive and cost-prohibitive zoning restrictions, and a host of excessive fees, which have raised the costs of building and slowed down the production of housing. The housing crisis will continue until these cost-prohibitive mandates are addressed.

State to Become “Silent Partner” in Home Ownership. The budget includes \$500 million General Fund for the new California Dream For All program, and provides authority to issue an additional \$1 billion in bonds annually for the next 10 years. The program is a shared mortgage assistance program where the state will provide up to 20 percent in down payment or closing cost assistance for first-time homebuyers. The program includes the use of a revolving fund to receive repayments as homes are sold or refinanced, but the timing of repayments would be highly uncertain and likely not begin for several years or more. This will result in pressure for the state to provide additional General Fund for the program in the near term. Numerous key details about how the program will work are unclear or are left up to future regulations.

Sets Aside General Fund to Forgive Rental Assistance Loans. The budget provides nearly \$2 billion General Fund from the California Emergency Relief Fund and allows for the forgiveness of General Fund loans made to sustain the Emergency Rental Assistance Program. Legislation adopted in February of 2022, SB 115 (Skinner, Budget Act of 2021), created a “cash flow loan” program to provide money to Californians who had applied for the rent relief program by March 31, 2022, but were still waiting to receive relief for rent owed. Notably, steering the General Fund for this program through an “emergency fund” provides an accounting gimmick that allows the spending to be exempt from the Gann limit.

CalHome-Homeownership Support Program. The budget includes \$250 million for the CalHome program, which enables low and very-low income households to become or remain homeowners. The

program provides grants to local agencies and nonprofits for direct homeowner and housing rehabilitation assistance (including mobile homes).

Affordable Housing Accelerator Program. The budget includes \$250 million for the recently established Affordable Housing Accelerator Program, which provides gap funding for shovel-ready projects that have successfully acquired funding by the Department of Housing and Community Development (HCD) for a project but were unable to secure tax credits. The 2021-22 budget included \$1.75 billion in federal American Rescue Plan Act funds for the program.

Infill Infrastructure Grant Program. The budget includes \$200 million General Fund for the Infill Infrastructure Grant program (IIG), which prioritizes infill parcels in downtown-oriented areas. The IIG program provides grants to local governments and developers in order to defray the costs for things like sewers, roads, and site preparation that further drive up the already egregious cost to build in California.

New Program for Adaptive Reuse Developments. The budget includes \$150 million General Fund for a new program within HCD that would provide grants to local jurisdictions. Adaptive reuse is the process of changing the use of an existing building for any purpose other than its original design. This grant program could help remove cost impediments to adaptive reuse projects (e.g., structural improvements or plumbing/electrical design) and could accelerate residential conversions.

HOME Investment Partnership Program. The budget authorizes \$135 million in federal funds for HCD to plan, develop, and administer the new HOME Investment Partnerships (HOME) American Rescue Plan program. The new federal program will provide funding for construction or preservation of affordable housing, supportive services (homeless prevention services, housing counseling), and operating and capacity building, similar to the state's Homekey program.

Indoor Air Quality. A late budget bill, AB 179, provided \$5 million to HCD for staffing to address indoor air quality issues. This was part of the late energy package but it is unclear how this funding is intended to be utilized.

Housing Funds from Existing Programs. The 2022-23 budget includes more than \$1 billion from recent housing legislation that provides an ongoing source of funding for affordable housing and emergency shelter construction, as follows:

- \$432 million for the Veterans and Affordable Housing Bond Act of 2018 (SB 3, Proposition 1), which requires programs funded with bonds to give preference to projects where all construction workers will be paid at least the general prevailing wage.
- \$400 million for the No Place Like Home program, approved in November 2018, which dedicates \$2 billion in bond funds to provide supportive multifamily housing for individuals experiencing mental illness who are homeless or at risk of homelessness.
- \$234 million from SB 2 (Atkins), the Building Homes and Jobs Act, which established a \$75 tax on real estate transaction documents to help pay for affordable housing.

Affordable Housing Programs and Funding. The table on the next page provides information on all state programs and funding available to support affordable housing development in 2022-23. The budget includes a total of more \$11 billion in support of various housing programs. Clearly, there is no lack of subsidies from the state for housing. Some of the programs have overlapping or redundant goals but different parameters, creating a labyrinth of rules and regulations. The reality is that the housing affordability crisis demands fundamental policy reform; it is too big for the state to spend its way out of, though that is mostly what Sacramento Democrats attempt.

Affordable Housing Funding at 2022 Budget Act

(Dollars in Millions)

Department	Program	Total Funding
Department of Housing and Community Development ^{1/}	Veterans and Affordable Housing Bond Act Programs (Prop 1)	\$431.9
	No Place Like Home Program	\$400.0
	Building Homes and Jobs Fund Programs (SB 2)	\$233.8
	Federal Funded Programs for Housing	\$260.2 ^{2/}
	CalHome	\$250.0 ^{3/}
	Accelerator	\$250.0
	Adaptive Reuse	\$200.0 ^{3/}
	Infill Infrastructure Grant Program	\$200.0 ^{3/}
	Multifamily Housing Program	\$100.0 ^{3/}
	Veterans Housing and Homelessness Prevention	\$125.0 ^{3/1/}
	Joe Sema Farmworker Housing Grants	\$50.0 ^{3/}
	Portfolio Reinvestment Program (Preservation)	\$50.0 ^{3/}
	State Excess Sites	\$25.0 ^{3/}
	Manufactured Housing Opportunity and Revitalization Program	\$25.0 ^{3/}
	Various	\$13.0
California Housing Finance Agency ^{4/}	Office of Migrant Services	\$5.6
	Low-Moderate Income Housing	\$50.0
	Single Family First Mortgage Lending	\$2,500.0
	Homeowner Assistance Fund	\$1,055.0
	Multifamily Conduit Lending	\$1,300.0
	California Dream For All	\$500.0
	Multifamily Permanent Lending	\$350.0
	Single Family Down Payment Assistance/Homebuyer Assistance	\$140.0 ^{5/}
	Mixed-Income Loan Program	\$43
Tax Credit Allocation Committee	Accessory Dwelling Unit Financing	\$50.0
	Low Income Housing Tax Credits (State)	\$645.5 ^{6/}
	Low Income Housing Tax Credits (Federal)	465.7 ^{7/}
Strategic Growth Council	Farmworker Housing Assistance Tax Credits	\$4.6
	Affordable Housing and Sustainable Communities	\$477.0 ^{8/}
Department of Veterans Affairs	CalVet Farm and Home Loan Program (Prop 1)	\$150.0
Judicial Council	Legal Assistance for Renters and Homeowners	\$50.0
Office of Emergency Services	Domestic Violence Housing First Program	\$23.0
	Transitional Housing Program	\$17.0
	Specialized Emergency Housing	\$10.0
	Domestic Violence Assistance, Equality in Prevention and Services, Human Trafficking	^{9/}
	Victim Assistance, North American Domestic Violence and Sexual Assault	-
California Department of Corrections and Rehabilitation	Returning Home Well	\$10.6
	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	- ^{9/}
Board of State and Community Corrections	Transitional Housing for Division of Juvenile Justice Youth	\$3.0
Department of Public Health	Housing Opportunities for Persons with AIDS (HOPWA)	\$5.0
	Housing Plus Program	\$1.0
	HIV Care Program	- ^{9/}
California Community Colleges		^{10/}
California State University		
University of California	Higher Education Student Housing Grant Program	\$750.0
Total		\$11,219.9

^{1/} Notwithstanding multiyear or continuous appropriations, these estimates depict HCD's appropriations for the 2022 Budget Act.

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

^{3/} Note the 2022 Budget includes an outyear appropriation for this program in 2023-24.

^{4/} CalHFA is self-supporting and its single family and conduit lending programs do not rely on the state General Fund. Funding estimates are based on lending activities from 2020-21, market demand for homeownership, available program resources, volume cap allocation, and multifamily lending pipeline projections.

^{5/} This program receives no General Fund allocation and is continuously financed based on market demand. This estimate is based on last year's lending activities and market demand for the first mortgage homeownership product.

^{6/} This includes \$500 million state tax credits allocated in the 2021 Budget Act.

^{7/} This represents the estimated 9 percent and 4 percent tax credits available in 2022 and the remaining 9 percent federal disaster credits from 2021.

^{8/} The Affordable Housing and Sustainable Communities program amount reflects 20 percent of projected Cap and Trade revenues and \$22 million that is proposed to be reappropriated from the 2014 Budget Act.

^{9/} The state provides a number of wrap-around supportive services through these programs including housing, which cannot be separated from the program's overall budget.

^{10/} The 2022-23 funding for the Higher Education Student Housing Grant Program represents the second year of a total \$2.2 billion investment planned over a three-year period. The 2021 and 2022 Budget Acts provided \$700 million for this purpose in 2021-22 to increase availability of affordable student housing.

^{11/} The 2022 Budget Act includes \$50 million General Fund for the Veterans Housing and Homeless Prevention program in 2022-23.

Homelessness

Key Points

- **Homelessness Worsening Despite Billions Spent.** A rise in homelessness despite billions spent indicates that state and some local policies are misguided.
- **Homeless, Housing Assistance, and Prevention Program.** Provides \$1 billion to support local efforts on homelessness.
- **Encampment Resolution and Family Challenge Grants.** Provides \$300 million for a grant program providing resources to clean up homeless encampments.
- **Homekey Program.** The budget includes \$1.3 billion General Fund for the Homekey program.
- **Missed Opportunity on Mental Health Infrastructure.** Democrats fail to set aside \$10 billion for mental health treatment bed capacity.

Billions Spent for Poor Results. California is in the process of spending astronomical amounts on homelessness, including more than \$20 billion from 2018 through 2022-23, with little evidence of success or accountability. A core component of the Governor's homeless strategy in the last two years includes the state's Homekey Program (established initially as a temporary program known as Roomkey). The Governor proclaims Homekey has provided 10,000 new homeless housing units, and in a May 18, 2022 press release, even went so far as to say that "Homekey's success over the past two years has proven that homelessness is a solvable issue," said Governor Newsom.

Unfortunately, a recently released study from the Pacific Research Institute (PRI) indicates the Homekey program is costly, rife with abuse and inefficiencies, and has been plagued with violence and drugs, indicating the program is failing to address the core problems causing many people to fall into homelessness. Based on the Department of Housing and Urban Development's (HUD) 2022 point-in-time count, the state's homeless problem persists despite the billions of dollars of expenditures. Several localities, including eight of the ten counties with the largest homeless populations, have self-reported data that indicates the total number of homeless continued to grow in 2022 in six of the eight counties (Santa Clara, San Bernardino, San Diego, Riverside, Sacramento, and Alameda). Consequently, it cannot be said that Homekey or the state's other homelessness programs have reduced the total homelessness problem.

Homelessness Failure a Symptom of Poor Policies. The state's failures on homelessness stem not from a lack of spending, but from a lack of accountability and a deep misunderstanding that the problem is primarily an economic one. The state needs bold reforms, such as conservatorship law reforms, behavioral health infrastructure, and supportive housing targeted to those with disabilities, mental health issues, or substance use disorders. Unfortunately, reform will not happen until the Democrats and the Governor acknowledge how dysfunctional and misguided California's efforts are to resolve homelessness, or until the public finally holds the elected officials responsible for those policies accountable.

Flexible Funding for Local Governments to Combat Homelessness. The budget provides \$1 billion General Fund for the Homeless Housing and Assistance Prevention program (HHAP). The program requires ten percent of the funds to be spent on services for homeless youth. The state is still awaiting local governments' detailed homeless action plans, required as part of the 2021 funding, that would include the size of their homeless populations, who is being served, an inventory of funding available, and measurable goals. It is anticipated the action plans will be released in the fall of 2022, four years and \$20 billion after the state began to focus efforts on this policy issue.

Encampment Resolution Grant Program. The budget provides \$300 million for the Encampment Resolution Grant program within the California Interagency Council on Homelessness (Council). The program, established with \$50 million in the 2021 Budget Act, partners with local governments and provides grant funding to assist them with resolving critical encampment concerns and transitioning individuals into safe and stable housing. The budget requires participating entities to develop a detailed service delivery plan, including a description of how individuals will be served with permanent housing solutions.

Homekey Program. The budget includes \$1.3 billion for the Homekey program, which provides for the purchase, conversion, and rehabilitation of properties (such as hotels, motels, and office and commercial buildings) to provide shelter and services to the state's homeless population. The program includes an eight percent set aside for homeless youth projects. However, the program restricts the funds to only those projects that include prevailing wage contracts, thus increasing project costs and limiting the number of projects that can receive financial support. This policy puts politics ahead of program effectiveness.

No New Funding for Project Roomkey. The budget does not include funding to continue Project Roomkey, established in March of 2020 to provide temporary shelter at hotels and motels for homeless individuals who were recovering/exposed to COVID-19 and individuals at high risk for medical complications. While the administration claimed, as of February 2022, that 16,000 rooms were secured and 50,000 individuals were sheltered, there have been reports that the transition to more permanent housing has failed and many of these individuals are back on the streets. Details have also emerged of numerous deaths throughout the state at Roomkey facilities and of the lack of care provided for the residents. Roomkey has been funded by a combination of state dollars and federal reimbursements, which are set to begin winding down in 2022 as the impacts of the COVID-19 pandemic lessen. It is noteworthy that the state continued to fund other programs after federal dollars expired, but has chosen not to do so with Project Roomkey, despite the Governor's earlier claims of success.

Housing for Parolees at Risk of Homelessness. The budget includes \$11 million General Fund to continue the Returning Home Well Program. This program was initially funded with federal Coronavirus Aid, Relief, and Economic Security Act resources. It provides transitional housing, with the goal of supporting successful community reintegration, to parolees who would otherwise be at risk of homelessness upon release.

Housing and Disability Advocacy Program (HDAP). The budget includes \$175 million for HDAP to assist people experiencing or at risk of homelessness, who are also disabled or likely disabled. The program provides outreach, case management, benefits advocacy, and housing supports. Forty-four grantees participate in the program and, as of June 2021, HDAP had helped 2,840 people find permanent or temporary housing and submitted 5,110 disability applications.

CalWORKs Housing Support Program (HSP). The budget provides \$285 million for HSP, which offers financial assistance and housing-related wrap-around support services including but not limited to, housing navigation, rental assistance, hotel and motel vouchers, legal services, and credit repair. The HSP seeks to provide assistance in securing and maintaining permanent housing as quickly as possible. Currently, fifty-four counties participate in HSP, and more than 26,700 families have been assisted in securing permanent housing through the program since its inception in 2014.

Shortchanging Behavioral Health Treatment Bed Infrastructure. An increase in mental health and substance use treatment capacity was the key component of the budget letter that legislative Republicans sent to the Governor. While the budget does include some expenditures in this area, it falls short of legislative Republican proposal to use \$10 billion of our surplus to permanently end the

treatment bed deficit in this state. The 2022-23 budget includes just \$1.7 billion for county behavioral health departments and non-profit community partners to construct, acquire, or rehabilitate properties in order to increase mental health treatment bed capacity and another \$1 billion for counties to provide tiny homes and other short-term shelters for those individuals with serious mental illnesses. Given our unlikely-to-be-seen-again budget surplus, this was a missed opportunity to address the needs of tens of thousands of mentally ill homeless individuals living on California's streets.

Total State Homelessness Funding. The chart on the next page provides information on all state programs and funding available to support homelessness efforts in 2022-23. It should be noted, however, that of the \$10.2 billion identified for 2022-23, \$2.6 billion is for 2023-24. The actual 2022-23 total homelessness spending is \$7.6 billion:

Homelessness Funding at 2022 Budget Act
(Dollars in Millions)

Department	Program	Total Funding
Department of Housing and Community Development	Continued Homekey Acquisitions	\$1,300.0
	Federal Funded Programs for Homelessness	\$148.0 ^{1/}
	Foster Youth Housing Navigators	\$13.7
	Transitional Housing Program	\$42.3
California Interagency Council on Homelessness	Flexible Aid	\$2,000.0 ^{2/}
	Homeless Landscape Assessment	\$0.6
	Encampment Resolution Efforts	\$700.0 ^{3/}
Office of Emergency Services	Various Homeless Youth Programs	\$1.0
	Youth Emergency Telephone Network	\$0.6
Department of Social Services	Community Care Expansion (Operating Subsidies)	\$55.0
	CalWORKS Housing Support Program	\$285.0
	Housing and Disability Advocacy Program	\$175.0
	Bringing Families Home	\$92.5
	Home Safe Program	\$92.5
Department of Health Care Services	Behavioral Health Continuum Infrastructure Program	\$1,724.7 ^{4/}
	Behavioral Health Bridge Housing Program	\$1,500.0 ^{5/}
	Naloxone Distribution Project for Individuals Experiencing Homelessness	\$15.0
	Housing and Homelessness Incentive Program	\$1,299.6 ^{6/}
	Project for Assistance in the Transition from Homelessness	\$8.8
Department of State Hospitals	IST Sub-Acute Bed Capacity Expansion	\$88.5 ^{7/}
	Community-Based Restoration (CBR)	\$78.4 ^{7/}
	IST Solutions	\$398.2 ^{7/}
Department of Transportation	Encampment Relocation Coordinators and Homeless Services Liaisons	\$2.7
	Clean California - additional Hazardous Material Removal	\$25.0
	Hazardous Material Removal at Encampments	\$20.6
California Community Colleges	Basic Needs Resource Centers Funding - Student Hunger and Homelessness Programs	\$40.0 ^{8/}
	Rapid Rehousing	\$19.0 ^{8/}
California State University	Basic Needs Funding - Student Hunger and Homelessness Programs	\$25.0 ^{8/}
	Rapid Rehousing	\$6.5 ^{8/}
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15.0 ^{8/}
	Rapid Rehousing	\$3.5 ^{8/}
Total		\$10,176.7

^{1/} This amount reflects programs that receive federal funds, such as the Emergency Solutions Grant and the National Housing Trust Fund programs.

^{2/} This amount reflects \$1 billion General Fund in both 2022-23 and 2023-24.

^{3/} This amount reflects \$300 million General Fund in 2022-23 and \$400 million General Fund in 2023-24.

^{4/} Of the \$2.2 billion total funds over 2021-22 and 2022-23, \$1.7 billion is General Fund and \$530 million is Coronavirus Fiscal Recovery Fund. 2022-23 includes \$277.5 million carried over from 2021-22.

^{5/} The proposal includes \$1 billion General Fund in 2022-23 and \$500 million General Fund in 2023-24.

^{6/} This program is part of the Home and Community-Based Services Spending Plan. This proposal includes \$650.2 million (\$325.1 million Federal Fund) in 2022-23 and \$649.4 million (\$324.7 million in Federal Fund) in 2023-24.

^{7/} The state provides a number of wrap-around supportive services through these programs, which cannot be separated from the balance of the program's general budget.

^{8/} These Basic Needs funding programs support basic needs partnerships for low-income students facing housing or food insecurity, and eligible expenditures in some cases may also include operational expenses for basic needs resource centers and hygiene products. These amounts exclude basic needs funding provided in the 2019 and 2021 Budget Acts to address student mental health. Program funding reflected for UC Basic Needs and UC/CSU/CCC Rapid Rehousing was provided on an ongoing basis in the 2019 Budget Act, and program funding for CCC Rapid Rehousing was increased by \$10 million ongoing Proposition 98 General Fund in the 2022 Budget Act. Program funding reflected for CCC and CSU Basic Needs was provided on an ongoing basis in the 2021 Budget Act. Program funding for CCC and CSU basic needs was increased by \$10 million ongoing General Fund and \$10 million ongoing Proposition 98 General Fund, respectively, in the 2022 Budget Act.

Tax Policy

Key Points

- **Tax Refunds Provide Minor Relief from Inflation.** Includes \$9.5 billion to provide tax refunds to Californians to help address growing inflation.
- **Partial Diesel Fuel Sales Tax Suspension.** Includes a diesel fuel sales tax reduction of nearly 4 percent, providing an estimated \$439 million in relief at the diesel pump.
- **Lithium Tax.** Establishes a tax on lithium extracted from geothermal brine with revenues benefiting communities and restoration projects in the Salton Sea area.
- **Lithium Sales and Use tax Exclusion.** Provides an additional \$15 million of tax exclusions for projects that manufacture, refine, extract, process, or recover lithium.
- **Labor Union Giveaways Continue.** Establishes a new refundable union dues tax credit, with annual revenue loss projected to be \$400 million annually, meaning taxpayers must now subsidize partisan political entities.
- **Earlier Restoration of Business Credits.** Reflects February 2022 action to restore net operating losses and research and development credits to businesses.
- **Tax Credit Expanded to Recipients Without Income.** Provides \$95 million to expand the Earned Income Young Child Tax Credit to recipients with zero income.
- **Foster Youth Tax Credit.** Provides \$20 million to establish a new tax credit for former foster youth.
- **Paycheck Protection Program (PPP) Tax Conformity.** Allows all federal PPP grants to be excluded from the definition of income for the purposes of state taxation.

Tax Refunds. The budget provides \$9.5 billion General Fund for the “Better For Families Tax Refund” plan to help offset the impacts of high gas prices and other growing costs due to inflation. A late-session trailer bill (AB 158) shifted the administering agency for the payments from the State Controller to the Franchise Tax Board. The administration claims payments will go out gradually beginning in October of this year and into January 2023. This timeframe is months behind the point at which Californians would have benefitted from the gas tax suspension that legislative Republicans advocated in March of this year.

Payments are structured progressively so that taxpayers in lower income tiers receive a larger amount. As such, the payments are not true “refunds” in the sense of being tied directly to what taxpayers actually paid. The payment level are as follows:

- **Tier I.** \$350 for individual tax filers who earn up to \$75,000 and \$700 for joint filers earning up to \$150,000. Households would receive an additional \$350 if they claimed any dependents, for a total potential benefit of \$1,050.
- **Tier II.** \$250 for individual tax filers who earn more than \$75,000 and less than \$125,000, and \$500 for joint filers earning up to \$250,000. Households would receive an additional \$250 if they claimed any dependents, for a maximum refund of \$750.

- **Tier III.** \$200 for individual tax filers who earn more than \$125,000 and less than \$250,000, and \$400 for joint filers earning up to \$500,000. Children or any other dependents would qualify taxpayers for an additional \$200 payment, for a maximum refund of \$600
- **Heads of Household.** 1) \$350 for those earning up to \$150,000, plus an additional \$350 for dependents, 2) \$250 for those earning more than \$150,000 but less than \$250,000, plus an additional \$250 for dependents, and 3) \$200 for those earning more than \$250,000 but less than \$500,000, plus an additional \$200 for dependents.

Partial Diesel Fuel Sales Tax Suspension. The sales tax rate on diesel is currently 13 percent. The budget suspends for one year, from October 1, 2022 until September 30, 2023, a portion of the diesel sales and use tax, equivalent to 3.9375 percent, providing an estimated \$439 million in relief at the diesel pump over a one-year period (perhaps more if prices continue to rise). The budget provides for a General Fund backfill of the revenues that would otherwise be decreased as a result of the suspension. The budget also adds a reporting requirement that includes the estimated total number of gallons of diesel fuel and taxable diesel sales that were partially exempted from sales tax. The budget fails to suspend the gas tax, however, as described in the *Transportation* section.

Lithium Tax. As part of the budget package, SB 125, the “Lithium Valley” budget trailer bill, establishes a volume-based tax on lithium extracted from geothermal brine. Beginning January 1, 2023, the tax rates are \$400 per metric ton up to 20,000 metric tons; \$600 per metric ton from 20,001 to 30,000 metric tons; and \$800 per metric ton for extraction beyond 30,000 metric tons. Extraction amounts are cumulative for producers from the date the first metric ton is extracted. Additionally, the tax rates will be adjusted annually for inflation beginning January 1, 2025. Counties impacted by the lithium extraction will receive 80 percent of the tax revenue. The remaining 20 percent will be used for Salton Sea maintenance, operations, and restoration activities. However, the budget does not include any lithium tax revenues in 2022-23, as revenues are not expected until at least 2023-24.

The needs of the Salton Sea region are well-known, though there are concerns that the tax rates will make California lithium uncompetitive in the marketplace, especially considering geothermal lithium extraction is in its infancy, with extraction costs still fluctuating. SB 125 requires a study to analyze the implementation of a gross receipts tax instead of the volume-based tax. Additionally, a report from the Lithium Valley Commission analyzing issues and incentives in the Salton Sea area is due by October 1, 2022. These reports may address many of the unknowns and provide direction on potentially adjusting taxes in the future.

Lithium Sales and Use tax Exclusion. The budget provides an additional \$15 million of sales and use tax exclusions for projects that manufacture, refine, extract, process, or recover lithium, for the 2022, 2023, and 2024 calendar years. Under existing law, the California Alternative Energy and Advanced Transportation Financing Authority can provide tax credits of up to \$100 million annually to promote California-based manufacturing, jobs, advanced manufacturing, reduction of GHGs, or the reduction in air and water pollution or energy consumption.

Labor Union Giveaways Continue. The budget provides a new refundable tax credit of up to \$100 for dues paid to a labor organization, with projected revenue loss of \$400 million annually. The majority party’s establishment of this new credit means that taxpayers will now be forced to subsidize political entities that use their funds to promote the election of Democrats.

A previous trailer bill, SB 189, chaptered on June 30, 2022, included “trigger” language that specified a union dues tax credit would be prioritized for additional General Fund spending beginning in 2024-25, dependent on a fiscal determination being made that resources are available to support that spending

in spring 2024. However, the budget establishes the program not two months after SB 189 was chaptered, and without a fiscal determination. Early tax return data indicates revenues may be trending down, making this one-sided, last-minute policy all the more objectionable.

Restoration of Business Credits. The budget reflects reduced revenues of \$5.5 billion as a result of February 2022 actions to reverse pandemic tax increases. Specifically, SB 113 (Committee on Budget) restored net operating losses and business tax credits that were cut in the 2020 budget when the state believed it faced a major deficit. Republicans called for these tax actions to be reversed in 2021, but the Governor and Democrats delayed fixing the unnecessary tax increases until earlier this year.

Young Child Tax Credit Expansion. The budget expands the Young Child Tax Credit (YCTC) to families that file returns without income, but otherwise qualify for this credit, and would index the credit to inflation starting in the 2022 tax year. This expansion would cost more than \$150 million General Fund by 2025-26, growing each year thereafter. The cost of indexing is estimated at \$19 million General Fund for the 2022 tax year.

Foster Youth Tax Credit- EITC Expansion. The budget provides \$20 million General Fund to establish a new refundable credit for young adults (including undocumented immigrants) who have been in the foster care program. The budget authorizes an additional \$1,000 credit for individuals who have been in the foster care system at some point at age 13 or older and who are now at least 18 but 25 or younger, and who otherwise qualify for the CalEITC program.

Paycheck Protection Program (PPP) Conformity. The budget updates conformity of state tax law to the federal PPP grant period. Previous conformity actions in early 2021 excluded an extension of the federal PPP grant program by two months. The budget allows all federal PPP grants to be excluded from the definition of income for the purposes of state taxation, and reduces revenue by \$450 million over five years, starting in 2021-22, to reflect this change.

California Competes Tax Credit. The budget includes a one-time expansion of the CalCompetes Tax Credit by \$110 million to increase economic activity in California. The budget includes statutory changes that would extend the tax credit program through 2027-28, providing authority to allocate \$180 million in tax credits each year. However, the budget seeks to pick winners and losers based on politics, rather than business merit, as it authorizes new criteria for GO-Biz to consider as part of a company's request for allocation. These criteria include reviewing laws in states from which businesses might move on the basis of sexual orientation, gender identity, gender expression, or abortion, as well as how companies treat their workforce, including wages, training, labor, and management support, including others.

Prevention of Tax Intercepts for the Young Child Tax Credit. In some cases, the state “intercepts” tax credits from people who owe money for tax delinquencies or child support. The budget would, beginning January 1, 2024, add the earned income tax credit and the young child tax credit to the restriction of intercepts for the State Controller’s Office and the Franchise Tax Board, preventing the state from intercepting a taxpayer’s young child tax credit or earned income tax credit. This restriction would not apply to the delinquent accounts for the nonpayment of child or family support, nor would it apply to local governments.

One-Time Abatement of Timeliness Tax Penalties. The budget provides authority for the Franchise Tax Board to provide a one-time penalty abatement for individuals subject to the Personal Income Tax Law. Current law explicitly requires the FTB to impose penalties for a taxpayer's failure to timely file a return or a taxpayer's failure to timely pay tax unless it is shown that the failure is due to reasonable cause and not due to willful neglect. The abatement would be available for requests made by eligible taxpayers to the FTB for taxable years beginning January 1, 2022. The program would result in

revenue loss of approximately \$2 million in 2021-22, \$8.7 million in 2022-23, and \$7.3 million in 2023-24, with costs of \$300,000 annually for resources within the FTB to develop and administer the program.

Health

Key Points

- **Full Medi-Cal Expansion to the Undocumented.** Authorizes Medi-Cal coverage expansion to all remaining low-income undocumented individuals, beginning in 2024.
- **Subsidies for the Abortion Industry.** Provides more than \$200 million in new state programs to aid abortion clinics.
- **Healthcare Price Control Bureaucracy.** Authorizes the state to enforce healthcare “cost targets” through penalties and litigation.
- **No-Bid Contract for Insulin Factory.** California will finance and produce insulin with a yet-to-be-named drug manufacturer partner.
- **Missed Opportunity on Mental Health Infrastructure.** Democrats fail to set aside \$10 billion for mental health treatment bed capacity.

Elevates Abortion Over Other Priorities. The Democrat’s 2022-23 budget includes \$207 million in new proposals that prop up the politically-connected abortion industry. These include:

- \$40 million in direct payments to clinics to provide abortions for the uninsured and to cover abortion co-payments.
- \$30 million to non-hospital community clinics for abortion-related costs.
- \$20 million for an abortion expansion pilot program in LA County.
- \$20 million for an abortion financial support fund for individuals seeking abortions in California. This fund could be used to support residents of other states traveling to California.
- \$20 million to create a Reproductive Health Services Corps to “professionalize” abortion clinic staff.
- \$20 million to provide security and IT upgrades at abortion clinics.
- \$20 million to provide scholarships and loan repayments for abortion clinic staff.
- \$20 million to cover the costs of abortion-related health plan charges for Covered California consumers.
- \$15 million for pro-abortion groups to “educate” the public.
- \$2 million for a state-run abortion-directory website and for abortion research.

Undocumented Individuals to Fuel Medi-Cal Caseload Growth. The 2022-23 budget includes another Medi-Cal eligibility expansion in 2024 for roughly 700,000 undocumented individuals ages 26 through 49, at an estimated cost of \$2.1 billion General Fund annually. This expansion follows recent eligibility expansions of roughly 104,000 undocumented children (2016), 99,000 young adults age 19-25 (2020), and 235,000 undocumented older adults age 50 and above (started in spring 2022). Once fully implemented, the state will spend more than \$5 billion annually on Medi-Cal for roughly 1.2 million undocumented enrollees.

Currently Medi-Cal has a shortage of providers to serve the 14.4 million Californians enrolled today, and struggles to secure access to care for both basic and specialty services in all regions of the state. With the phase-in of an estimated 1 million undocumented individuals in the combined age 26-49 and

50-plus populations, Medi-Cal will soon grow to nearly 15.5 million enrollees, nearly 40 percent of all Californians. This rapid influx of new health provider demand will exacerbate the existing provider access problems, not just for the Medi-Cal populations but for all Californians seeking health care.

Health Care Workforce Training Funding. Perhaps recognizing that Medi-Cal eligibility expansions do not equate to true health care access if there aren't enough providers to serve them, the 2022-23 budget adds \$281 million (with \$251 planned in future budgets) for health care workforce development funding. Of that amount, \$100 million is earmarked for behavioral health workforce proposals, \$64 million for public health workforce, and \$137 million for primary care and health care clinic workforce, which will include \$20 million for abortion clinic workers. The funding will be used for scholarships, training programs, fellowships, residency slots, and retention stipends.

Ends Great Recession Era Medi-Cal Provider Cuts. After years of record state revenues and Democrat inaction, the 2022-23 will end the Medi-Cal provider payment reductions imposed in 2011. This restoration will impact rates for nursing, audiologists and hearing aid dispensers, respiratory care providers, chronic dialysis clinics, durable medical equipment, emergency air medical transportation services, and non-emergency medical transportation services among others. While a welcome inclusion in the budget, it is shameful that these provider rate cuts were not restored first before recent eligibility expansions and the addition of new benefits.

No-Bid Contract for Insulin Factory. The 2022-23 budget includes \$101 million for the state to enter into a no-bid contract with a current drug manufacturer to construct a California-based facility where insulin (and eventually other drugs) will be produced. The state will then contribute ongoing funds to finance the insulin production by the chosen manufacturer at the new facility and to sell that insulin on the global market. This venture is risky as the state could be on the hook for cost overruns, production setbacks, and product liability. And with the no-bid contract, the Governor clearly hasn't learned the lesson from the state's wasteful COVID testing lab.

Skilled Nursing Facility Tax. The 2022-23 budget imposes a new version of a tax called the "Quality Assurance Fee" on skilled nursing facilities. The tax is a percentage of facility revenues, and its purpose is to provide another revenue source other than state General Fund to draw down additional federal funding for Medi-Cal. The budget also alters the facility reimbursement methodology. While the nursing home industry has supported past versions of the Quality Assurance Fee, this version was strongly opposed. To make matters worse, the associated trailer bill added two new fees on facility owners, including one that strictly enforces union-dictated staffing ratio laws.

New Bureaucracy to Impose Healthcare Price Controls. The enacted budget includes the creation of an Office of Health Care Affordability that would impose financial penalties on hospitals and other providers in the healthcare industry who fail to meet the state's dictated healthcare "cost targets." The new office, housed at the Department of Health Care Access and Information, would cost roughly \$30 million annually and employ more than 100 enforcement staff, a third of which will be attorneys. As hospitals struggle with current staffing challenges, the creation of an office to increase state interference in hospital operations seems, at best, counterproductive, but at worst, could lead to rationing of health care services.

Health Care Workforce Staff Bonuses. In an attempt to address health care staff burnout, the 2022-23 budget adds \$1.2 billion for up to \$1,500 in bonus checks for most healthcare workers in hospitals, skilled nursing facilities, and clinics. This would be provided to both licensed and non-licensed health care personnel. Although providing a "hero" bonus to those who serve others is laudable, this one-time effort is unlikely to address retention concerns. Additionally, the payments create an unusual scenario in which the state will use taxpayer money to pay employees of selected private healthcare organizations, thus taking a direct role in private agency labor relations.

Enhances Premium Subsidies at Covered California. The 2022-23 budget includes \$304 million for health insurance premium assistance for an estimated 700,000 Californians who purchase insurance through Covered California. This assistance is intended to enhance the current pandemic-related federal subsidies that were recently extended by Congress through 2025. Subsidies in Covered California are generous in California: families with incomes up to \$159,000 per year can receive subsidies of up to 8.5 percent of income.

In addition, the state continues to charge a penalty tax of \$2,780 on families who choose to forego coverage. The state uses those funds, which often come from low-income families, to subsidize higher-income families. In a time of surplus, the state does not need to penalize low-income families.

COVID-19 and Monkeypox Response. The 2022-23 budget includes \$1.8 billion in new spending on COVID-19 vaccine distribution, testing, hospital surge staffing, contact tracing, and community outreach as well as \$42 million for the state's effort to curb monkeypox. While much of the pandemic response effort is still supportable, this budget fails to truly assess if specific response efforts, such as contact tracing and migrant quarantines on the southern border, are actually working or could be improved.

State and Local Public Health Spending. The 2022-23 budget includes \$300 million in new annual General Fund to implement a "Public Health Infrastructure Investment Spending Plan." The plan provides \$100 million for a whopping 404 new positions at the state Department of Public Health and \$200 million to the local public health departments to expand their workforce, standardize data collection and integration, and partner with community organizations on programs and outreach. It remains to be seen if this surge in public health workforce will improve health outcomes.

Behavioral Health Treatment Bed Infrastructure. An increase in mental health and substance use treatment capacity was the key component of the budget letter that legislative Republicans sent to the Governor. While the budget does include some expenditures in this area, it falls short of the legislative Republican proposal to use \$10 billion of our surplus to permanently end the treatment bed deficit in this state. The 2022-23 budget includes just \$1.7 billion for county behavioral health departments and non-profit community partners to construct, acquire, or rehabilitate properties in order to increase mental health treatment bed capacity, and another \$1 billion for the counties to provide tiny homes and other short-term shelters for those individuals with serious mental illnesses. Given our unlikely-to-be-seen-again budget surplus, this was a missed opportunity to address the needs of tens of thousands of mentally ill homeless individuals living on California's streets.

CARE Court Implementation. The 2022-23 budget includes roughly \$88 million in start-up funding for the Department of Health Care Services, the county behavioral health departments, and the courts to begin the phased implementation of SB 1338, the Community Assistance, Recovery, and Empowerment (CARE) Court plan. The plan would permit the public to use the courts to connect seriously mentally ill homeless individuals with much needed mental health services. Although CARE Court is an improvement in law to the status quo, for the new system to actually work, the state will likely need to allocate hundreds of millions to potentially billions in additional state funding to county behavioral health departments. Given that tens of thousands of homeless individuals are currently suffering on our streets, time will tell whether CARE Court makes a difference in reducing chronic homelessness.

Youth and Veterans Mental Health. The 2022-23 budget adds \$235 million for new youth mental health programs. This includes \$120 million for wellness and resilience efforts, \$50 million for school and community suicide crisis response grants, and \$40 million for a new youth suicide prevention program. In addition, the 2022-23 budget includes \$50 million to better connect veterans with community-based mental health services and to conduct a veteran suicide prevention program. The

state will provide these funds as grants to local behavioral health departments that, when combined with matching local funds, is intended to provide veterans with additional mental health services beyond the federal Veteran Affairs health system.

Human Services

Key Points

- **Extends Assistance for Overdue Utility Bills.** Provides \$1.2 billion in one-time California Emergency Relief Funds to continue the California Arrearage Payment Program (CAPP).
- **Increases CalWORKs Grants.** Increases CalWORKs grants by a cumulative 21 percent over the next three years.
- **Food Assistance for Undocumented Immigrants.** Provides \$35 million General Fund to provide food assistance for undocumented immigrants 55 and older.
- **Continues Low Income Household Water Assistance.** Includes \$200 million in one-time federal fund authority to assist low income households with water and wastewater arrearages.
- **Additional Rapid Response Program Funding.** Includes \$175 million one-time General Fund for rapid response efforts that provide assistance for immigrant arrivals, likely undocumented.
- **Accelerates State Supplementary Payment (SSP) Grant Increases.** Includes \$150 million General Fund to accelerate, by one year, SSP grant increases approved in the 2021 budget.
- **Establishes the Foster Family Finding and Engagement Grant.** Provides \$150 million one-time General Fund over five years to improve practices and policies regarding family finding, engagement, and caregiver support.
- **Food Bank Support.** Includes \$112 million one-time General Fund to supplement the CalFood program.
- **Grants to Combat COVID-19 Impacts and Senior Isolation.** Approves \$61 million one-time General Fund to support Community Based Adult Service providers through grants to help mitigate the impacts of COVID-19 and senior isolation.
- **In-Home Supportive Services (IHSS) Backup Provider System.** Provides \$34 million (\$15 million General Fund) ongoing to establish a permanent back-up provider system for IHSS recipients.
- **Child Support to Former CalWORKs Recipients.** Implements a full pass-through of child support payments to former CalWORKs recipients and notes intent language to expand those provisions to current CalWORKs recipients.

California Arrearage Payment Program Extension. The budget provides \$1.2 billion in one-time California Emergency Relief Funds to establish the 2022 California Arrearage Payment Program (2022 CAPP) to be administered by the Department of Community Services and Development. This is an extension of the CAPP program implemented in 2021, which provided \$1 billion in federal American Rescue Plan act funds for utility applicants to pay past due bills for customers as a result of the pandemic. The funding appropriated in the budget will help pay down the remaining residential utility arrearages, which as of December 31, 2021 were \$1.2 billion.

Major Increases to CalWORKs Grants. The budget includes \$296 million (Local Revenue Fund) for an 11 percent increase in CalWORKs maximum aid payment levels, plus \$816 million one-time General Fund over the next three fiscal years for an additional 10 percent increase. Combined, these increases will reach a total of 21 percent beginning October 1, 2022. The budget expresses the intent of the Legislature to increase CalWORKs grants to ensure that no child lives at or below fifty percent of the federal poverty level (FPL), and requires the Department of Social Services (DSS) to annually provide information on how CalWORKs grants compare to the FPL. While there have been small and infrequent grant increases over the years, policy changes that have reduced accountability in CalWORKs raise

concerns that the program is becoming an open-ended entitlement, rather than a safety net focused on moving families to independence.

Continues the Low Income Household Water Assistance Program (LIHWAP). The budget continues the administration of the LIHWAP through June 30, 2026 or until \$200 million in one-time federal fund authority is expended. LIHWAP utilizes grants provided by the federal government to states and Indian tribes to assist low-income households that pay a high proportion of household income for drinking water and wastewater services. The pandemic made water bills even more unaffordable for many low-income and financially challenged households, and extending the LIHWAP will provide relief to those households.

Food Assistance for Undocumented Immigrants with No Accountability. The budget provides \$35 million General Fund to expand the California Food Assistance Program (CFAP) program to Californians age 55 and older regardless of immigration status. The changes also eliminate the requirement that applicants present a Social Security Number and no longer require applicants to comply with federal CalFresh work requirements. These changes to the eligibility requirements mean that undocumented immigrants are held to less restrictive standards to receive CFAP benefits than citizens who receive CalFresh benefits.

Paying for Immigrant Services at the Border. The budget includes \$175 million one-time General Fund for the Rapid Response Program, which was established in 2019. The program directs DSS to award grants or contracts to entities providing assistance such as food, clothing, shelter, transportation, and medical aid, mostly to undocumented immigrants.

Accelerates Additional Resources for the Elderly and Disabled. The budget includes \$150 million General Fund to accelerate by one year, SSP grant increases approved in the 2021 budget. This action increases SSP grants to 2011 levels. SSP is a state program that augments the Supplemental Security Income (SSI) Program, a federally funded program that provides income support to eligible individuals who are aged 65 or older, blind, or disabled. Eligibility for both programs is determined by the Social Security Administration using federal criteria.

Foster Family Finding and Engagement Grant Program. The budget includes \$150 million one-time General Fund, available over five years, to establish a county-optional grant program to improve practices and policies regarding family finding, engagement, and caregiver support efforts for foster youth.

Additional Funding for CalFood to Support Food Banks. The budget includes \$112 million one-time General Fund to aid food banks in purchasing, storing, and transporting food grown or produced in California. This additional funding will help food banks mitigate the strains of food inflation and continuous community demand.

COVID-19 Mitigation and Resilience Grants to Combat Senior Isolation. The budget includes \$61 million General Fund one-time to provide grants for Community Based Adult Services (CBAS) to address infrastructure and health and safety needs resulting from the COVID-19 pandemic. The pandemic has amplified the financial stress of many CBAS providers, creating difficulties in implementing mitigation measures such as improving ventilation systems, repurposing outdoor areas, and modifying indoor spaces to create a safer environment for participant engagement. The additional grant funding will aid in supporting safer and healthier CBAS facilities, helping combat senior isolation caused by the pandemic.

IHSS Permanent Back-Up Provider System. The budget includes \$34 million (\$15 million General Fund) ongoing to establish a permanent back-up provider system to serve IHSS or Waiver Personal

Care Services (WPCS) recipients when their regular provider is unavailable. Funding provided in previous budget years established a temporary COVID-19 Emergency Back-U Provider System and from April 2020 to September 2021, recipients received 657,177 service hours through that system. Making the back-up provider system permanent will provide more stability to these recipients and ensure they continue to receive high levels of care.

Full Pass-Through of Child Support Payments to Former CalWORKs Families. A late-session budget trailer bill (AB 207) implements a full pass-through of child support payments to former recipients of CalWORKs aid. Federal law requires that a family receiving assistance through the Temporary Assistance for Needy Families (TANF) Program, which funds CalWORKs, must assign their rights to child support payments to the state. These child support payments are used to reimburse the state for any CalWORKs funds expended. States are permitted to waive their recoupment for both currently assisted and formerly assisted cases, but the federal government will only waive their share for formerly assisted cases. The budget also included intent language to implement a full pass-through to current CalWORKs recipients. If current recipients are given a full pass-through, the state will have to cover the federal government's share of recoupment costs.

Developmental Services

Key Points

- **Speeds up Service Provider Rate Increases.** Provides \$264 million (\$159 million General Fund) to accelerate the implementation of the 2019 provider rate study by six months.
- **Addresses Workforce Challenges.** Includes \$185 million General Fund one-time to establish several workforce stabilization programs.
- **Overhauls the Fair Hearings Process.** Establishes a new division to implement reforms to the appeals and hearings process to improve access, understanding, and equity for consumers.
- **Aids Families in Program Transitions.** Implements changes to the process of transitioning children with disabilities from early intervention services to special education services and addresses interruptions in services for children and their families.
- **Updates Early Start Eligibility.** Provides \$7 million General Fund for adjustments to the process used to identify children with developmental delays.
- **Self-Determination Program Financial Management.** Moves the cost of financial management services from the individual budgets of self-determination program participants to regional centers.
- **New Service Model Pilot Program.** Establishes a three-year pilot program that focuses on career readiness, postsecondary education, and competitive integrated employment for individuals exiting work activity programs or recent high school graduates.

Acceleration of Service Provider Rate Study. The budget includes \$264 million (\$159 million General Fund) to accelerate the implementation of the 2019 service provider rate study by six months. The study concluded the state was underfunding community services by nearly \$2 billion annually. The 2021-22 budget provided \$90 million General Fund to begin implementing the rate study over a five-year phase-in. Senate Republicans advocated for a faster implementation, due to pressures from minimum wage increases and continual underfunding over the years, but the previous and current governors refused. This budget's acceleration of the rate increases is overdue, but will help providers increase compensation for frontline staff, hopefully aid in closing the staffing gap, and encourage more individuals to move into the profession.

Recognizes Growing Workforce Issues. The budget provides \$185 million General Fund one-time to establish several workforce stabilization programs to address challenges in recruiting and retaining professionals in the intellectually and developmentally disabled (I/DD) system. There is an anticipated need of approximately 33,000 direct support professionals and 2,700 regional center service coordinators over the next five years, and these new programs will aid in the recruitment and training of new professionals to address this growing workforce concern.

Revamping the Fair Hearings Process. The budget provides \$4.4 million ongoing (\$4 million General Fund) to establish the Division of Community Assistance and Resolution to reform the appeals and hearings process for consumers and families within the system. The fair hearings process was developed in the 1970s to resolve service disputes and disagreements regarding eligibility for regional center services and has not been subject to any significant reforms since its establishment. Members of the I/DD community have raised concerns with the current process, and the budget package includes many needed reforms that address these problems.

Aids Families in Program Transitions. The budget includes \$66 million (\$45 million General Fund) to improve child outcomes and family experiences in the transition process for children with intellectual and developmental disabilities as they move from the Early Start program (Part C) to special education (Part B) of the federal Individuals with Disabilities Education Act. The changes included implement the recommendations in a report provided to the legislature and the Department of Finance on ways to improve the process and address interruptions in services for children and their families.

Developmental Delay Updates and Fetal Alcohol Syndrome. The budget includes \$7 million General Fund to help expand access to early intervention services and supports and improve long-term outcomes by updating the process used to identify children with signs of developmental delays. The budget package also clarifies that fetal alcohol syndrome is an established condition with harmful developmental consequences. Changes include separating communication delays into expressive and receptive communication and lowering the threshold to qualify for early intervention from a 33 percent delay to a 25 percent delay.

Savings for Self-Determination Program Participants. The budget provides \$7 million ongoing (\$4 million General Fund) to remove the requirement that financial management services be paid out of the individual budgets of self-determination program (SDP) participants and instead requires regional centers to pay the full cost of the services. Moving the costs of the financial services to the regional centers will ensure more individuals and families, and particularly those with lower-incomes, are not dissuaded from participating in SDP.

Work Activity Programs Transition Pilot Program. The budget includes \$8 million one-time (\$5 million General Fund) to establish a three-year pilot program that focuses on competitive integrated employment, postsecondary education, and career readiness for individuals with developmental disabilities exiting work activity programs or high school. In light of the phase-out of subminimum wage jobs and the decline in Work Activity Programs, this pilot program is needed to provide more choices and resources to assist I/DD individuals in the transition to competitive employment.

Child Care Programs

Key Points

- **Expands Child Care Access.** Allocates \$932 million to continue expanding the number of Alternative Payment Program, General Child Care and Migrant Child Care slots.
- **Child Care Stipends.** Includes \$354 million (\$34 million General Fund) for one-time child care stipends for children enrolled in subsidized child care.
- **Extends Family Fee Waivers.** Provides \$136 million one-time federal funds to extend the waiver for family fee collections by one year, to June 2023, and authorizes reimbursement to contractors for family fees not received.
- **Child Care Facility Renovation and Repair Funds.** Includes \$100 million in federal funds for renovations and repairs to child care facilities.
- **Maximum Certified Hours of Care.** Allocates \$114 million to extend the reimbursement for providers based on the maximum authorized hours of care, regardless of attendance.
- **Child Care Bridge Expansion.** Includes \$35 million ongoing General Fund to expand access and support the Emergency Child Care Bridge Program.
- **Child Care Providers Health and Retirement Benefits.** Provides \$100 million one-time General Fund for the Department of Social Services (DSS) to implement a labor agreement regarding health and retirement access.

Alternative Payment Program Child Care Slots Expansion. The budget allocates \$932 million for the Alternative Payment Program, General Child Care, and Migrant Child Care slots to expand child care access, with a priority on general child care slots serving children who are between the ages of 0 to 3. This continues the multi-year agreement from the 2021 budget to add 80,000 child care slots by 2025-26 for a total of 200,000 additional slots.

One-time Child Care Stipends. Included in the budget is \$354 million (\$34 million General Fund) for the Department of Social Services to provide one-time flat rate stipends for each child enrolled in a subsidized child care program. These stipends may be used for COVID-19 pandemic relief and to help child care providers remain open or to reopen in light of decreased enrollment or closures. The pandemic was especially difficult for child care providers and these stipends will assist in making them whole again.

Extended Child Care Fee Waivers. The budget includes \$136 million one-time federal funds to extend the family fee waiver by one year, from July 1, 2022, through June 2023. Contractors are also required to reimburse subsidized childcare providers for the full amount of the certificate or voucher without deducting family fees. The extension of this provision continues to allow families the opportunity to maintain stable childcare. Additionally, in light of rapidly increasing inflation, waiving family fees immediately puts money back into the pockets of families and childcare providers.

Renovations and Repairs to Child Care Facilities. The budget provides \$100 million in one-time federal funds for the acquisition, construction, development, and renovation of child care facilities operated by private, non-school owners. The additional funding is allocated to the Child Care and Development Infrastructure Grant Program, which seeks to expand access to child care and development and preschool opportunities for children up to five years of age. In light of the struggle to

meet current child care demands, building new facilities and retrofitting existing infrastructure could aid in expanding access.

Continues Hold Harmless Child Care Reimbursement. The budget includes \$114 million (\$6 million General Fund, \$108 million federal funds) for DSS to extend the reimbursement for full-day and part-day childcare providers based on the maximum certified hours of care, regardless of attendance, from July 1, 2022 through June 30, 2023.

Foster Youth - Emergency Child Care Bridge. The budget provides \$35 million ongoing General Fund to support and expand access to the Emergency Child Care Bridge Program. The program was created to help stabilize foster children during the “timing gap” in access to child care. Often children are placed with relatives, who need quick access to child care in order to care for their new family member and maintain their employment situation. State-subsidized child care programs usually operate at full capacity and have short enrollment windows that rarely align with a child’s placement into foster care. The bridge program helps bring stability to these children’s lives, setting them up for better futures.

Child Care Providers United (CCPU) Health and Retirement. In July 2021, the state authorized a new union for child care providers as part of the budget package (AB 131). Some of the provisions in the original agreement included rate increases, provider licensing incentives, and supplemental payments. This budget augments that agreement and allocates \$100 million one-time General Fund for DSS to provide healthcare benefits to those union members, including premium and out-of-pocket healthcare assistance to providers enrolled through Covered CA, Medicare, Medi-Cal, or a partner/spouse’s employer-based plan and for the purpose of paying administrative, outreach, and other related costs. Although these funds are described as one-time, the benefits are likely to be ongoing, raising questions about whether the costs are truly intended to be one-time.

The budget also provides \$100,000 one-time to establish a health care benefits trust administered by CCPU to maximize healthcare benefits provided through Covered California and other plans for Family Child Care Providers represented by CCPU. These changes are part of a side letter agreement to amend the current memorandum of understanding (MOU) that was entered into by the state and CCPU for the first time in the 2021 budget. The current MOU is in effect from July 26, 2021 through June 30, 2023.

K-12 Education

Key Points

- **Proposition 98.** Proposition 98 funding is at \$110 billion for K-14, an estimated \$17 billion increase over the 2021 Budget Act.
- **Enrollment Decline Protection.** Amends the K-12 Local Control Funding Formula to consider the greater of a school district's current year, prior year, or three prior years' average daily attendance, in order to mitigate funding reductions from lower attendance.
- **Learning Recovery Block Grant.** Provides \$8.5 billion in one-time Proposition 98 General Fund in the form of grants to schools to increase or stabilize the amount of instructional time provided to students, provide learning supports, and address other barriers to learning.
- **Expanded Learning Opportunities Program.** Increases the program by \$3 billion over prior year, bringing total funding to \$4 billion ongoing.
- **Enacts Policies Unrelated to Budget.** A late-session trailer bill included various policies from legislation that stalled in the policy committee process.

Tiny Proposition 98 Funds Increase from Prior Year. The 2022 Budget has Proposition 98 funding at \$110 billion in 2022-23. This reflects a small increase of \$117 million from the revised 2021 Budget Act and an increase of \$31 billion dollars from the 2019 Budget Act.

Total funding for California's estimated 5.9 million student body is at an all-time high, with \$128 billion available. Of this amount, \$78.6 billion is supported by the General Fund and the remaining \$50 billion from other funds. Per pupil spending would reach \$16,993 in Proposition 98 funds and \$22,893 from all funds. This represents an increase of \$8,276 per pupil (49 percent) compared to ten years ago.

Proposition 98 Rainy Day Funds. The Budget also includes 2020-21, 2021-22, and 2022-2023 payments of \$3.1 billion, \$4 billion, and \$2.2 billion (respectively) into the public school reserve (technically called the Public School System Stabilization Account, or PSSSA). The total school reserve balance is \$9.5 billion at the end of 2022-23. There is a cap of 10 percent on local school district reserves in fiscal years immediately succeeding those in which the balance in the state school reserve is equal to or greater than 3 percent of the total K-12 share of the Proposition 98 Guarantee. The balance of \$7.1 billion in the 2021-22 year triggers school district reserve caps beginning in 2022-23. This element of state law, enacted by Democrats in 2017 (SB 751), continues to raise concerns, as it represents unwarranted interference by the state into local school district decisions.

Local Control Funding Formula (LCFF). The Budget includes the largest LCFF cost-of-living adjustment to date at 6.56 percent. Additionally, the budget includes an ongoing Proposition 98 base funding adjustment of \$4.32 billion (6.28 percent) to the LCFF, for a total increase of nearly 13 percent. This additional infusion of funding toward the base is to help school districts and charter schools address ongoing fiscal pressures, staffing shortages, and other operational needs.

Enrollment Decline Protection. The Governor's January budget assumed a 0.4 percent decline in statewide attendance from 2019-20 to 2020-21 and a 2.7 percent decline in 2021-22, for a two-year decline of 3.1 percent. Recent data released by the California Department of Education shows that statewide attendance for school districts and charter schools is down 8.1 percent (about 473,000) from 2019-20 to 2020-21, or roughly 5 percentage points lower than anticipated. According to the Legislative Analyst's Office, about half of average daily attendance decline is likely attributable to enrollment

decline with the remaining attendance decline attributable to changes in attendance rates during the pandemic.

To support the fiscal stability of schools, including those with declining enrollment, the budget allows school districts to use the greater of current year or prior year average daily attendance or an average of the three prior years' daily attendance to calculate LCFF funding. The budget also allows all classroom-based charters to be funded at the greater of their current year average daily attendance or their current year enrollment, adjusted for pre-COVID-19 absence rates in the 2021-22 fiscal year. Notably, non-classroom based charters are, once again, excluded from declining enrollment protections.

The overall fiscal impact to implement the above efforts is \$2.8 billion ongoing Proposition 98 General Fund and \$413 million one-time Proposition 98 General Fund.

Learning Recovery Block Grant. This year's budget established the Learning Recovery Emergency Fund with \$8.6 billion in one-time Proposition 98 General Fund (transferring the General Fund to an "Emergency Fund" allows the expenditure to be exempt from the Gann limit.) This Fund will support the Learning Recovery Emergency Block Grant, which will help assist schools in establishing programs and initiatives related to learning recovery. Of this amount, \$7.9 billion will go to K-12 schools through 2027-28 and \$650 million will support the California Community Colleges. Funds are prescriptive and can be used for any of the following purposes: Instructional Learning Time, Closing Learning Gaps, Student Supports, Instruction and Academic Services.

Expanded Learning Opportunities. The 2021 Budget Act included \$1 billion ongoing and \$753 million one-time Proposition 98 General Fund in the first year of a multiyear effort to implement expanded-day, full-year instruction and enrichment for all elementary school students called the Expanded Learning Opportunity Program (ELOP). Funding for ELOP goes to districts who have flexibility over how programs are allocated across school sites, is apportioned by formula rather than through a competitive grant process, and amounts are based on a district's number of English learner and low-income (EL/LI) students in grades TK through 6, not student participation in the program. The ELOP implementing legislation established two funding rates, depending on the proportion of EL/LI students in a district's student population.

The 2022 Budget Act includes an additional \$3 billion ongoing Proposition 98 General Fund for the ELOP, for total ongoing program funding of \$4 billion. The additional funds are intended to increase per-pupil funding for the program and expand the number of schools offering no-cost services. The funds are intended to flow to districts as competitive grants, similar to the prior year. To that end, non-classroom-based charter schools continue to be excluded from these funds. Further, the budget continues to assume full fiscal implementation of the program will take place by 2025-26.

Home-to-School Transportation. California currently ranks last in the nation in number of students bused per capita, with only 1 in 10 students taking a bus to school as a result of a severe, persistent underfunding of school transportation programs. To support school transportation programs, the Budget provides \$637 million ongoing Proposition 98 General Fund to reimburse schools up to 60 percent of their transportation costs in the prior year. Currently, school districts and county offices of education spend roughly \$1.8 billion annually on home-to-school transportation, and most limit busing only to students for whom federal law requires it. Once again, charter schools are excluded from eligibility for this program.

Special Education. An increase of \$500 million ongoing Proposition 98 is included in the budget. These funds are paired with the following policy changes:

- Changes to the special education funding formula to calculate allocations at the school site level rather than the Special Education Local Plan Area (SELPA) level. This change is intended to bring more transparency to the school sites related to the amount of funding they are generating. It is important to note that the flow of funds will still move through the SELPA to the school site.
- Consolidate two special education extraordinary cost pools into a single cost pool to simplify the current funding formula.
- Beginning in 2023-34, allocate Educationally-Related Mental Health Services funding directly to local educational agencies rather than to SELPAs.
- Develop a Special Education Addendum to the Local Control and Accountability Plan that will support inclusive planning and link special education and general education planning.

Educator Workforce. The budget continues to build on prior-year efforts to increase the preparation, training, and retention of well-prepared educators. Specifically, \$48.1 million General Fund is provided to support a variety programs, such as:

- \$24 million to support the waiver of certain teacher examination fees
- \$20 million toward integrated teacher preparation programs
- \$2.7 million to support Commission on Teacher Credential state operations
- \$1.4 million to establish career counselors for prospective educators

The budget package also amends the statute related to substitute teaching assignments allowing any holder of a credential or permit to serve in a substitute teaching assignment, as specified, for up to 60 cumulative days.

Early Learning and Care. The budget includes the following related to early learning and care:

- Requires California State Preschool Programs to ramp up to serve at least 10 percent students with disabilities by 2024, and provide additional supportive services for dual language learners.
- \$166 million Proposition 98 General Fund to cover full-year costs of State Preschool rate increases that began January 1, 2022.
- \$1.1 million one-time General Fund for the 2021-22 school year to support waiving the family share of cost for children participating in the State School Program.
- \$762 million in a mix of one-time Proposition 98 and non-Proposition 98 General Fund for efforts including:
 - \$500 million one-time for grants to high-needs schools to hire and train literacy coaches and reading specialists.
 - \$250 million one-time to establish a grant program to enable schools to create or expand multi-lingual school or classroom libraries offering culturally relevant text to support reading instruction.
 - \$10 million one-time for the Department of Public Health to partner with First 5 California on Books for Children program.
 - \$2 million one-time General Fund to incorporate early identification for learning disabilities into the state's preschool assessment tools, including a process for follow-up by expert evaluators.
 - \$60 million one-time to provide training for educators on effective use of these tools.

K-12 School Facilities. The budget includes \$30 million Proposition 98 General Fund per year for two years to support eligible facilities costs for the Charter School Facility Grant Program. These funds can be used by eligible charter schools for costs associated with remodeling buildings, deferred maintenance, initial installation or extension of service systems and other built-in equipment, site improvements, and facility modifications to mitigate the spread of COVID-19.

Enacts Policies Unrelated to Budget. A late-session education trailer bill (AB 185) included non-budget policy changes from various pieces of proposed legislation that stalled during the policy committee process. These policies include:

- Extending the sunset for certain graduation requirements related to career technical education through July 1, 2027, in a manner similar to AB 2044 (O'Donnell, 2022), which passed the Assembly with zero No votes.
- Adds needlessly pro-union elements to school design-build processes, in a manner similar to AB 902 (O'Donnell).
- Makes changes to school summer assistance programs, similar to AB 1691 (Medina).

School Facility Construction Dispute. The late-session education trailer bill also changed parameters for when school districts can charge fees to developers for new school facilities. Schools believe these changes will potentially create impediments to their ability to charge fees, and thus to build new facilities. However, the building industry believes the changes are needed to avoid unfairly high fees and to update criteria to reflect the availability of General Fund for school construction, rather than focusing solely on bond fund availability. This is the sort of dispute that would have benefitted from the broader discussion that can happen through the policy bill process, and it illustrates the difficulty with the majority's practice of adding new policies in last-minute trailer bills.

Higher Education

Key Points

- **Multi-Year Compacts.** Maintains multi-year plans with the University of California (UC), California State University (CSU), and Community Colleges (CCC) that includes a five-percent increase in base General Fund annually for five years, contingent on advancing certain priorities.
- **Student Housing.** Provides an additional \$200 million to the Higher Education Student Housing Grant program, bringing total funding to \$2.2 billion for student housing grants over a three-year period.
- **Cal Grant Reform.** Tentatively expands Cal Grants, contingent on available revenue, to make 150,000 more students eligible for aid starting in 2024-25, including 109,000 community college students who would be newly eligible for non-tuition expenses like food and housing.
- **Future Housing Loan Program.** A late trailer bill sets up parameters for a potential future housing loan program and states intent to provide \$1.8 billion in future years.

Higher Education Budget Summaries. The table below shows the General Fund and total fund budget for each of the three higher education systems. Significant adjustments for each system are described below. For the California State University, various General Fund program increases are offset in the overall budget by “baseline” decreases in the operations and maintenance budget.

Higher Education Budgets						
<i>Dollars in Billions</i>						
	2021-22		2022-23		Change	
	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds
University of California	\$4.7	\$43.9	\$5.1	\$46.4	\$0.4	\$2.5
California State University	\$5.2	\$12.0	\$5.2	\$12.0	\$0.0	-\$0.1
Community Colleges	\$8.8	\$13.3	\$9.0	\$13.4	\$0.2	\$0.1

Note: Numbers may not sum correctly due to rounding.

California Community Colleges (CCC). The CCC budget includes the following adjustments:

- \$600 million ongoing Proposition 98 General Fund for a base increase to the Student Centered Funding Formula. This includes \$400 million to raise the rates for the base, supplemental, and success allocations, and \$200 million to augment the basic allocation within the base allocation.
- \$493 million ongoing Proposition 98 General Fund is provided to support a 6.56 percent cost-of-living adjustment for CCC apportionments.
- \$27 million ongoing Proposition 98 General Fund to support 0.5 percent enrollment growth.

- Student enrollment and retention efforts receive an increase of \$150 million one-time Proposition 98 General Fund, while select categorical programs receive an increase of \$130 million ongoing Proposition 98 General Fund.

California State University. The CSU budget includes the following adjustments:

- 5 percent base increase of \$211 million ongoing General Fund for operating costs.
- \$81 million ongoing General Fund to support California resident undergraduate student enrollment growth of 9,434 full-time equivalent students in the 2022-23 academic year.

University of California. The UC budget includes the following adjustments:

- 5 percent base funding increase of approximately \$201 million ongoing General Fund for operating costs.
- \$68 million ongoing General Fund to support California resident undergraduate student enrollment growth of 6,230 full-time equivalent students between 2018-19 and 2023-24.
- \$31 million ongoing General Fund to offset revenue reductions associated with the replacement of 902 nonresident undergraduate students enrolled at three campuses with an equivalent number of California resident undergraduate students at these campuses in 2022-23.

Multi-year Compacts Tied to Base Growth and Expectations. The budget reflects the Governor's budget multi-year compacts with the UC, CSU and the CCC, which focuses on shared priorities benefitting students. The largest part of the compact includes sustained funding, equivalent to a five-percent increase in base General Fund resources annually for five years, in exchange for clear commitments from each segment to expand student access, equity, and affordability, and to create pathways for students to study and enter careers in health, education, climate action, and technology.

Student Housing. Building on the prior year's investment into affordable student housing, the budget provides an additional \$200 million toward the Higher Education Student Housing Grant Program. This brings total program funding to \$2.2 billion over a three-year period. The budget authorizes funding of the remaining eligible projects identified during the first round of the grant program, but that did not receive funds from the initial \$500 million provided.

The budget also includes intent language to provide \$1.8 billion General Fund, over two years, to establish a student housing revolving loan program for the UC, CSU, and the CCCs. Additional details are contingent upon future legislation.

Cal Grant Reform. The budget includes language that simplifies the Cal Grant program by consolidating it into two awards: one for community college students and another for four-year students. Under the reformed Cal Grant program, there would no longer be a GPA requirement for community college students seeking awards. They currently need a 2.0 GPA to be eligible for those awards, which some critics cite as a major barrier, particularly for older students who have trouble tracking down high school transcripts. However, these changes are predicated on the availability of revenue in 2024-25.

California Student Aid Commission. In addition to the budget's commitment to Cal Grant Reform beginning in 2024-25, contingent on a determination in the spring of 2024 that sufficient funds are available, the budget also includes several notable adjustments to other financial aid vehicles available to California students:

- Middle Class Scholarship. Includes an increase of \$515 million ongoing General Fund, for a combined total of \$632 million, to support a modified version of the Middle Class Scholarship program. The modifications will focus resources toward reducing a student's total cost of attendance, including housing, transportation, and food. Similar to the Cal Grant Reform, the budget includes intent language to provide an additional \$227 million on a one-time basis beginning 2023-24 to supplement funding available for the program.
- Independent Colleges and Institutions. The budget provides \$15.5 million ongoing General Fund to increase the maximum Cal Grant award for students attending independent colleges and institutions to \$9,358 in the 2022-23 award year, and extends the eligibility of the awards to students with dependent children and foster youth or former foster youth.
- Learning-Aligned Employment Program. An increase of \$300 million one-time General Fund will support the Learning-Aligned Employment program, which provides a two-year total of \$500 million when combined with funds provided to establish the program in the 2021 Budget Act.

Other Higher Education Proposals. Other notable higher education proposals include the following:

- UC Hastings. An increase of \$2 million ongoing General Fund for operational costs to the UC Hastings campus, as well as an increase of \$90 million one-time General Fund to support the facility improvement project at the 100 McAllister Street building.
- Deferred Maintenance. An increase of \$125 million one-time General Fund to both the UC and CSU for deferred maintenance, seismic mitigation, and energy efficiency projects. Notably, these amounts are far below the billions in deferred maintenance projects identified at both institutions.

State Library. The budget includes an increase of \$50 million one-time General Fund in the budget year, and a planned increase in the 2023-24 fiscal year, for a matching grant program to support library maintenance, improve energy efficiency and sustainability, and expand digital access to library resources. Additionally, \$68 million one-time General Fund is provided to establish the Dolly Parton Imagination Library.

Future Housing Loan Program. A late-session trailer bill (AB 190) sets up parameters for a potential future housing loan program to build residential facilities for either students or faculty members. The bill states legislative intent to provide, but does not actually appropriate, \$1.8 billion over the next two fiscal years for this new Student Housing Revolving Loan Program.

Business, Labor, and Workforce Development

Key Points

- **Fumbles the Unemployment Insurance (UI) Debt.** Fails to adequately address the Unemployment insurance debt, instead appropriating a mere \$250 million towards the \$18 billion loan balance.
- **Supplemental Paid Sick Leave Grant Program.** Provides \$250 million in grants to some small businesses and nonprofits for costs incurred providing supplemental paid sick leave.
- **Targeted Support for California Businesses.** Provides more than \$600 million in additional financial support to California business owners.
- **Displaced Oil and Gas Worker Pilot Programs.** Includes \$60 million one-time General Fund to (1) create a pilot program to assist displaced oil and gas workers and (2) to train those workers in Kern and Los Angeles Counties to cap open and abandoned wells.
- **Focus on Apprenticeships and Earn-and-Learn Pathways.** Includes funding over several years for multiple apprenticeship and earn-and-learn pathways targeted at youth and non-traditional apprenticeships.
- **Women in Construction Priority Unit.** Provides \$15 million General Fund ongoing to establish the Women in Construction Priority Unit to support women and nonbinary individuals in the construction workforce.
- **Five-Year Plan to Modernize the EDD.** Provides \$136 million (\$68 million General Fund) one-time for EDD Next, a five-year plan to modernize the EDD.

Fails to Sufficiently Address the UI Debt. The budget appropriates a measly \$250 million for payments towards the UI Fund Loan, which has an astonishing balance of roughly \$18 billion. The budget also insufficiently addresses the increase in UI taxes for all businesses that will increase by \$21 per employee beginning in 2023 and annually after that until the debt principal is paid. Employer taxes pay the principal on the debt, but the state General Fund pays the interest, which will amount to between \$460 million and \$630 million in 2023.

The budget also states that it is the “intent” of the Legislature to appropriate \$500 million in the Budget Act of 2024 to provide relief for small businesses. The majority party has also indicated that there will be an additional \$750 million appropriated to pay down the UI Debt in the 2023-24 budget, but intent language specifying this has not been included. The uncertain “intent” to provide relief is inadequate for businesses who have struggled over the past two years to remain open. Failing to pay down the UI debt now will lead to the state paying more interest over the long run and to employers paying more in UI taxes.

COVID-19 Supplemental Paid Sick Leave Grants and Extension. The budget allocates \$250 million to implement the California Small Business and Nonprofit COVID-19 Relief Grant Program within GO-Biz. This program will provide grants of up to \$50,000 to qualified small businesses and nonprofits that have incurred costs providing COVID-19 Supplemental Paid Sick Leave. Small businesses and nonprofits must have between 26 to 49 employees to qualify, and the grants provided are tax exempt. Current law only requires employers with 26 or more employees provide supplemental paid sick leave. Language in the budget also authorizes the Department of Finance to allocate an additional \$70 million towards the program if there is an increase in federal funding.

Unfortunately, the budget also extends the COVID-19 supplemental paid sick leave mandate an additional three months from September 30, 2022 to December 31, 2022 (SB 114). This is an unnecessary extension of a one-size-fits-all policy that is simply not warranted by current conditions.

Targeted Support for Businesses. The budget provides more than \$600 million within several agencies and departments to provide support for selected businesses across the state, including the items below. While these funds may assist favored groups, this sort of assistance pales in significance compared to broader, ongoing reforms that are needed for this state's numerous anti-job policies, which Democrats typically refuse to acknowledge.

- \$200 million to establish a new venture capital program within the California Infrastructure and Economic Development Bank (IBank) to focus on:
 - 1) Supporting demographically underrepresented venture capital managers
 - 2) Investing in underrepresented and underserved entrepreneurs and business owners
 - 3) Investing in geographic areas that are socio-economically disadvantaged or that receive very limited venture capital funding
 - 4) Promoting climate equity and climate justice.
- \$120 million General Fund for a second year of funding for the Cal Competes Grant Program. The budget establishes additional eligibility criteria for GO-Biz to consider, including issues around other state's enacted laws on the basis of sexual orientation, gender identity, gender expression, or abortion, as well as how companies treat their workforce, including wages, training, labor, and management support.
- \$75 million for the new Agriculture Drought Relief Grant program within GO-Biz to provide direct assistance to eligible agriculture-related businesses that have been affected by severe drought conditions.
- \$50 million General Fund within the IBank to provide grants to community development financial institutions to provide technical assistance and capital access to economically disadvantaged communities in the state.
- \$40 million General Fund to waive filing fees for new businesses registering with the Secretary of State from July 1, 2022 through June 30, 2023.
- \$30 million General Fund over two years to establish the new California Containerized Ports Interoperability Grant Program. The program will provide grant funding to specified ports in California to improve interoperability among containerized ports.
- \$25 million General Fund within the Government Operations Agency to provide financial and technical assistance to "employment social enterprises" for capacity building and job retention. Employment social enterprises are businesses that provide jobs, on-the-job training, and specialized supports to people who face high barriers to work, including people previously incarcerated or homeless, or who have substance use or mental health issues.
- \$20 million General Fund for the newly rebranded Accelerate CA: Inclusive Innovation Hub Program. The budget establishes the Entrepreneurship Fund to provide grants of up to \$100,000 per business for five new businesses incubated at each of the inclusive innovation hubs, and requires GO-Biz to evaluate the effectiveness of the program.

- \$15 million General Fund for the California Venues Grant program. The budget also expands eligibility for the program to independent theatres. A total of \$4 billion (\$2.5 billion General Fund and \$1.5 billion federal funds) has been allocated to provide relief for small businesses through the 2021-22 budget.
- \$15 million General Fund for the California Office of Tourism within GO-Biz, which works closely with Visit California.
- \$11 million General Fund to establish the new Immigration Integration and Economic Development Grant program within GO-Biz. Of the \$11 million in competitive grants, \$8.7 million would focus on development or expansion of local immigrant integration initiatives, and \$2 million would go to service providers to develop export training programs and curriculum aimed at underserved business owners, including immigrant entrepreneurs.
- \$6 million General Fund in 2022-23 and \$23 million annually thereafter to fund the Technical Assistance Expansion Program (TAEP). The budget also includes \$8 million in additional TAEP funds specifically for Women's Business Centers.

Displaced Oil and Gas Worker/Well-Capping Workforce Pilot Programs. The budget includes \$40 million to establish the Displaced Oil and Gas Worker Fund and \$20 million one-time General Fund to support a pilot program in Kern and Los Angeles Counties to train displaced oil and gas workers in capping open and abandoned wells. The programs could potentially help workers who are being pushed out of the oil and gas industry as a result of the majority party's misguided climate policies, which force the state to buy oil from overseas and ship it to California on diesel tankers, rather than produce it more cleanly in Kern County.

The Year of the Apprenticeships. The budget includes several apprenticeship proposals and earn-and-learn pathways to continue the state's efforts to subsidize quality jobs, including:

- **Apprenticeship Innovation Funding Program.** \$55 million General Fund in 2022-23 to provide grants, reimbursements, or other funding for the support of an apprenticeship program or training of apprentices. The Administration claims that an additional \$60 million in 2023-24 and 2024-25 will be provided, for a total of \$175 million General Fund over three years, but no intent language was included in the budget.
- **California Youth Apprenticeship Program.** \$20 million General Fund in 2022-23 to launch this program to provide grants for apprenticeships for individuals from 16 to 24 years of age who are at risk of disconnection or are disconnected from the education system or employment, unhoused, in the child welfare, juvenile justice, or criminal legal systems, living in concentrated poverty, or facing barriers to labor market participation. States intent to provide an additional \$20 million in 2023-24 and \$25 million in 2024-25.
- **California Youth Leadership Corps (CYLC).** \$20 million General Fund in 2022-23 for community change learn-and-earn career pathway programs at 20 selected community colleges. CYLC will launch programs this year in Mission College in Los Angeles, Fresno City College, De Anza College in San Jose, Los Angeles Trade Tech College, and Riverside Community College, with eventual expansions to other community colleges across the state. States intent to provide \$20 million annually through 2024-25.

While the goals of these programs are admirable, they are duplicative of other apprenticeship programs and push "high-road" employment standards, which CalChamber has characterized as, "...simply a

euphemism for the policy agenda of the labor movement, and would inevitably come at the expense of small businesses, new businesses, worker flexibility, and nontraditional business models."

Establishes the Women in Construction Priority Unit. The budget appropriates \$15 million General Fund to establish a Women in Construction Priority Unit (WCPU) at the Department of Industrial Relations to coordinate and help ensure collaboration across the departments and maximize state and federal funding to support women and nonbinary individuals in the construction workforce. This proposal adopts language from SB 1115 (Skinner 2022). It is not clear how exactly these funds will be used, or whether any objective program success metrics will be assessed.

Establishes a Plan to Modernize the EDD. The budget provides \$136 million (\$68 million General Fund) one-time for EDD Next, 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 data analysis tools to aid in curbing fraudulent benefit claims, and reform training and upgrade tools to increase the pace of application processing. Some immediate improvements include call center redesign, online portal enhancements to improve the online experience for claimants and employers, and expanded fraud data analytics.

Public Safety and Judiciary

Key Points

- **Crime Reduction Efforts Fall Short.** Funding for organized retail theft crackdown and enhanced drug enforcement efforts is welcomed, but fails to adequately address recent spike in violent crime.
- **Prison Closure Accountability Withers and Dies.** Action to thwart Northern California city's lawsuit also hamstrings future prison closure accountability efforts.
- **Increased Funding for Courts Provides Relief, but More Needed.** Trial courts receive funds to establish new judgeships, offset inflation, and improve equity, but shortage of judges persists.
- **Legal Gun Ownership Prospects Continue to Wane.** Majority party continues to inhibit lawful gun ownership in California while shirking responsibility to remove firearms from violent criminals.

Crime Reduction. The budget provides approximately \$140 million in new General Fund spending for crime reduction efforts in 2022-23, which include the following:

- \$107 million to crack down on organized retail theft (ORT). The budget indicates intent to continue these funds for two additional years, although those amounts are not certain since there is currently no appropriation beyond 2022-23.
 - \$85 million for competitive grants to local law enforcement agencies to combat ORT.
 - \$12 million for ORT task force leadership in the Los Angeles, Sacramento, San Diego, San Joaquin Valley, and Bay Area regions. This includes \$6 million each for the Department of Justice (DOJ) and the California Highway Patrol (CHP).
 - \$10 million for competitive grants to district attorneys for vertical prosecution of ORT.
- \$23 million in 2022-23 for fentanyl enforcement efforts
 - \$15 million for the California Military Department to expand its drug interdiction program with the primary objective of supporting federal, state, local, and tribal efforts to reduce illicit fentanyl trafficking in the state. The budget indicates intent for another \$15 million in 2023-24.
 - \$8 million in 2022-23 (\$7 million ongoing) for DOJ to establish the Fentanyl Enforcement Program to combat the illegal manufacture, distribution, and trafficking of fentanyl within the state by organized criminal enterprises.
- \$9.5 million in 2022-23 for CHP to enhance enforcement on our roadways:
 - \$5.5 million one-time to deal with unlawful "sideshow" activity (illegal street racing and exhibitions).
 - \$4 million to create a Highway Violence Task Force to address violent crimes being committed on the state's highways. The budget indicates intent to provide \$3.3 million in 2023-24 and 2024-25, though those amounts are not appropriated.

Notably, the budget does not include the \$20 million the Governor proposed in January for grants to small businesses victimized by organized retail theft. Moreover, given the recent spike in homicides and other violent crimes in cities throughout the state and the record-annihilating General Fund surplus, the fact that this budget fails to do more to combat violent crime speaks volumes about the priorities of the ruling party.

Department of Corrections and Rehabilitation (CDCR)

The 2022-23 budget includes total funding of \$14 billion (\$13.4 billion General Fund) for CDCR. This represents an increase of approximately \$540 million above spending levels approved in the Budget Act of 2021.

Promising Drug Treatment Program Expands. The 2019 Budget Act established the Integrated Substance Use Disorder Treatment Program (ISUDTP), providing CDCR \$165 million annually to combine medication-assisted treatment, cognitive behavioral therapy, and personalized pre-release transition planning to break the cycle of drug addiction before returning inmates to their communities. Early results indicate the program is successfully reducing both in-prison overdoses (by 64 percent) and referrals to outside hospitals for drug-related emergencies (by 27 percent). The program's long-term impact on recidivism remains to be seen, but these early results show promise.

The 2022-23 budget expands the ISUDTP, providing an additional \$127 million General Fund in 2022-23 and \$163 million ongoing for CDCR to increase the number of inmates served by the program. This expansion includes the addition of an aftercare component, which research has shown to be indispensable in making drug treatment “stick”. If implemented correctly, this expansion could produce significant reductions in inmate deaths, CDCR costs, and recidivism.

No Accountability for Prison Closures. After several years of prison population declines following criminal justice “reforms,” a 2018 budget trailer bill, AB 1812, provided a list of criteria for CDCR to consider in selecting prisons for closure. Later, the 2020 Public Safety budget trailer bill, SB 118, required CDCR to identify two prisons for closure by January 10, 2022 and provided additional criteria for CDCR to consider in doing so.

The first prison selected for closure was the Deuel Vocational Institute (DVI) in Tracy. CDCR announced its plan in 2020, and all operations at DVI ceased in the summer of 2021. On April 13, 2021, CDCR announced plans to close the California Correctional Center (CCC) in Susanville. Virtually the entire economy of the City of Susanville is interwoven with the operations of the two prison facilities there, making the closure of CCC a pending disaster for the community. On July 28, 2021, the City of Susanville filed suit to stop the closure, alleging that CDCR failed to conduct the required California Environmental Quality Act (CEQA) review and did not conduct the formal assessment required by AB 1812 and SB 118. The court granted a temporary stay, halting the closure as the City's legal action proceeds.

The 2022 Budget Act eviscerates the City's lawsuit by exempting prison closures from CEQA, barring legal action by a local government or private individual to force CDCR to comply with the requirements set forth in AB 1812 and SB 118, and requiring the Department to close CCC by June 30, 2023.

In addition to undermining Susanville's lawsuit, the budget language makes it nearly impossible to hold CDCR accountable regarding future prison closure decisions, irrespective of whether the Department follows the law regarding CEQA review or evaluating facilities for closure. The Department of Finance's summary of the 2022-23 enacted budget suggests that the state might be able to close as many as three more prisons by 2024-25. The budget action regarding the closure of CCC means that, going forward, CDCR is in no way obligated to adhere to the criteria provided by the Legislature for selecting prisons to close or to consider the environmental impacts of its decisions, leaving the process ripe for politicization and abuse.

Judicial Branch

The budget includes total funding of \$5.2 billion (\$3.3 billion General Fund) in 2022-23 for the Judicial Branch, including \$3.7 billion to support the trial courts. Relative to the 2021 Budget Act, 2022-23 Judicial Branch spending levels are about \$430 million higher.

Increased General Fund Support for Trial Courts. The 2022-23 budget provides a \$184 million ongoing General Fund augmentation for trial court operations. This increase is intended to offset inflationary pressures and reduce funding disparities between courts. The budget also includes \$162 million General Fund to backfill declining revenues from criminal fines and fees.

New Judgeships. The budget includes \$43 million to fund 23 new judgeships, which accounts for all of those that are established in law but to date have been unallocated due to a lack of funding. It also allocates \$54 million one-time to build out shelled courtrooms (courtrooms for which the exterior 'shell' construction has been completed, but for which interior/finish work is still needed) and make facilities modifications necessary to accommodate the new judgeships. According to the most recent update to the Judicial Needs Assessment, the allocation of these new judgeships will result in six for San Bernardino County, four for Riverside County, two each for Fresno, Kern, and Sacramento Counties, and one each for Kings, Madera, Placer, San Joaquin, Stanislaus, Sutter, and Tulare Counties. The funding allocation reduces the statewide need for new judgeships from 139 in 2020 to about 116 (as identified in the 2020 updated judicial needs assessment). This is a step in the right direction, but still leaves more than 80 percent of the need unmet. The next update to the Judicial Needs Assessment is due in November 2022. Any future judgeships would be allocated according to the prioritization methodology in that report.

New Redding Courthouse. In addition to the funding to build out shelled courtrooms in various counties throughout the state, the August 2022 late budget actions included a \$10 million General Fund appropriation for the construction phase of the New Redding Courthouse in Shasta County.

Firearm Relinquishment Program. The enacted budget provides \$40 million one-time General Fund to establish a court-based firearm relinquishment pilot program in six courts for the safe removal of firearms from individuals prohibited from possessing them. The Judicial Council is charged with selecting the participating courts and ensuring diversity in geographic location and court size among the courts selected, while prioritizing courts with higher numbers of domestic violence restraining orders or gun violence restraining orders.

Considering that the courts have been required since 2016 (by Proposition 63) to ensure mandatory firearm relinquishments have taken place, this funding is long overdue. These funds are prioritized for enforcing civil court relinquishment orders (i.e., domestic violence restraining orders, gun violence restraining orders, or other civil court orders prohibiting the possession of firearms), which means the more challenging cases of removing guns from violent felons may go unaddressed.

Department of Justice (DOJ)

The 2022-23 budget includes total funding of \$1.2 billion (\$434 million General Fund) for DOJ. The Budget Act of 2021 authorized \$1.1 billion in DOJ spending.

Clamping Down on Gun Ownership. The budget includes nearly \$35 million to fund new gun control efforts and research that likely will lead to more gun control laws and make it more difficult to lawfully own a firearm. The bulk of this funding (\$25 million General Fund, one time) is for a grant program administered by the Board of State and Community Corrections to support local gun buyback

programs, despite abundant research showing buybacks to be ineffective. Another \$2 million General Fund (ongoing) will fund the continuing research efforts of the Firearm Violence Research Center at UC Davis. These funds may be better spent removing guns from dangerous felons who illegally possess them.

The remaining \$8 million, mostly from firearms-related special funds, is for DOJ to modernize its firearms databases and make modifications necessary to implement recent legislation limiting access to firearms, tracking sales and transfers of firearm precursor parts, and tracing guns used in crimes back to their sources. At the same time legislative Democrats are entrusting DOJ with ever-increasing gun control responsibilities, the Department finds itself embroiled in controversy regarding its public release of firearm owners' private information near the end of June 2022. This security breach included the names, addresses, dates of birth, and driver's license numbers of Concealed Carry Weapon permit holders and applicants. This is an unacceptable misstep for the state's custodian of firearms data, as the leaked information increases the risk for people such as those who obtained a permit out of fear of domestic violence. The DOJ must be held accountable. Upon learning of the breach, Senator Ochoa-Bogh sent a [letter](#) signed by the entire Senate Republican Caucus to Attorney General Bonta expressing the Caucus' concerns regarding the breach and demanding accountability and corrective action.⁴

Relieving Offenders of the Legal Consequences of Their Crimes. The budget includes \$4.8 million General Fund for DOJ to implement several recently-enacted bills intended to force the courts to resentence offenders convicted of crimes for which the penalties have been reduced or eliminated, or when resentencing has been requested by CDCR or a local prosecutor. While crimes can be redefined and penalties can be changed, that fact remains that when these individuals were originally convicted, their offenses were a crime for which there was a clearly defined penalty. Retroactively relieving these offenders of the consequences for their actions sends the wrong message.

Reparations Task Force. The budget provides \$2.5 million General Fund (one time) for DOJ to continue supporting the work of the Reparations Task Force established by AB 3121 (Weber, 2020). This is in addition to the \$2.2 million appropriated in the Budget Act of 2021 that was made available through 2022-23 for this purpose.

⁴ <https://ochoa-bogh.cssrc.us/sites/default/files/Senate%20Republican%20Caucus%20Letter%20to%20DOJ%206.29.22.pdf>

Resources & Environmental Protection

Key Points

- **Details Lacking on Future Spending Plans.** Intent language contains over \$2.2 billion in spending for programs and activities earmarked for climate, wildfire, and drought in 2023-24.
- **Firefighting Investments.** Provides \$600 million in 2022-23 to better prepare the state for wildfire seasons in the years ahead, and adds fire response tools, but defers additional prevention funds to next year.
- **Water and Drought Resilience.** Includes \$3.6 billion to provide drought relief in some areas while excluding investments in water storage projects.
- **Increases Fines and Penalties.** Continues the attack on affordability to enhance spending flexibility for departments to implement programs and activities previously approved by the legislative majority and opposed by Republicans.

Spending Plans Left to State Agencies

Many Details Still Lacking or Deferred. The budget still leaves many details to the discretion of the Newsom Administration. Additionally, billions of dollars in spending for various purposes are deferred to future years as "intended" amounts subject to future appropriations, including tens of millions for local conservancy wildfire prevention. There is no way to tell how exactly these funds will be spent or, for the "intended" future amounts, if they will be spent.

Spending Reflects Misguided Environmental Policy Agenda. The budget provides hundreds of millions of dollars for "Nature-Based Solutions," a broad set of programs within the Climate Resilience Package. Funding would support efforts to respond to extreme heat, address sea-level rise, and help reach California's commitment to conserving at least 30 percent of California's land coastal waters by 2030. Most notably, the bill includes \$50 million for local assistance grants for acquiring real property to protect natural resources, provide for public access, and implement the state's nature-based solutions agenda. Spending taxpayer money on land acquisitions to accelerate the state's climate plan proves how out of touch the majority is with California's affordability crises. This budget only exacerbates the problem.

Addressing Wildfire

\$1.3 billion for Wildfire Prevention & Resilience: The budget provides \$1.3 billion over two years in 2022 to improve prevention efforts. Unfortunately, 4700 million of this is not actually appropriated in the budget, but only "intended" for appropriation in 2023-24. Thus, that \$700 million is not certain, and the overall commitment to prevention continues to fall short, despite these positive steps. General categories for the spending plan can be found in the chart on the next page.

Wildfire and Forest Resilience Expenditure Plan
(Dollars in Millions)

Investment Category	Department	Program	Early Action 2020-21	2021-22	2022 Wildfire Package (over two years)	Total
Resilient Forests and Landscapes	CAL FIRE	Forest Health Program	\$155	\$160	\$240	\$555
		Forest Improvement Program for Small Landowners	\$10	\$40	\$25	\$75
		Forest Legacy	\$6	\$10	\$33	\$49
		Nursery	\$2	\$9	\$4	\$15
		Urban Forestry	\$10	\$20	\$30	\$60
		Tribal Engagement	\$1	\$19	\$20	\$40
		Post-Fire Reforestation and Regeneration	-	-	\$100	\$100
	Various	Stewardship of State-Owned Land	\$30	\$145	\$130	\$305
Wildfire Fuel Breaks	CAL FIRE	CAL FIRE Unit Fire Prevention Projects	\$10	\$40	\$40	\$90
		Fire Prevention Grants	\$123	\$120	\$232	\$475
		Prescribed Fire and Hand Crews & Contract Counties	\$15	\$49	\$70	\$134
	California Conservation Corps	Fuel Reduction Crews	-	\$20	\$40	\$60
		Residential Centers	-	\$7	-	\$7
Community Hardening	Cal OES & CAL FIRE	Home Hardening	\$25	-	\$25	\$50
	CAL FIRE	Defensible Space Inspectors	\$2	\$13	\$10	\$25
	CAL FIRE & University of California	Land Use Planning and Public Education Outreach	-	\$7	\$9	\$16
Regional Capacity	Department of Conservation	Regional Forest Capacity	\$50	\$60	\$40	\$150
	Conservancies	Project Implementation in High-Risk Regions	\$69	\$139	\$170	\$378
Science-Based Management	CAL FIRE	State Demonstration Forests	-	-	\$10	\$10
		Monitoring and Research	\$3	\$20	\$15	\$38
		Prescribed Fire Liability Pilot	-	\$20	-	\$20
		Interagency Forest Data Hub	-	\$10	-	\$10
	Natural Resources Agency	LIDAR Remote Sensing	-	\$25	\$5	\$30
	Air Resources Board and Water Board	Prescribed Fire and Water Permitting	-	\$4	\$8	\$12
Economic Development of the Forest Sector	IBank	Climate Catalyst Fund	\$16	\$33	-	\$49
	CAL FIRE	Workforce Training	\$6	\$18	\$30	\$54
		Transportation Grants for Woody Material	-	-	\$10	\$10
	Office of Planning and Research	Market Development	\$3	-	\$4	\$7
Total			\$536	\$988	\$1,300	\$2,824

Notable Wildfire Response Improvements. \$157 million (General Fund) is included in the 2022-23 spending plan for wildfire response improvements. Specifically, the budget provides funding for the Department of Forestry and Fire Protection (CalFire) to acquire new helicopters that will enhance the state's ability to anticipate and respond to wildfires by providing better tools to the department. It also supports addressing deferred maintenance, which will preserve resources in the future to maintain appropriate levels of preparedness and response.

The budget appropriates the following to mitigate the impacts of each fire season:

- **\$96 million** for the acquisition of four S70i Fire Hawk helicopters.

- **\$61 million** for deferred maintenance and special repair projects at existing CalFire, Conservation Corps, and California Military Department facilities to accommodate additional fire crews.

Small Step for Environmental Reform. The California Environmental Quality Act (CEQA) requires that most public and private building projects approved by a government agency undergo lengthy and expensive environmental reviews. Neighbors, unions, and some ecological groups routinely abuse it to stall projects they oppose. The budget avoids one such abuse case by streamlining efforts to reduce wildfire risk. Other provisions exempt prescribed fire, thinning, or fuel reduction projects on federal lands from CEQA as long as the project passes review under the National Environmental Policy Act (NEPA).

Water and Drought Spending

No Funding for Water Storage. The budget lacks sufficient funding for water storage that will mitigate current drought impacts and prepare the state for future droughts. The budget also includes unreliable funding commitments for various programs and projects in the coming years. However, the funding is merely symbolic and unenforceable because an act of one legislature is not binding upon future legislatures. Rather than including unenforceable provisions, a budget with substantive provisions that add value to the state's water storage plan would better serve taxpayers.

Delays Water and Drought Resilience Plans. The budget includes \$3.6 billion in water-related spending authorized beginning in 2021-22, but lacks details on how funding would be allocated or projects prioritized, despite the alarming statewide conditions. A multi-billion-dollar package should center on priorities that can help within the next 12 to 24 months while investing in projects that increase drinking water availability, enhance supplies, and provide emergency relief.

Significant spending in 2022-23 is outlined in the paragraphs below and in the table on the next page.

- **\$710 million - Immediate Drought Support:** Funds would support grants to urban water districts and smaller community water suppliers for drought relief projects, education campaigns, local technical assistance, and emergency drinking water response. The Administration notes that \$43.8 million of this funding would also “enhance water rights enforcements,” with no details on how the state plans to use taxpayer money on elusive activities to expand regulatory authority over private property and water resources.
- **\$1.5 billion - Drinking Water, Water Supply and Reliability, Flood:** Various funding sources would provide millions to advance drinking water and clean water projects that leverage significant federal infrastructure funds, and support dam safety and flood management.
- **\$441 million – Agricultural Water Conservation:** The General Fund would support agricultural water conservation practices, provide on-farm technical assistance, provide direct relief to small farm operators, and support additional water conservation projects.
- **\$414 million – Fish and Wildlife Protection:** The budget includes various fund categories to address fish and wildlife impacts associated with drought and climate change and tribal co-management activities.

Drought Resilience and Response
(Dollars in Millions)

Investment Category	Department	Program	2021 Package Total	2022 Package Total	Total
Immediate Drought Support	Department of Water Resources	Small Water Suppliers Drought Relief & Urban Water Management Grants	\$484	\$300	\$784
	State Water Resources Control Board	Water Rights Modernization and Drought Resilience	\$0	\$61	\$61
	Department of Social Services	Drought Food Assistance	\$0	\$23	\$23
	Various	Data, Research, and Communications	\$127	\$142	\$269
		Drought Technical Assistance and Emergency Drought Response	\$57	\$176.3	\$233
		Drought Permitting, Compliance, Curtailments and Water Right Enforcement	\$43	\$8	\$51
Drinking Water, Water Supply and Reliability, Flood	State Water Resources Control Board	Drinking Water/Wastewater Infrastructure and State Revolving Fund	\$1,300	\$400	\$1,700
		PFA's Support	\$100	\$100	\$200
		Water Recycling/Groundwater Cleanup	\$400	\$400	\$800
	Department of Water Resources	Water Storage	\$0	\$500	\$500
		Salton Sea	\$220	\$0	\$220
		Water Conveyance	\$200	\$0	\$200
		Flood and Dam Safety	\$638	\$100	\$738
		Aqueduct Solar Panel Pilot Study	\$20	\$15	\$35
		Watershed Climate Studies	\$25	\$0	\$25
	Natural Resources Agency	Clear Lake Rehabilitation	\$5.7	\$0	\$6
Conservation/ Agriculture	Department of Water Resources	SGMA Implementation	\$300	\$56	\$356
		Agriculture and Delta Drought Response Programs	\$8	\$60	\$68
		Relief for Small Farmers	\$0	\$25	\$25
	Department of Food and Agriculture	On-farm Water Use and Agriculture Technical Assistance	\$5	\$15	\$20
		State Water Efficiency and Enhancement Program	\$100	\$60	\$160
	Department of Conservation	Multi-Benefit Land Repurposing	\$50	\$40	\$90
	Various	Water Conservation Programs (Small and Urban) and Turf Replacement	\$0	\$185	\$185
Habitat/ Nature-Based Solutions	Department of Fish and Wildlife/ Department of Water Resources	Fish and Wildlife Protection	\$0	\$175	\$175
		Improving Drought Resiliency on State-Owned Land and Migratory Bird Habitat	\$8	\$25	\$33
		Studying Salmon and Tribal Co-Management Activities	\$0	\$7.3	\$7.3
	Department of Water Resources	Climate Induced Hatchery Upgrades	\$33	\$17	\$50
		Aquatic Habitat and Drought Resilience and Expediting Large Scale Habitat	\$0	\$149	\$149
	Various	Additional Nature-Based Solutions and Watershed Resilience	\$1,033	\$544.5	\$1,578
Total			\$5,157	\$3,584	\$8,741

Fines and Penalties

Unwarranted Delegation to the Administration. Last year, Senate Republicans voted against SB 170 (Chapter 240, Statutes of 2021), a statewide budget proposal to enhance pesticide enforcement, because of its administrative authority to adjust fees, a decision typically reserved for the Legislature. Similarly, this budget's Resources trailer bill (AB 211) would provide significant discretion to the Department of Pesticide Regulation (DPR) by increasing its statutory decision-making authority to enforce pesticide use and residue violations.

More specifically, AB 211 authorized DPR to levy new fines and expand existing penalties for violations related to pesticide use, up to triple the amount currently collected for some offenses. The revenue would support activities to expand the state's role in pest management, increasing the cost of food

production and doing business in California, despite the economic impacts to growers following the COVID-19 pandemic. While the concept of using safer pesticides has merit, this sweeping change fails to consider the harmful effects on consumers and businesses already facing financial difficulties.

Additional Resources Spending

An end-of-session budget bill (AB 179) added a long list of appropriations, totaling over \$600 million, for the departments and programs listed below. Spending for some of these programs may be supportable, but in many of these cases the plan details remain unclear.

1. Natural Resources Agency

- (A) \$10 million for Redondo Beach Wetlands Restoration.
- (B) \$5 million for the Natural History Museums of Los Angeles County renovation and expansion of the La Brea Tar Pits and Museum site.

2. Wildlife Conservation Board

- (A) \$40 million for San Joaquin Valley Floodplain for the development and delivery of multi-benefit floodplain reconnection and habitat restoration projects in the San Joaquin and Tulare Basins. Eligible expenditures may include, but are not limited to, acquisition, planning and permitting, and scientific research supporting project implementation, including ground-based geophysics, habitat restoration benefitting dwindling wildlife, and habitat maintenance.
- (B) \$67 million for watershed climate resilience grants through the Cascades and High Sierra Upper Watersheds Program to improve watershed protection and climate resiliency.
- (C) \$67 million for watershed climate resilience grants through the land acquisition and habitat enhancement program.

3. Department of Water Resources: \$66.5 million for watershed climate resilience grants to water agencies and other public agencies for drought resilience and identification and assessment of climate risks on a watershed basis.

4. State Water Resources Control Board as follows:

- (A) \$5 million for water refilling stations at schools.
- (B) \$90 million for water recycling projects that produce potable recycled water to supplement drinking water supplies.
- (C) \$80 million for the Metropolitan Water District of Southern California to support the design of a large-scale regional recycled water project.
- (D) \$10 million for the Euclid Avenue Recycled Water System Expansion Project in the City of Ontario.

5. California Environmental Protection Agency: \$500,000 for the water-energy nexus registry.

6. Department of Parks and Recreation:

- (A) \$75 million for the statewide parks programs.
- (B) \$25 million for outdoor equity grants.

7. State Air Resources Board:
 - (A) \$10 million for financial incentives to reduce mobile and stationary sources of criteria air pollutants or toxic air contaminants consistent with community emissions reduction
 - (B) \$10 million for new community emission reduction programs.
8. Department of Community Services and Development: \$15 million for the Low-Income Weatherization Program to support low-income farm workers.
9. State Coastal Conservancy: \$37.5 million to protect communities and natural resources from sea-level rise.

Energy and Utilities

Key Points

- **Strategic Energy Reliability Reserve.** Includes \$2.95 billion for strategic energy reliability investments.
- **Diablo Canyon Power Plant.** Insufficient clean energy resources may result in extended operations of California's last nuclear power plant beyond 2025.
- **Clean Energy Incentives.** Includes \$647 million for various clean energy incentive programs.
- **Financing for Energy Transmission Infrastructure.** Provides \$200 million via the California Infrastructure and Economic Development Bank (IBank) for clean electricity transmission projects.
- **Climate Innovation Program.** Provides \$100 million for a new program to incentivize technologies expediting emission reductions, decreasing the cost of reductions, or increasing resilience to climate change.
- **Power Plant Siting.** Provides exclusive jurisdiction to the California Energy Commission for the siting of certain power generation and storage facilities.

Strategic Energy Reliability Reserve. The budget includes \$2.95 billion (General Fund) for a Strategic Reliability Reserve and AB 205, an energy trailer bill, creates the program components. The Governor promises an additional \$415 million for the Reserve in future years, but there is no binding obligation to provide those funds. This Reserve's goal is to find more power because the grid is unreliable and is at risk of rolling blackouts. Under the program, the Department of Water Resources (DWR) will extend operation of existing power plants scheduled for retirement, purchase additional temporary natural gas generators, and enter additional power purchase agreements. However, these measures are only projected to get California an additional 240 Megawatts (MW) this summer.

The Strategic Reliability Reserve also includes incentivizing the installation of air emission reduction technologies on fossil-fueled backup power generators, the deployment of new zero or low emission backup generation, upgrades at existing generation facilities that yield additional generation capacity, and load reduction during extreme events. These investments are only expected to yield 289 MW this summer, if supply chain constraints do not impact these projects.

Experts have predicted California could face electricity shortfalls of 1,700 MW this summer, but at most, the budget investments only provide an additional 529 MW. Most of the additional electricity in the Strategic Reliability Reserve comes into play for the summer of 2024, when existing (natural gas) power plants scheduled for retirement could remain in operation, adding about 2,800 MW. These reliability investments are needed because California leapt in headfirst to transition the electricity sector to renewable power sources, like wind and solar, but failed to ensure the energy sources are sufficiently diverse to keep the power flowing when the sun isn't shining and the wind stops blowing. While this budget takes a step toward reliability during the transition to clean energy, it may be too little too late in terms of avoiding rolling blackouts.

Diablo Canyon Power Plant. While technically not part of the budget, the legislature passed SB 846 (Dodd, 2022), on the last day of the legislative session to allow PG&E to seek an extension for the operation of the Diablo Canyon Power Plant (DCPP) until 2030. The bill includes a loan up to \$1.4 billion, continued exemption from the once-through-cooling requirement, and numerous fees on ratepayers. Under existing laws and operational approvals, DCPP is slated to fully retire by 2025. However, in the rush to transition to clean power, California has invested nearly exclusively in

intermittent renewable resources, while eliminating resources that provide reliable baseload power or ramping ability.

DCPP currently provides about 9 percent of California's electricity and operates around the clock. It is highly unlikely there will be sufficient clean energy resources online in time to replace the energy produced by DCPP prior to the scheduled retirement. Even with DCPP in full operation, energy demand exceeded supply in August of 2020 and rolling blackouts occurred. Two years later in September of 2022, a heatwave increased demand and California was again at risk of experiencing rolling blackouts.

Considering California's lack of planning for the clean energy transition and resulting struggle to meet current electricity demand, it seems prudent to maintain the option to extend DCPP operations. However, SB 846 was crafted at the eleventh hour and will almost certainly require fixes to avoid unintended consequences. Furthermore, the lack of leadership in this area will result in more expensive electricity bills for Californians already paying the third highest rates in the nation.

Clean Energy Incentives. The budget provides \$647 million to implement seven new incentive programs created by a late budget trailer bill (AB 209) and funds one existing program to promote various types of clean energy projects. These programs are:

- **Incentives for Long-Duration Storage (\$140 million):** 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.
- **Industrial Grid Support and Decarbonization Program (\$100 million):** Incentivizes projects that enable participation in utility load reduction programs, electrify existing fossil fuel processes, incorporate energy storage or renewable resources, increase energy efficiency, or develop and deploy new decarbonization technologies at manufacturing, production, or processing facilities. Specifically prohibits geologic storage of captured carbon.
- **Food Production Investment Program (\$25 million):** Incentivizes projects that enable participation in utility load reduction programs, electrify existing fossil fuel processes, incorporate solar, energy storage, or other renewable resources, increase energy efficiency, or develop and deploy new decarbonization technologies at food production and processing facilities. Specifically prohibits carbon capture projects.
- **Hydrogen Program (\$105 million):** Incentivizes in-state projects that demonstrate or scale-up the production, processing, delivery, storage, or end use of hydrogen. Specifies that projects must use or produce hydrogen created using renewable resources.
- **Equitable Building Decarbonization Program-Direct Install (\$112 million):** At minimal or no cost to low-to-moderate income Californians, provides for the residential installation of products that increase energy efficiency, replace fossil fueled appliances with electric models, or installation of load flexible solutions, for example, rooftop solar plus battery storage.
- **Equitable Building Decarbonization Program-Rebates (\$70 million):** 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 supermarkets and convenience stores.

- **Offshore Wind Infrastructure Improvements (\$45 million):** Financial assistance for infrastructure improvements for California ports, harbors, and waterfront facilities to support the buildout of offshore wind facilities.
- **Carbon Removal Innovation Program (\$50 million):** Incentivizes research, development, and deployment of direct air carbon capture technologies. Specifically excludes projects that would benefit petroleum or gas production, processing, or refining, through enhanced oil or gas recovery.

Given the state's commitment to 100 percent clean energy by 2045, the investment and creation of clean energy programs to diversify and stabilize the grid will be key in achieving that goal and keeping the lights on at the same time. While some of these new programs aim to do just that, others increase demand on an already-stressed electrical grid. The Equitable Building Decarbonization Programs, the Industrial Grid Support and Decarbonization Program, and the Food Production Investment Program seek to replace existing fossil fuel industrial processes, industrial equipment and machinery, and residential appliances with electricity. In many instances, this replacement can occur immediately, yet it may take a decade or more for additional clean energy resources to come on line. Increasing grid demand prior to stabilization will decrease grid reliability and increase the potential for rolling blackouts, if at any time demand exceeds supply.

Additionally, these programs will require major future investment beyond the one-time investment made in this budget. While the budget promises an additional \$1.265 billion in future years, that money is not guaranteed, as there is no binding obligation to provide any additional funding. Changes in the economy are already occurring and some experts predict a recession is on the horizon. Should California experience a decline in revenues in the future, either the programs will be discontinued or the burden to continue the programs will fall on the backs of electricity ratepayers. For 2021, California had the third most expensive residential electricity in the nation, more than 66 percent higher than the national average. It is unknown how much rates will rise if these programs become supported by ratepayers.

Financing for Energy Transmission Infrastructure. The budget provides \$200 million for the financing of electricity transmission projects through the IBank's Climate Catalyst Revolving Loan Program. IBank programs have worked well in the past to spur investment, but this funding is limited to "clean energy transmission projects." Other utility infrastructure upgrades, including insulating and undergrounding wires, are necessary over the long-term to harden utility infrastructure and lessen reliance on public safety power shutoff events (PSPS events), but the funds would not be available for those projects.

The use of PSPS events has become a common practice among utilities aiming to reduce the risk of utility-caused wildfires when certain conditions exist, including high-winds and low humidity. However, necessary upgrades are costly and fall on the backs of utility ratepayers. To the extent that IBank financing has a lower cost to ratepayers than traditional financing secured by the utilities for these projects, it should be available. If the goal of the Climate Catalyst Revolving Loan Program is to fund projects and infrastructure to reduce emissions, what better way than to provide a low-cost option to California's utilities and ratepayers to finance infrastructure upgrades to prevent wildfires that emit millions of tons of GHGs each year?

Climate Innovation Program. The budget provides \$100 million to the Energy Commission for a new program incentivizing development and commercialization of technologies expediting emission reductions and decreasing the cost of those reductions, or increasing resilience to the impacts of climate change. The program scope appears to include projects beyond the energy realm, calling into question why this program was assigned to the Energy Commission rather than the California Air

Resources Board. Specifically, the program will “prioritize investments in technological advances that provide the greatest potential benefits to the state’s climate goals, including, but not limited to, zero-emission transportation, lithium processing, manufacturing, and recovery, regenerative agriculture, and drought and wildfire prevention.” The program is mostly undefined by state law, leaving specifics to the Energy Commission. Furthermore, this funding is available to California-headquartered companies, or companies willing to relocate from states with a perceived lack of anti-discrimination laws protecting sexual orientation, gender identity, or gender expression, or laws that deny or interfere with access to abortions. The nexus between these laws and the desired technological advances are unknown. Perhaps this is simply a slush fund for the Governor to lure certain businesses to California after more than a decade of Democrat policies creating one of the nation’s harshest business climates.

Power Plant Siting. As part of the budget package, AB 205 usurps local control by providing the Energy Commission with exclusive jurisdiction over siting of certain solar and wind power generation facilities, energy storage facilities, and related transmission facilities. It is unknown how many projects will be able to seek site certification through this “streamlined” process, but given the ability to bypass local approval, and the expedited timeline for approvals, it is likely to be a significant number.

Furthermore, this bill provides exclusive jurisdiction to the Energy Commission for facilities seeking certification by DWR under the Strategic Reliability Reserve program. These DWR facilities may not be clean energy sources, but instead can include natural gas and diesel facilities. The California State Association of Counties (CSAC), the League of California Cities, the Rural County Representatives of California (RCRC), and Urban Counties of California opposed this power grab. In addition to exclusive jurisdiction, this bill places various requirements on projects related to labor agreements, prevailing wage, and workforce development, and includes a fast-tracked environmental review process.

Summary of Energy Investments. As described above, the budget includes various investments in energy programs. These are as summarized in the chart on the next page. In addition, the budget promises additional investments of \$2.8 billion in future years, but there is no legal obligation to provide that funding.

Energy Package (\$ in millions)			
Department	Program	General Fund	
		2021-22	2022-23
Energy Commission	Incentives for Long Duration Storage		\$140
	Hydrogen Grants		\$105
	Industrial Grid Support and Decarbonization		\$100
	Food Production Investment Program		\$25
	Equitable Building Decarbonization		\$162
	Offshore Wind Infrastructure		\$45
	DOE Grid Resilience Match		\$5
	Energy Modelling Support		\$7
	Distributed Electricity Backup Assets	\$550	
	Demand Side Grid Support	\$200	
	Carbon Removal Innovation		\$50
	Climate Innovation		\$100
	Energy Data Infrastructure & Analysis		\$5
California Air Resources Board	Equitable Building Decarbonization - Ultra Low Global Warming Potential Refrigerants		\$20
Department of Water Resources	Oroville Pump Storage		\$100
	Support Resources for Reliability		\$3
	Investments in Strategic Reliability Assets	\$1,500	\$700
California Public Utilities Commission	Capacity Building		\$30
IBank/GO Biz	Transmission Financing		\$200
Department of Community Services & Development	California Arrearage Payment Program		\$1,200
Various	AB 525 Implementation		\$2
Total		\$2,250	\$2,999

Transportation

Key Points

- **Legislative Democrats Reject Gas Tax Relief.** Gas taxes increased on July 1 after Governor's modest proposal is rejected. Republican-proposed gas tax holiday also rejected.
- **Transportation Infrastructure Boost.** Includes \$5.4 billion for various transportation infrastructure programs, largely unrelated to road projects.
- **Billions More for Zero-Emission Vehicle Subsidies and Infrastructure.** Includes \$3.4 billion for zero-emission vehicle subsidies and infrastructure investments.
- **Port Infrastructure and Goods Movement.** Includes \$670 million for port-related projects, workforce training, and process and operational improvements to increase goods movement.
- **Billions for High-Speed Rail Comes with Increased Oversight.** Allocates the \$4.2 billion in remaining bond funds and establishes an Inspector General to oversee the project.

Legislative Democrats Reject Gas Tax Relief. Pursuant to SB 1, the 2017 gas and car tax bill, gas and diesel taxes are adjusted for inflation each year on July 1st. The Governor proposed to suspend these increases for one year, but legislative Democrats rejected the modest proposal. As a result, on July 1, 2022, the tax on gasoline increased by 2.8 cents per gallon, and the diesel excise tax increased by 2.1 cents per gallon. These increases will generate \$523 million in tax revenues, on top of the \$8.7 billion generated by gas and diesel excise taxes before the increases.

While a suspension of the July 1 increases would have provided very modest relief, a full gas tax holiday would provide greater relief. Several times over the past year, and most recently in June 2022, ***Republicans proposed a one-year gas tax holiday to provide relief to overburdened drivers by completely suspending the 53.9 cent tax. However, Democrats voted it down each time,*** even though the \$97 billion surplus was sufficient to continue fully funding all transportation programs without the gas tax revenue.

Meanwhile, absent gas tax relief, California gas prices averaged \$6.42 per gallon, the highest in the nation, as of October 6. This average price is nearing the record average price set earlier this year of \$6.438, and is 66 percent higher than the national average of \$3.87 per gallon.

As part of the May Revision, the Governor proposed \$400 vehicle rebates to eligible vehicle owners and funding for locals to provide free transit services for three months. Legislative Democrats rejected these proposals as well, in favor of a more general tax rebate based on income and dependents. Also as part of the May Revision, the Governor proposed a small reduction in the sales tax rate on diesel fuel, which was approved. (For more detail on the general tax rebates and diesel sales tax reduction, see the *Tax Policy* section.

Transportation Infrastructure. The budget includes a General Fund investment of \$5.4 billion in the transportation system. While a substantial portion of this funding is earmarked for Democrat priorities like transit, active transportation, and climate adaptation, using General Fund dollars for these projects means California's other transportation dollars can remain focused on more conventional projects that may actually improve roads. Notably, included in the budget is \$350 million for high-priority grade separations and grade crossing improvements, which Republicans typically support.

Zero-Emission Vehicle Subsidies and Infrastructure Investments. Despite billions in subsidies and investments over the last decade, zero-emission vehicles (ZEVs) have failed to gain an appreciable share of the vehicle market. As of January 2022, less than 2 percent of registered passenger vehicles

in California were electric. In misguided efforts to combat climate change, the Governor set a target to end the sale of passenger gasoline vehicles in California by 2035 and medium- and heavy-duty gasoline vehicles by 2045. The California Air Resources Board (CARB) is expected finalize rules later this year to meet this goal. Unlike the Governor's target announced via executive order, the CARB rules would be legally binding.

The budget continues to pursue that target with \$3.4 billion (\$1.5 billion Proposition 98, \$804 million General Fund, \$726 million Greenhouse Gas Reduction Fund, and \$383 million Federal Funds) to subsidize ZEVs and ZEV infrastructure, focused on low-income consumers and communities, heavy-duty trucks, transit buses, and school buses. Also, the budget promises another \$2.7 billion in future years. However, there is no binding obligation to provide the promised funding in the current year or future years. Coupled with last year's investment and promised future investments, California would spend \$10 billion over six years on the ZEV transition. This is a hefty price tag for California taxpayers, who pay for their own cars or trucks while shelling out tax dollars that give a better deal for higher-income earners' ZEV purchases.

Port Infrastructure and Goods Movement. The budget includes \$670 million General Fund for port-related projects, workforce training, and process and operational improvements to increase goods movement. Of this amount, \$600 million is for port-related high-priority projects to increase capacity on rail and roadways serving ports and at port terminals, including railyard expansions, new bridges, and zero-emission modernization projects. The details of this funding, including project eligibility and project selection criteria, will be developed by the California State Transportation Agency. However, SB 198, the transportation trailer bill, requires that 70 percent of funds be allocated for projects at the ports of Los Angeles and Long Beach, and 30 percent be used for projects at all other California ports. The remaining funding is for a workforce training campus (\$30 million), increased capacity at the Department of Motor Vehicles to issue commercial drivers' licenses (\$10 million), and the Governor's Office of Business and Economic Development to provide funding for operational and process improvements at the ports (\$30 million). The Governor also promises another \$600 million for port infrastructure in 2023-24, but there is no binding obligation to provide this funding in future years.

California High-Speed Rail Authority

Billions for High-Speed Rail Comes with Increased Oversight. After more than a year of negotiations between the Legislature and the Governor, this budget includes \$4.2 billion in remaining Proposition 1A (2008) bond funds for the High-Speed Rail Authority (Authority) to continue the construction of the Merced to Bakersfield high-speed rail line.

The Governor and legislative Democrats finally agreed not only on the money, but that significant increased oversight of the project and the Authority is needed. SB 198 establishes additional oversight, review, and reporting requirements, including the creation of the High-Speed Rail Authority Office of the Inspector General. The Inspector General has broad authority to initiate audits and reviews, conduct independent fiscal analysis, identify best practices, recommend efficiencies, and evaluate contracts and contracting practices, including change orders. The Inspector General is required to regularly report to the Legislature.

In addition to the oversight by the Inspector General, SB 198 requires specific information in business plans and project update reports, establishment of project milestone time lines, notification to the Legislature for various reasons, and prioritization of cap and trade funds to complete the Merced to Bakersfield segment, contingent upon meeting certain requirements. Republicans have been advocating for increased oversight of this project for many years, including proposing oversight by an Inspector General during a 2015 Special Session of the Legislature on Transportation (SBx1-13, Vidak). Finally, Legislative Democrats agree this project needs to be reined in. Perhaps better late than

never, but it is likely billions of dollars in cost overruns could have been avoided if these steps had been taken sooner.

Certainly this additional oversight is a welcome change, but the viability of the project remains questionable at best. When voters approved the high-speed rail bonds, they were told Phase I of the system, San Francisco to Los Angeles, would be operational by 2020 and would cost \$34 billion.

The 2022 Business Plan estimates Phase I costs of up to \$113 billion and no estimated operational date, though much of the data remains based on operations beginning in 2033. Additionally, it does not appear the 2022 Business Plan updated costs to reflect the significant amount of inflation that has occurred. Even absent consideration of inflation, the Phase I costs and 2033 completion date can only be realized if more money is sent to the project faster. ***With the current flow of money to the project, cost escalation outpaces the project, and there will never be enough money to actually build it, even with the appropriation of the remaining bond funds.***

Furthermore, even with the Authority's generous estimate of \$25.2 billion in available funding, an ever-growing funding gap of \$87.8 billion remains, with no viable plan to close the gap. While there is an obvious political desire to get something for the \$9 billion already spent on the project, Californians would save more than \$100 billion if losses were cut by ending the project.

Cannabis

Key Points

- **Cannabis Tax Reform.** Significantly decreases cannabis taxes and backfills losses with General Fund for three years.
- **Greater Environmental Enforcement.** Provides increased authority for locals to enforce environmental laws related to illegal cannabis operations.
- **Union Requirements Expanded.** Expands requirements for labor peace agreements.
- **Illicit Commercial Facilities.** Allows civil penalties be assessed on property owners who knowingly allow illegal commercial activity to occur on their property.
- **Cannabis Equity Operator Subsidies Increased.** Provides substantial financial assistance, in the form of tax credits and venter compensation, to equity operators.
- **Cannabis Tax Allocation.** Includes \$670 million in cannabis tax revenue to be allocated in 2022-23, as required by a specified formula.

Cannabis Tax Reform. It is now clear that the promises of Proposition 64 (2016, Adult Use of Marijuana Act) have failed. California's legal cannabis market is struggling to compete with the illicit market. More than five years after voters legalized recreational cannabis, the illicit market continues to boom, raking in an estimated \$8 billion annually, nearly double the legal market. This budget makes some changes to the cannabis tax structure in an effort to (1) help stabilize the legal market; (2) better support California's small licensed operators; and (3) strengthen compliance with state law. To do so, the budget eliminates the cultivation tax and sets the excise tax at 15 percent for three years. After three years, the excise tax is adjusted to compensate for the elimination of the cultivation tax, but is capped at 19 percent. Finally, the point of collection is moved from the distributor to the point-of-sale.

With the legal cannabis industry on the verge of failing, it is clear changes are necessary. However, relying on reduced taxes to save the legal industry may be a fool's errand. It is unclear that any amount of tax reform will stabilize California's cannabis industry. Further, it is unlikely to have any impact on the illicit market. The illicit market will always have a less expensive product. Unless consumers find additional value in the legal product to rationalize the higher price, or penalties are significant enough to deter illegal activity, the illicit market will continue to thrive.

Backfills Lost Taxes. The budget provides up to \$150 million in General Fund to backfill lost tax revenues resulting from the tax changes in this measure. This backfill would support Allocation 3 programs as provided by Proposition 64. These programs include (1) youth education, prevention, and substance abuse treatment and school retention; (2) clean-up, remediation, and enforcement of environmental impacts of cannabis grows; and (3) public safety-related activities.

Greater Environmental Enforcement. Remote communities are prime targets for illegal cannabis cultivation. Water theft via diversion (illegal wells) affects the water supply in many areas already suffering from drought emergencies and a lack of sufficient water to cultivate food crops. Furthermore, illegal cannabis cultivators are not regulated and often use banned pesticides or misuse authorized pesticides. The budget, via AB 195, supports more enforcement of water diversion and pollution by authorizing city attorneys and county counsels to file civil actions for illegal water diversion and discharge violations, and provides a mechanism for reimbursement of local costs related to bringing an action. These changes are a step in the right direction.

Union Requirements Expanded. As part of the budget package, AB 195 lowers the threshold at which cannabis businesses must enter into labor peace agreements with employees from 20 to 10 employees. Such agreements typically increase the cost of doing business, and in turn the cost of products. Additionally, the budget trailer bill makes labor peace agreements a condition of licensure and provides that cannabis licenses may be suspended, revoked, or placed in a probationary status for violations of these provisions. This mandate expansion will increase product costs when legal cannabis businesses are already struggling, and it runs counter to the budget's other efforts to provide relief.

Illicit Commercial Facilities - Property Owner Penalties. Businesses operating illegally have a major advantage over licensed businesses because they do not comply with state regulations, do not pay state or local taxes, and offer their untested products at substantially lower prices. As part of the budget package, AB 195 seeks to constrain illegal operators by directly penalizing those who provide space for conducting illicit operations. These provisions punish those who are supporting an illegal business and discourage others from providing space to an illegal operator, thus helping to freeze out unlicensed cannabis operators. However, there are numerous existing provisions in the Penal Code and elsewhere that provide criminal and civil penalties for property owners who make their property available for unlawful activity, including the production and/or sale of controlled substances. It is debatable whether adding one more, cannabis-specific civil penalty provision will have much of a chilling effect on the illicit market, even with a potentially \$10,000 per day violation. Additionally, these penalties could endanger innocent property owners, who will have to show they did not "know" about illicit activities on their property, which may be difficult to prove.

Cannabis Equity Operator Subsidies Increased. Cannabis "equity applicants and licensees" are generally folks who were previously arrested or convicted under past laws prohibiting cannabis, reside in a household with an income equal to or less than 60 percent of the median income, or reside in an area with a population disproportionately impacted by past cannabis prohibitions. Cannabis equity operators are already eligible to receive financial assistance with application, license, and renewal fees, and in jurisdictions with local equity programs, equity operators can also receive financial assistance with other regulatory fees. This budget, via AB 195, provides \$10,000 tax credits to equity licensees and allows equity licensees who are also retailers to retain 20 percent of the cannabis excise tax they collect. Providing increased financial assistance to a subset of the legal industry allows these operators to maintain lower prices, undercutting their legal competition. One may question if this budget strikes the right balance.

Funding for Proposition 64 Programs. The budget includes \$670 million to fund the required programs under Proposition 64. After funding specified priority activities such as regulatory administration, local equity programs, and research, the remaining funds are allocated between youth education, prevention, and treatment programs (60 percent), environmental remediation of illegal grows (20 percent), and public safety (20 percent). The funding in the budget includes:

1) *Education, prevention, and treatment of youth substance use disorders and school retention:*

- \$292 million to the Department of Social Services to subsidize child care for school-aged children of income-eligible families, though child care subsidies may not be an intended use of cannabis tax revenues under Proposition 64.
- \$78 million to the Department of Health Care Services for competitive grants to develop and implement new youth substance prevention and treatment programs.
- \$19 million to the California Natural Resources Agency for grants to fund youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities.
- \$12 million to the Department of Public Health for cannabis surveillance and education.

2) *Clean-up, remediation, and enforcement of environmental impacts of illegal cannabis grows:*

- \$80 million to the Department of Fish and Wildlife for clean-up, remediation, and restoration of watersheds and enforcement activities on public lands.
- \$54 million to the Department of Parks and Recreation to identify illegal cannabis grows, remediate and restore illegal grow sites on state park land, and make roads and trails accessible for peace officer patrols.

3) *Public safety-related activities:*

- \$84 million to the Board of State and Community Corrections to fund a grant program for local health and safety programs in localities that have not imposed cannabis bans.
- \$50 million to the California Highway Patrol's (CHP's) impaired driving and traffic safety grant program and for training, research, and policy development related to impaired driving.

Local Government

Key Points

- **State Spending Limit Definition Changes.** Revises the definition of “state subvention” to include additional local government program funding, creating room under the state’s limit.
- **Major Funding Provided for Local Priorities.** Provides more than \$2.4 billion combined for over 560 local district projects.
- **Local Government Support.** Provides \$100 million General Fund for a new local government grant program that will provide resources for staffing and project management.
- **County Assessors Grant Program.** Provides \$10 million for the new County Assessors’ Grant program, providing resources to improve local property tax administration.
- **Insufficient Educational Revenue Augmentation Fund.** Provides \$96 million General Fund to San Mateo County and Alpine County for vehicle license fee insufficiencies.
- **Backfills Local Revenues for Disaster-Struck Counties.** Provides nearly \$4 million General Fund to backfill property tax losses for counties impacted by recent wildfires.

Gann State Spending Limit Subvention Definition. The budget includes statutory changes that would revise the definition of “state subvention” to include additional local government program funding. The state funds received by a local agency for the identified programs would now be included within the appropriations limit of the local agency for purposes of determining both the state and local spending limit (commonly referred to as the “Gann” limit). The change would count more spending against the local government’s spending limit, rather than against the state’s limit. Altogether, this change would create approximately \$10 billion in additional “room” under the state’s spending limit. Examples of the newly defined state subventions counted against the local spending limit include:

- Child support administration relating to local child support agencies
- County administration for Medi-Cal eligibility
- Specialty mental health services
- Behavioral health quality improvement programs
- CalFresh
- In-Home Supportive Services
- Project Roomkey

Major Funding for Local District Projects. The budget provides more than \$2.4 billion combined for over 560 local district projects. It is unclear how these projects were identified and prioritized. The budget allows departments that administer these funds to use “self-attestation” by the recipients as “oversight” for the spending, which means that actual oversight of these funds is likely to be minimal.

Local Government Sustainability Fund. The budget establishes the Local Government Sustainability Fund and appropriates \$100 million General Fund to provide short-term grants to local entities facing significant challenges to their local revenues and services, but who demonstrate a commitment to advancing a more climate-resilient local economy. Applicants shall be limited to county governments in

high-unemployment and high-poverty areas. The Department of Finance will administer the new program.

County Assessors Grant Program. The budget establishes, from July 1, 2022, to June 30, 2025, the County Assessors' Grant Program, and provides \$10 million General Fund for the program each year. The program requires participants to report certain information regarding use of the funds to the Department of Finance no later than October 1, 2023.

Kern County Redistricting Commission. The budget includes \$1 million for Kern County to establish a redistricting commission in 2022-23. AB 2494 (Salas, 2022), establishes the Citizens Redistricting Commission in Kern County. All Senate Republicans voted against the measure out of concern it establishes a biased, unfair, and partisan gerrymander that fails to include partisan balance on the commission, as well as partisan balance on votes to adopt maps.

Educational Revenue Augmentation Fund Backfills. The budget provides \$96 million General Fund to address a technical issue and reimburse San Mateo County and Alpine County for Vehicle License Fee insufficiencies in 2020-21 driven by insufficient Educational Revenue Augmentation Fund revenues.

Backfilling Local Revenue Losses for Disaster-Struck Counties. The budget provides \$3.8 million General Fund to backfill Plumas County and El Dorado County for estimated 2021-22 and 2022-23 property tax revenue losses incurred because of the 2021 wildfires.

State Mandate Costs. The budget provides \$5.8 million General Fund for reimbursement of county election activities, and \$18 million General Fund to reimburse local agencies under the jurisdiction of the Los Angeles Regional Water Quality Control Board for costs related to the Municipal Storm Water and Urban Runoff Discharges Mandate. As noted in the *Statewide Debts* section, this budget falls woefully short on paying local governments for longstanding mandates owed, given the state's surplus funds.

General Government

Key Points

- **Democrats Abuse Budget Process to Manipulate Election Law Again.** Yet another budget trailer bill, SB 131, manipulates election law.
- **New California Hope, Opportunity, Perseverance, and Empowerment for Children Trust Account Program.** Provides cash to start trust funds for certain young Californians.
- **“Trigger” For Additional Spending.** Authorizes future spending on Democrat priorities in 2024.
- **Governor’s Office of Planning and Research Continues to Grow.** Provides nearly \$320 million within OPR for new and expanded programs, in addition to the \$450 million increase in 2021-22.
- **Broadband.** Provides authority for \$550 million over two years for the development and construction of a statewide open-access middle-mile broadband network.
- **State Capitol Building Annex Project.** Provides \$917 million General Fund in lieu of lease revenue bond authority for costs related to the State Capitol Annex Project.
- **New Office of Data and Innovation.** Provides \$20 million General Fund for the new Office of Data and Innovation.

Democrats Continue Abuse of Budget Authority with Election Law Changes. A budget trailer bill, SB 131, manipulates election law to place SCA 10 (Atkins), the abortion rights constitutional amendment, on the November 8, 2022, ballot as "Proposition 1," elevating it above other measures that may appear on the ballot. This is not the first time Democrats have misused the budget bill process to enact election changes that have nothing to do with enacting the state budget. With a supermajority in both houses, there is no excuse for this abuse.

New State-Supported Trust Fund Established. The budget provides \$100 million General Fund within the State Treasurer’s Office to establish the new California Hope, Opportunity, Perseverance, and Empowerment (HOPE) for Children Trust Account Program. The HOPE program will create trust accounts for children who have lost a parent or primary caregiver to COVID-19 and for children in long-term foster care. The program would provide a \$4,000 deposit into the trust account for children under 10 years of age and \$8,000 for children 10 years of age or older. The budget provides \$15 million General Fund annually to specifically aid children in foster care.

“Trigger” For Additional Spending Commitments. The budget would authorize future spending, subject to a determination in 2024 that sufficient revenue exists, for several Democrat priorities. These would include benefit increases and eligibility expansions within CalWORKs and Medi-Cal, among others. The budget does not identify the total cost of these priorities, but it is likely expenditures could be in the billions of dollars annually.

Governor’s Office of Planning and Research Programs. The Governor’s Office of Planning and Research (OPR) will receive nearly \$320 million in 2022-23 for both new and expanded programs, mostly focused on climate change activities. This level of funding is in addition to the more than \$450 million provided in the 2021 Budget Act.

Traditionally, OPR has been more of a think tank for governors, rather than an administrator of major programs, which are typically left to departments to run. Significant concerns are that OPR is ill-equipped to effectively administer hundreds of millions of dollars in programs in vastly different policy

areas, and that its focus will be more on political headlines instead of actual results. Several of the notable program inclusions are as follows:

- Budget includes a commitment to permanently fund the Californians for All College Service Program, a program created in 2021 to provide paid service opportunities for college students in areas such as climate action, food insecurity, tutoring and mentoring, health, and disaster response.
- \$85 million for “community resilience centers,” which were newly established in a late-session Resources trailer bill (AB 211) with vague parameters.
- \$65 million General Fund annually for the new Office of Community Partnerships and Strategic Communications (OCPSC) to coordinate and manage statewide communications campaigns across state government. The budget also transfers the duties and responsibilities of the State Department of Public Health relating to the administration or implementation of the COVID-19, and provides \$230 million to OCPSC for these efforts.
- \$25 million General Fund for the Summer Bridge Youth Employment Grant program.
- \$25 million General Fund for the Save Our Water Campaign.
- \$10 million General Fund to provide grants for projects focused on depression and that apply a precision medicine approach.
- \$10 million for the Golden State Awards initiative, which would support at least 20 awards to individuals or teams associated with the public higher education segments who are developing innovative practices.
- \$10 million General Fund to develop and implement new demonstration projects for the Foster Grandparent Program and the Senior Companion Program within Cal Volunteers.
- \$10 million ongoing to support the California Volunteers Neighbor-to-Neighbor networks utilizing mobilization and volunteerism, and neighbor-to-neighbor outreach.
- \$9 million General Fund to address health disparities by increasing participation by underrepresented minorities in biomedical research projects.
- \$6 million General Fund in 2022-23 and \$14 million in 2023-24 to increase awareness and understanding of the risks posed by extreme heat.
- \$4.7 million for Climate Action Corp established in 2021-22 within Cal Volunteers:

Potential Continuation of Broadband Expansion. The budget provides authority for \$300 million in 2023–24, and \$250 million in 2024–25, for the development, construction, and acquisition of a statewide open-access middle-mile broadband network, and for the maintenance and operation of the resulting infrastructure. The budget includes requirements that must be satisfied before the funds would be available, including a report to the Chairperson of the Joint Legislative Budget Committee that includes various data on miles planned for various criteria, as well as funds expended to date, total miles constructed, total miles leased, and remaining number of miles until total network completion. The 2021 Budget Act provided \$3.25 billion to the California Department of Technology (CDT) to begin building an open-access middle-mile broadband network in underserved areas of California.

State Capitol Building Annex Project. The budget includes a one-time \$917 million General Fund transfer to the State Project Infrastructure Fund (SPIF) to fully fund the remaining design, pre-construction, and construction activities for the State Capitol Annex Project. This includes the replacement of the State Capitol Building Annex, construction of a new parking structure and a new Visitor Center facility, and West Wing improvements necessary to provide for a fully functional Capitol

Building. Prior budgets have transferred a total of \$183 million General Fund to the SPIF for planning and pre-construction activities that are currently underway. The Annex projects are currently scheduled for completion in 2026. The budget also requires the Controller to transfer funds from the SPIF to the operating funds of the Assembly and Senate in an amount up to \$80 million for pre-construction activities for the Annex project, and would exempt work performed from the National Register of Historic Places provisions.

New Office of Data and Innovation. The budget provides \$20 million General Fund and merges the Office of Digital Innovation, the Government Excellence and Transformation Center, and the CalData Program into the new Office of Data and Innovation (ODI). The budget provides authority to establish ODI as a standalone entity reporting to the GovOps Agency beginning in 2023-24.

California State Payroll System. The budget requires, on or before February 1, 2023, the Controller to submit a report on the proposed California State Payroll System project. The report would include, among other things, a detailed summary of project planning efforts up to the report's publication, particularly project team outreach to state entities impacted by the future system, to gather business and system requirements and design future business processes. Previous state efforts to modernize the state's payroll system was unsuccessful and the state had to halt efforts in 2013. In 2016, the state began a reassessment of business needs and the project has been moving forward under the oversight of the Department of Technology. Unfortunately, the state's record of accomplishment of successfully implementing even the smallest IT project is abysmal.

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

Department of Financial Information System for California. The budget recognizes the status of the project as complete and revises oversight authority for the State Auditor's Office to include reporting on the transition of the state's accounting book of record to the system, as well as the Department's completion of the roadmap activities.

New Language Access Project. The budget provides \$5 million within the Gov Ops Agency to establish a new Language Access project, which would provide expanded language services to the public participating in California's public hearings and meetings.

California Arts Council Cultural Districts. The budget includes \$30 million General Fund to support the 14 existing cultural districts and expand the cultural districts program to support traditionally underserved communities that reflect the geographic and racial diversity of the state.

Department of Fair Employment and Housing Name Change. The budget changes the Department of Fair Employment and Housing's name to the more grandiose-sounding Civil Rights Department and changes the name of the Fair Employment and Housing Council to the Civil Rights Council.

State Employee Compensation and Retirement

Key Points

- **New Agreements with State Employee Unions.** Reflects numerous contract changes and five new memoranda of understanding (MOU) between the state and employee bargaining units (BUs).
- **Contributions for State Retirement.** Provides approximately \$12.2 billion in state contributions for retirement costs.
- **Proposition 2 Debt Repayment.** Includes \$2.9 billion in one-time Proposition 2 debt repayment funding for fiscal year 2022-23 towards reducing the unfunded pension liabilities, but fails to make discretionary debt reductions.
- **Child Care Providers Union.** Provides \$100 million one-time General Fund for the Department of Social Services (DSS) and the California Department of Human Resources (CalHR) to amend a bargaining contract regarding health and retirement access.

State Employee Growth Outpaces Population Dramatically. Over the past decade, the state population has grown by only four percent, to about 39.5 million people, and has been roughly stagnant for the past six years. Comparatively, the number of state employees has grown nearly 21 percent in the past ten years, to a projected 417,525 in 2022-23, including a jump of nearly 22,000 employees in one year from 2020-21 to 2021-22. The number of state employees per 1,000 residents will be 10.6 in 2022-23, 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.

Pay Increases, Stipends, and Bonuses. The budget allocates approximately \$452 million (\$205 million General Fund) to ratify a number of contract changes, known as side letter agreements, and five new MOUs. The MOU agreements are between the state and BU 2 Attorneys and Hearing Officers, BU 8 Firefighters, BU 9 Professional Engineers, BU 13 Stationary Engineers, and BU 18 Psychiatric Technicians. The MOUs and side letter agreements provide pay increases, stipends, and bonuses, including, but not limited to:

- Provides cumulative salary increases of 6.5% by July 1, 2023 for all BU 8 employees and removes the sunset on salary increases of 2.62% for specified fire protection employees and specialty classes.
- Retention bonuses of \$50,000 for direct care employees and \$25,000 for non-direct care employees in the California Department of Corrections and Rehabilitation’s (CDCR’s) Division of Juvenile Justice.
- Providing revised general salary increases for BU 5 Highway Patrol and Judges.
- Pay differentials for BU 18 Psychiatric Technicians and Senior Psychiatric Technicians working at specified state hospitals, including \$400 per month for those working at Atascadero and \$200 per month for those at Coalinga, Napa, and Metropolitan.
- Monthly telework stipend of \$50 for remote-centered employees and \$25 for office-centered employees for eleven bargaining units, including Service Employees International Union (SEIU Local 1000), Union of American Physicians and Dentists, and the American Federation of State, County, and Municipal Employees (AFSCME).
- One-time \$1,500 bonuses to the California Highway Patrol, correctional peace officers, CalFIRE, and other law enforcement officers who served in-person supporting the delivery of public safety during the COVID-19 pandemic.
- Establishes a 15% pay differential for psychiatrists, psychiatric technicians, psychologists, and senior psychologists performing in-person treatment at CDCR psychiatric in-patient facilities.

- Provides pay differentials of one day's salary for BU 2 employees at the Department of Justice and Health and Human Services Agency that are assigned to on-call status outside of normal business hours for seven consecutive days.
- Longevity pay increases for BU 9 employees with 17 or more years of state service, up to 5.5% for employees with 20 or more years.
- Increases the maximum salary ranges by 10.5% over the next three years for BU 13, including a 2.5% increase effective July 1, 2022.

The state is still in negotiations with BU 10, California Association of Professional Scientists, whose contract expired July 1, 2020.

Paying Down Unfunded Pension Liabilities. The budget includes \$2.9 billion in one-time Proposition 2 payments that reduce the CalPERS unfunded pension liabilities, \$1 billion more than was allocated in the 2021-22 budget. The addition of these funds is estimated to save the state a minimum of \$5.8 billion over the next 30 years. Also, the budget indicates intent to provide an additional \$5 billion towards the liabilities between 2023-24 and 2025-26, but since these amounts are not appropriated, there is no guarantee they will occur. Given the surplus going into this budget cycle, failing to pay down more of the state's substantial unfunded liabilities is a significant missed opportunity. Instead, the majority party chose to spend more.

CalPERS Pension Costs Continue to Grow. The budget provides \$8.2 billion total funds (\$4.6 billion General Fund) in employer contributions to Public Employee Retirement System (PERS) for state employees' retirement costs, including \$744 million General Fund for California State University employees. This is up \$2.2 billion from 2021-22 and compared to five years ago, up 57% or \$3 billion.

CalSTRS Pension Costs Unchanged. The budget includes \$3.7 billion General Fund to pay for the state's share of State Teacher Retirement System (STRS) costs, the same as in 2021-22. STRS recently claimed that the state's share of its unfunded liability may be addressed by 2024-25 following strong investment returns through June 2021, and that it will not raise the required contribution. However, the decline in the stock market since late 2021 may change that outlook.

Retiree Health Care Benefits. The budget provides approximately \$2.7 billion General Fund for health care benefits for state retirees, California State University retirees, and dependents. Retiree health care benefits continue to be paid out mostly on a "pay-as-you-go" approach, which has led to the creation of a \$95 billion unfunded liability, a 3.5 percent increase over last year's liability.

Private Child Care Providers Union Negotiations. As described more fully in the *Child Care Programs* section earlier in this report, the budget provides \$100 million one-time General Fund for DSS and \$100,000 one-time General Fund for the CalHR to implement a side letter agreement regarding health and retirement access. Despite not being traditional state employees, approximately 45,000 child care providers who receive state subsidies recently organized and were certified as Child Care Providers United--California. The state began negotiations in 2021 with this new union and is working through a Joint Labor Management Committee to develop recommendations for a single reimbursement rate structure. The recommendations are expected in November 2022.

Statewide Debts and Liabilities

Key Points

- **Fails to Adequately Address Unemployment Insurance Debt.** Includes a meager \$250 million towards paying down the roughly \$18 billion debt owed by the state's Unemployment Insurance (UI) Fund to the federal government.
- **State Fails To Pay Locals for Mandates Owed.** Provides only \$24 million to local entities for mandate costs, depriving local governments of much needed resources.
- **Continued Special Fund Borrowing.** Fails to pay back nearly \$1.4 billion in special funds authorized in previous years, missing an opportunity to fully retire this outstanding debt.
- **Bond and Proposition 2 Debt Payments.** Includes \$11.4 billion to pay down the state's current debts and liabilities.

Fails to Adequately Address Unemployment Insurance Debt. As described more fully in the *Business, Labor, and Workforce Development* section earlier in this report, the budget includes a meager \$250 million towards paying down the roughly \$18 billion debt owed by the state's Unemployment Insurance (UI) Fund to the federal government. The default course of action under federal law is for this debt to be repaid by a surcharge on employers beginning in 2023 and for the state to be liable for the interest payments of the loan. General Fund costs for the interest will be up to \$630 million in 2023.

Local Governments Get Minimal Mandate Relief Even With Major Surplus. The budget includes \$5.8 million General Fund for reimbursement of county election activities, and \$18 million General Fund to reimburse local agencies under the jurisdiction of the Los Angeles Regional Water Quality Control Board for costs related to the Municipal Storm Water and Urban Runoff Discharges Mandate.

This amount, however, is grossly insufficient given the level of mandated costs local governments feel are owed to them for both funded and unfunded mandates. According to the State Controller's Office, as of October 2021, the state owes cities, counties, and special districts more than \$933 million, including accrued interest, which includes both funded and unfunded mandate costs incurred since 2004. Of this amount, \$510 million is for unfunded suspended mandates, which are mandate activities that have never received any state funding. Generally, the unfunded mandates portion reflects the costs accrued by local governments while the mandate was being considered by the Commission on State Mandates. Failure on the state's part to repay these costs leave those governments with less funding for critical programs and services. Utilizing such a small portion of the state's surplus to pay these long-overdue debts is irresponsible.

Continued Special Fund Borrowing. Despite the surplus, the budget fails to pay back nearly \$1.4 billion in special funds authorized in previous years to address the deficit, instead paying only \$608 million in 2022-23 and missing an opportunity to fully retire this outstanding debt. These are internal loans from various state special funds, and the state can pay them back at its discretion if those funds need the resources for program operations. As pointed out by the LAO, the state's failure to pay these deficit loans back means that the budget continues to borrow in order to pay for current spending.

Bond and Proposition 2 Debt Payments. The Budget Act includes \$11.5 billion to pay down the state's current debts and liabilities. Debt payments include the following components:

- **Normal Bond Debt Service.** \$8.1 billion to pay debt service costs for the state's outstanding and planned general obligation and lease-revenue bonds in 2022-23, as required by the constitution and

debt covenants. According to the State Treasurer, the state currently has outstanding general obligation bonds totaling \$70.8 billion and has authorization to issue \$34 billion more. Outstanding lease-revenue bonds total \$8.3 billion, and the state has authorization to issue \$7.2 billion more.

- **Minimal Required Other Debt Repayments.** The budget proposes using the constitutionally-required Proposition 2 debt repayment to pay down \$3.4 billion in unfunded retiree liabilities. Specifically, the budget allocates \$2.9 billion for CalPERS debt, \$365 million for retiree health debt, and \$143 million for the pension loan from the Surplus Money Investment Fund (SMIF). These amounts are the minimum required payments under Proposition 2, but considering the magnitude of the surplus, the state should do more to pay down these obligations. Unfunded retirement obligations indicate that the state failed to fully pay for its workforce costs up front, but chose to kick the can down the road.

This table summarizes state and related public debts and liabilities.

State and Other Public Debts and Liabilities						
<i>(Dollars in Millions)</i>	At Start of 2022-23	Estimated Payments				Remaining Liabilities
	2022-23	2023-24	2024-25	2025-26		
Special Fund Loans	\$1,360	\$608	\$73	\$679	-	-
State Retirement Liabilities						
State Retiree Health	\$95,191	\$365	\$325	\$340	\$360	\$93,801
State Employee Pensions	\$43,639	\$2,925	\$2,509	\$1,275	\$1,197	\$35,733
Teachers' Pensions (state portion)	\$13,065					\$13,065
Judges' Pensions	\$2,365	-	-	-	-	\$2,365
SB 84 Loan from Surplus Money Invst. Fd.	\$3,100	\$143	\$97	\$836	\$590	\$1,434
Deferred payments to CalPERS	-	-	-	-	-	-
Subtotal	\$157,360	\$3,433	\$2,931	\$2,451	\$2,147	\$146,398
Other State Debts						
Long-Term Bonds - General Obligation & Lease-Revenue	\$79,100	\$8,058	\$7,939	\$8,068	\$8,371	\$46,664
Suspended Local Mandates	510	24	-	-	-	\$486
Education Mandates	1,100					\$1,100
Subtotal	\$80,710	\$8,082	7,939	8,068	8,371	47,150
State - Total Debt	\$239,430	\$12,099	\$10,943	\$11,198	\$10,518	\$193,548
Other Related Public Debts						
Unemployment Insurance*	\$18,000	\$250				\$17,750
Teachers' Pensions (Local Districts)	\$60,136	-	-	-	-	N/A
University of California Liabilities**						
UC Employee Pensions	16,400	-	-	-	-	N/A
UC Retiree Health	23,300	-	-	-	-	N/A
UC Total	\$39,700	-	-	-	-	
Total, State and Other Public	\$357,266	\$12,349	\$10,943	\$11,198	\$10,518	

* The state pays the interest on the Unemployment Insurance debt, while employers pay the principal through higher payroll taxes. However, the state could choose to pay down the debt principal, as many other states have done.

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

Appendix I: Spring 2022 “Early Action” Trailer Bills

Bill	Subject (Date Chaptered)
SB 115	February Budget Bill Jr. (Chaptered 2/9/2022) Added roughly \$2 billion to the 2021-22 budget for a variety of programs and made other administrative changes. The largest funding component was \$1.9 billion for additional COVID-19 public health response activities.
SB 113	Economic Relief: COVID-19 Pandemic and Taxation (Chaptered 2/9/2022) Made various changes, including reversing limits on corporate net operating losses and research & development tax credits, providing income tax relief for those receiving assistance for past due utility bills, providing \$150 million for the Small Business Relief Grant program, and conforming treatment of income tax for the Shuttered Venue Operators Grant and Restaurant Relief Fund grant programs.
SB 114	Employment: Supplemental Paid Sick Leave (Chaptered 2/9/2022) Re-enacts and modifies supplemental COVID-19 paid sick leave requirements for all businesses with more than 25 employees, retroactively from January 1, 2022, to September 30, 2022. An employee would be entitled to take 40 hours of leave initially for COVID-related reasons, plus an additional 40 hours of leave if the employee or a family member tests positive for COVID-19.
SB 116	Human Services (Chaptered 2/9/2022) Authorized use of federal funds for grants to private for-profit organizations to support refugee resettlement efforts within California, and appropriated \$27.5 million to cover administrative costs to support family childcare providers through reimbursement rate supplements.
SB 117	Memoranda of Understanding (Chaptered 2/9/2022) Authorizes payments of either \$50 or \$25 per month related to remote work for six bargaining units (BUs) and for excluded state employees. The BUs include the Statewide Law Enforcement Association and those representing administrative law judges, attorneys, professional engineers, operating engineers, and scientists.
SB 118	UC Berkeley Housing Environmental Exemption. (Chaptered 3/14/22) Creates a carve-out for faculty and student housing projects at public universities from the California Environmental Quality Act.
SB 119	March Budget Bill Jr. (Chaptered 3/14/2022) Makes several changes, including (1) authorizing the Commission on Peace Officer Standards and Training to shift funding internally to implement the new peace officer decertification process enacted by SB 2 (Bradford, 2021), and (2) increasing flexibility for spending funds on district-specific projects.

Appendix II: June 2022 Budget and Trailer Bills

Bill	Subject (Date Enrolled or Chaptered)
SB 154	2022-23 Preliminary Budget Bill (Chaptered June 27, 2022) Reflects only Democrats' two-house budget agreement in order to meet constitutional June 15 deadline.
AB 178	2022-23 Budget Bill Junior #1 (Chaptered June 30, 2022) Revises previous budget bill to reflect the agreement between the Governor and legislative Democrats.
AB 180	2021-22 Budget Bill Junior #7 (Chaptered June 30, 2022) Adds billions in spending to the 2021-22 budget year, including \$4.2 billion for high-speed rail, \$1.5 billion for no-bid energy reliability, and \$1.1 billion for health worker retention bonuses.
SB 125	Lithium Valley (Chaptered June 30, 2022) This bill establishes a tax on lithium extracted from geothermal brine in California, with revenues supporting communities affected by extraction and Salton Sea restoration projects.
SB 130	Employment Contracts for Public Safety (Chaptered June 30, 2022) Ratifies memorandum of understanding side letter agreements for one-time \$1,500 bonuses to the California Highway Patrol, correctional peace officers, CalFIRE, and other law enforcement officers.
SB 131	Statewide General Election: Ballot Measures (Chaptered June 30, 2022) This bill manipulates election law to place SCA 10 (Atkins), the abortion rights constitutional amendment, on the November 8, 2022, ballot as "Proposition 1," elevating it above other measures that may appear on the ballot.
SB 132	Employment Contracts for Psychiatrists and Psychiatric Technicians (Chaptered June 30, 2022) Ratifies memorandum of understanding side letter agreements to provide a 15% retention and recruitment pay differential for psychiatrists and psychiatric technicians who work in correctional facilities.
AB 181	K-12 Education #1 (Chaptered June 30, 2022) This K-12 Education trailer bill provides billions in funds and makes other statutory changes related to K-12 provisions, including a 13 percent increase to the Local Control Funding Formula.

AB 182	K-12 Education #2 (Chaptered June 30, 2022) This K-12 Education trailer bill provides billions of dollars to assist with learning recovery in response to COVID-19 impacts. It also establishes the Learning Recovery Emergency Fund for K-12 schools and community college districts.
AB 183	Higher Education (Chaptered June 30, 2022) This Higher Education trailer bill makes various changes, including approving all Higher Education Student Housing Grant Program eligible projects from the first round of applications, and amending the Student Centered Funding Formula Hold Harmless formula.
SB 184	Health (Chaptered June 30, 2022) Creates an abortion travel support fund and a health care price control bureaucracy. Expands Medi-Cal eligibility to undocumented adults ages 26-49. Allows a no-bid contract for a state-financed insulin manufacturing facility.
AB 186	Skilled Nursing Facilities Tax (Chaptered June 30, 2022) Imposes a new version of the tax on skilled nursing facilities and gives the state new penalty authority to enforce nursing staffing ratios.
SB 187	Human Services Omnibus (Chaptered June 30, 2022) Makes changes to numerous human services programs including expanding county assistance for foster youth, establishing an IHSS back-up provider system, extending the Low Income Household Water Assistance Program, and expanding food assistance to undocumented immigrants 55 and older.
SB 188	Developmental Services Omnibus (Chaptered June 30, 2022) Implements various policy changes and funding increases for individuals with developmental disabilities, including accelerating the timeline for rate increases, creating several workforce stabilization programs, and provisions for more tailored services to disabled consumers.
SB 189	General Government (Chaptered June 30, 2022) Shifts authority away from lease revenue bonds for the Capitol Annex project, establishes a new grant program for county tax assessors, expands the definition of state subvention for Gann limit purposes, creates the new Office of Community Partnerships and Strategic Communications within the Governor's Office of Planning and Research, and includes trigger language that could result in hundreds of millions in additional spending, including a new tax credits for union dues.
SB 191	Labor and Employment (Chaptered June 30, 2022) Makes a number of policy changes pertaining to the Women in Construction Priority Unit, California Youth Apprenticeship Grant Program, Apprenticeship Innovation Funding Program, Displaced Oil and Gas Worker Fund, Proposition 2 Supplemental Pension Payment, and EDD data sharing and eligibility notices.

AB 192	Better for Families Tax Refund (Chaptered June 30, 2022) Establishes the Better for Families Act, which provides one-time payments to Californians to help offset the impacts of high gas prices and other growing costs due to inflation. The refunds would be distributed based on a three-tier income structure and would include an additional payment for dependents. The payments would range from \$200 for an individual making up to \$250,000 per year up to \$1,050 for a couple with dependents and a joint income below \$150,000.
SB 193	Economic Development (Chaptered June 30, 2022) Includes statutory changes intended to increase economic development, including the establishment of several new grant programs for local governments, creates a new state venture capital program, establishes the new California Containerized Ports Interoperability Grant Program to provide grant funding to specified ports in California, renames and expand the IHub program.
AB 194	Taxation (Chaptered June 30, 2022) Makes various reductions in taxes, including the diesel sales tax, provides federal tax conformity for PPP program, provides a one-time tax penalty relief, prevents the state from intercepting certain tax credit funds for purposes of delinquent payments, and amends the Cal Competes tax credit to include consideration of other states' laws on sexual orientation, gender identity, or abortion, as well as how companies treat their workforce, including wages, training, labor, and management support.
AB 195	Cannabis (Chaptered June 30, 2022) This bill reforms cannabis taxes, including an overall reduction in taxes for three years, and makes other changes related to illegal cannabis activities to allow for more enforcement and penalties related to water diversions, water pollution, and property owners who provide space for illegal cannabis operations.
SB 196	Memorandum of Understanding and Side Letters (Chaptered June 30, 2022) Approves a memorandum of understanding for bargaining unit 13 (stationary engineers) and side letter agreements for multiple bargaining units including extending a salary increase for firefighters, pay differentials for Division of Juvenile Justice workers to address staff retention, and telework stipends.
SB 197	Housing (Chaptered June 30, 2022) Establishes the California Dream For All program, provides authority for the administration of the Encampment Resolution Grant program, revises funding notification for Homekey, expands affordable housing and adaptive reuse opportunities on state excess land sites, authorizes HCD to plan, develop, and administer the new federally funded HOME Investment Partnerships (HOME)-American Rescue Plan program.

SB 198	Transportation (Chaptered June 30, 2022) This bill increases oversight of the high-speed rail project and establishes various new transportation programs, including climate adaptation programs, a Highways to Boulevards Pilot, and a program to invest in port infrastructure.
AB 199	Courts (Chaptered June 30, 2022) Reduces the cap on the civil assessment from \$300 to \$100, forgives current outstanding civil assessment debt, and backfills the revenue loss. Expands eligibility for automatic filing fee waivers. Extends authorization for courts to conduct remote proceedings until January 1, 2024.
AB 200	Public Safety Omnibus (Chaptered June 30, 2022) Attempts to thwart the City of Susanville's lawsuit against CDCR regarding the closure of the California Correctional Center (CCC) and requires CDCR to close CCC by June 30, 2023. Establishes the Flexible Assistance for Survivors Grant Program in the Office of Emergency Services. Makes changes to the erroneous conviction payment process. Facilitates the closure of DJJ on June 30, 2023. Adjusts the Community Corrections Performance Incentives Grant formula to hold counties harmless for the impacts of COVID-19.
SB 201	Earned Income Tax Credit: Young Child Tax Credit: Foster Youth Tax Credit. (Chaptered June 30, 2022) Includes a new foster youth tax credit and expands the Young Child Tax Credit program to those with zero income.
AB 202	County Jail Financing (Chaptered June 30, 2022) Extinguishes \$100 million in local jail construction bond authority associated with the County of Los Angeles' AB 900 Phase II project award.
AB 203	Public Resources (Chaptered June 30, 2022) Implements various policy changes to incite transparency over state spending on fuel reduction and vegetation management projects, expand administrative fee authority and regulatory decision-making power over numerous programs and activities, and increases fees on beekeepers from \$10 up to \$250 annually.
AB 205	Energy (Chaptered June 30, 2022) This bill provides funds for utility bill assistance and makes a variety of policy changes. Most notably, this bill provides exclusive jurisdiction to the Energy Commission to site certain power generating and energy storage facilities.
AB 210	Early Childhood Education and Childcare (Chaptered June 30, 2022) Implements numerous policy changes and funding increases related to early childhood education and childcare including establishing the California Universal Preschool Planning Grant Program, extending family fee waivers, and providing funding to identify developmental delays or learning disabilities in children.

Appendix III: August 2022 Budget and Trailer Bills

Bill	Subject (Date Enrolled or Chaptered)
AB 179	Budget Bill Junior #2 (Chaptered September 6, 2022) Adds or redirects hundreds of millions of dollars in spending to the budget package enacted in June, including roughly \$400 million more for local priority projects and hundreds of millions of dollars for climate and energy programs.
AB 151	Ratification of Memoranda of Understanding (Chaptered September 6, 2022) Approves memoranda of understanding between bargaining unit (BU) 2 Attorneys and Hearing Officers, BU 8 Firefighters, BU 9 Professional Engineers, and BU 18 Psychiatric Technicians. Approves side letter agreements between BU 8 Firefighters, BU 10 Professional Scientific, and BU 19 Health and Social Services/Professional. Appropriates funding for General Salary Increase adjustments for BU 5 Highway Patrol and Judges.
AB 152	Supplemental Paid Sick Leave Grant Program (Chaptered September 29, 2022) Establishes the California Small Business and Nonprofit COVID-19 Relief Grant Program within GO-Biz to provide grants of up to \$50,000 to qualified small businesses and nonprofits that have incurred costs due to providing COVID-19 Supplemental Paid Sick Leave. Also extends the COVID-19 supplemental paid sick leave provisions in SB 114 (2022) from September 30, 2022 to December 31, 2022.
AB 156	General Government I (Chaptered September 27, 2022) Provides additional flexibility within the County Assessor's Grant program, establishes a program that provides \$4,000 to \$8,000 to eligible foster youth and youth who have lost a parent to COVID-19, provides goat herders with pay parity, consistent with labor provisions applied to sheepherders, and revises ongoing Fi\$Cal project implementation and oversight efforts.
AB 157	General Government II (Chaptered September 27, 2022) Provides minor relief to small agricultural businesses with the establishment of a grant program, provides authority for a new adaptive reuse housing program, would demonstrate California's dedication to developing clean hydrogen and improve chances of competing for federal energy funds, establishes a Best Value Procurement program for Caltrans heavy duty vehicles and equipment, and institutes an automatic annual inflationary adjustment to the DMV Business Partner fee.
AB 158	Taxation (Chaptered September 29, 2022) Provides technical changes for clarity and consistency in the small business hiring tax credit, as well as the Paycheck Protection Program. Provides a \$400 million giveaway to the state's labor unions with the establishment of a refundable union dues tax credit. Shifts administrative authority for the previously authorized \$9.5 billion tax "rebates" from the State Controller to the Franchise Tax Board.

AB 160	Public Safety (Chaptered September 29, 2022) Makes a number of changes to various public safety programs, the most consequential of which are expanding the victim compensation and erroneous conviction programs administered by the Victim Compensation Board
AB 185	K-12 and Early Education (Chaptered September 27, 2022) Makes a number of policy and administrative changes pertaining to preschool, child care, and K-12 education, including extending the sunset date for career technical education, changing parameters for school facility developer fees, and clarifying various school funding provisions.
AB 190	Higher Education (Chaptered September 27, 2022) Various changes include establishing a student housing loan program (along with certain labor mandates), expanding health benefits for multi-facility part-time community college faculty, and other clarifying changes.
AB 204	Health (Chaptered September 29, 2022) This budget trailer bill added physician assistants and nurse practitioners training programs to the Song Brown health workforce training funding program, expanded the use of the Abortion Practical Support Fund, and gave more discretion to the Office of Health Care Affordability.
AB 207	Human Services (Chaptered September 27, 2022) Includes technical clean-up provisions, establishes the Excellence in Family Finding, Engagement, and Support Program, provides assistance for recruiting and approving homes for tribal foster youth, implements federal child support enforcement compliance, and begins the full pass-through of child support payments to families formerly receiving CalWORKs.
AB 209	Energy (Chaptered September 6, 2022) Implements various new energy programs, including the creation of seven new clean energy programs, creates the Climate Innovation Program, and makes changes to other existing energy programs.
AB 211	Public resources trailer bill (Chaptered September 27, 2022) Extends exemptions from the California Environmental Quality Act (CEQA) to streamline forest health projects that reduce fire risk and severity on federal lands that meet specific requirements. Provides details on allocations of millions of dollars for critical programs for drought relief efforts and forest health.

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