



# **CALIFORNIA SENATE REPUBLICANS**

## **Highlights and Analysis of the 2022-23 Governor's Budget**

**January 17, 2022**

**SENATE REPUBLICAN  
FISCAL OFFICE**



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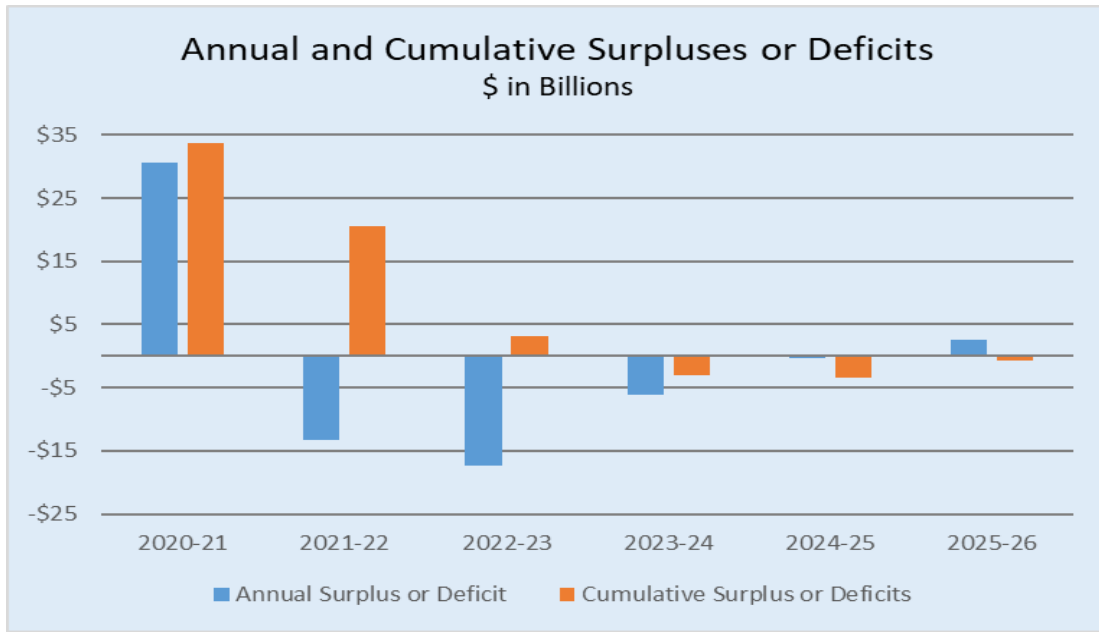
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# Executive Summary

**A Surplus for Me, but No Job for Thee.** The tale of “Two Californias” continues. The Governor’s budget raises tax revenue estimates yet again, while the state unemployment rate of 6.9 percent is the highest in the nation. Some sectors of the economy are booming, which creates the record tax haul, but many Californians continue struggling with inflation and the state’s worsening cost-of-living crisis. The budget once again appears to be ramping up spending in order to paper over more fundamental problems with the state’s housing and labor markets, which require reforms outside the budget. Though some of the Governor’s investments would be prudent, the budget also proposes a laundry list of spending on a wide range of issues for the second straight year, before the dust has settled on the 2021 budget’s effects. The Legislature should review current spending carefully before approving more nice-sounding programs that may actually do little to help Californians.

**Revenues Rise Significantly in Current Year.** The Governor’s budget projects another increase to forecasted revenues. General Fund revenues for 2021-22 are now estimated to be \$202 billion, which is nearly 13 percent higher than the 2021 Budget Act level. However, these revenues are projected to drop slightly to \$197 billion for the 2022-23 budget year before growing each year thereafter in the range of 1.8 percent to 5.0 percent annually.

**Expenditures Increase Rapidly, Leading to Operating Deficits.** General Fund spending would reach nearly \$210 billion in the current year, an increase of \$14 billion (6.9 percent) from the level authorized by the 2021 Budget Act, and would rise again to more than \$213 billion in 2022-23. This new spending level for 2022-23 would be 8.5 percent higher than the 2021 Budget Act. The proposed spending increases would outpace revenues, leading to operating deficits for three years, as shown in the table below.



**California Lags Nation in Jobs Recovery.** Despite Governor Newsom’s claims, this state is behind the nation in recovering jobs. California has recovered only 69.6 percent of jobs lost to the pandemic, compared to 82.5 percent for the nation as a whole, according to the latest available data. Our unemployment rate of 6.9 percent remains significantly higher than the nation’s 4.2 percent. This means that another 520,000 Californians would be employed if we met the national average. There are

fundamental problems in the state's labor market that the budget is unlikely to resolve; broader reforms outside the budget are needed.

**State "Gann" Spending Limit.** The budget estimates that state spending would exceed the constitutional Gann limit by \$2.6 billion in 2021-22, but would be under the limit for 2022-23. The LAO estimated in November 2021 that the state would need to address \$26 billion in Gann-related spending or tax reductions by the end of 2022-23. It is not yet possible to reconcile these estimates, though the Governor has proposed \$20 billion in infrastructure spending that is exempt from Gann restrictions. The Governor plans to wait until the May Revision revenue update to review and possibly address the \$2.6 billion Gann issue for the current fiscal year.

**Comparing the Governor's Proposals to Senate Republican Priorities.** On January 5, 2022, Senate Republicans sent a letter to the Governor and legislative Democrat leaders outlining high-level budget priorities. The following points compare these priorities to the Governor's proposals:

- **Preparing for Long-Term Drought.** The budget includes \$750 million for immediate drought response activities to help communities in the near-term, but fails to adequately invest in the future. The proposal represents yet another missed opportunity by Democrats to fund critical water infrastructure projects to enhance water supply (such as Sites Reservoir), protect farmers' and farmworkers' livelihoods, and provide safe and affordable drinking water to Californians.
- **Better Ways to Address Homelessness.** The Governor's budget adds \$2 billion for short-term housing for the mentally ill homeless living on our streets. The Governor is following Senate Republicans' call for ending homeless encampments and focusing on building short-term shelter and treatment beds rather than just expensive permanent housing units. In addition, the Governor is supportive of a Senate Republican priority to reform conservatorship laws to get the seriously mentally ill into the treatment they need.
- **Helping People through Local Government.** Senate Republicans proposed granting funds to local governments without restrictions, in order to better enable local priorities. Such grants are permissible and excluded under the Gann limit. Our initial review indicates the Governor has not proposed such unconditional grants, though some targeted grants are included, such as for retail theft prosecution.
- **Lowering the Cost of Living in California:**
  - **Expanding the Renter's Tax Credit.** While the Governor does not propose to expand the state's renter's credit, a missed opportunity that fails to acknowledge the struggles endured by renters in this high cost state, the budget does propose to expand the Young Child Tax Credit, part of the state's Earned Income Tax Credit program, to families without income. The budget also includes two new tax credits, however these credits are targeted to green energy and climate mitigation, missing an opportunity to provide relief for thousands of other businesses.
  - **Lowering Gas Prices Through a Gas Tax Holiday.** While Senate Republicans called for a full gas tax holiday, reducing the price of gas by 54.1 cents per gallon, the budget instead includes a one-year suspension of the annual inflationary adjustment of only 3 cents per gallon.
  - **Promoting Access to Jobs by Reversing Business Tax Increases.** The January budget proposes to reverse the third year (2022- 2023) limit on business credits and net operating losses, providing \$5.5 billion in relief to businesses. It is encouraging to see the Governor

include one of the Senate Republicans' priorities to provide relief to struggling California businesses.

- **Better Wildfire Preparation.** The budget proposes \$1.2 billion in one-time funding over the next two years to build upon the \$1.5 billion Early Action Package passed last year to accelerate forest health and fire prevention activities. Funding for wildfire prevention is a welcome change from budget years past. However, it is still not enough to eliminate the devastation that Californians continue to face each wildfire season or make up for the years of neglect and mismanagement of our forests by the Democrats.
- **Reducing Government-Imposed Debt for Job Creators.** The budget proposes to pay down the Unemployment Insurance (UI) debt to the federal government by \$1 billion in 2022-23 and \$2 billion in 2023-24. This proposal is in line with Senate Republican priorities, but since the debt amounts to \$19.4 billion, more funds should be directed to reduce this massive debt that will burden job providers for years to come.

**Non-Education Reserves Short of Previous Highs as Share of Budget.** The state's Rainy Day Fund (Proposition 2 of 2014) is projected to be \$20.9 billion by the end of 2022-23. The budget also includes a discretionary reserve of nearly \$3.1 billion and a Safety Net Reserve of \$900 million, creating combined non-education reserves of nearly \$25 billion. However, this is less than pre-pandemic highs as a percent of the budget, and the Legislature should add to it. The public school reserve would reach \$9.7 billion, as required by Proposition 2, a record high for this Proposition 98 reserve.

**Early Budget Approvals Sought.** The Governor is asking the Legislature to take action in January on several spending proposals, including \$1.4 billion to continue responding to the pandemic, \$4.2 billion for the high-speed rail system, and \$4.3 billion for other transportation investments. Other potential early action items include certain tax changes to conform to federal actions. The emergency spending authority employed by the Governor previously has not been renewed, so legislative action is required for these early spending actions.

**COVID-19 Response.** The Governor proposes \$2.7 billion in new spending on vaccine distribution, testing, hospital surge staffing, contact tracing, and community outreach. Of this total amount, the Governor requests an immediate legislative appropriation of \$1.4 billion in the current budget year. This creates an opportunity to hold the administration accountable for questionable state contracts and to properly assess if current pandemic response efforts are actually working.

**Medi-Cal for all Undocumented Individuals.** The Governor proposes to spend an additional \$2.2 billion General Fund annually to expand Medi-Cal eligibility to roughly 764,000 undocumented individuals ages 26 through 49, starting in 2024. This would be the final expansion of Medi-Cal to the undocumented population after recent expansions to roughly 203,000 undocumented children and young adults (age 25 and under) and 235,000 undocumented older adults (age 50 and above). Medi-Cal is already strained by serving 14.6 million Californians—more than a third of the state's population. Adding 764,000 more individuals to the system will certainly exacerbate current provider access problems.

**Health Care Workforce Funding.** The Governor proposes \$1.7 billion over three fiscal years to fund incentives for increasing the state's workforce of nurses, social workers, EMTs, behavioral health workers and community health workers. California's health care workforce shortage is real, and, unlike the dangerous single-payer health plan offered up by some Democrats that will ration access to providers, serious efforts like this funding proposal will focus on adding more health care supply to meet ever-rising demand.

**Expansion of Child Care.** The Governor proposes \$824 million for 36,000 additional subsidized slots, which, when combined with the slots funded in the 2021 Budget Act, would bring the total to over 145,000 with the goal of eventually reaching 200,000 slots. The budget also includes \$373 million to support a full year of rate increases.

**Extreme Heat.** The Budget includes \$2.1 billion General Fund in 2022-23 to combat extreme heat. The funds would support various activities that range from urban forestry projects to funding new programs that protect fish and wildlife, and provide for outdoor experiences. The budget prioritizes billions for climate initiatives that won't have a meaningful impact for decades while critical issues like water supply and reliability remain unaddressed.

**Zero-Emission Vehicles.** The Governor proposes to spend \$6.1 billion over the next five years to subsidize zero-emission vehicles (ZEVs) and ZEV infrastructure, focusing on low-income consumers and communities, heavy-duty trucks, transit buses, and school buses. Coupled with last year's investment, California would spend \$10 billion over six years to help transition Californians to ZEVs, aligning with the Governor's call to ban the sale of gasoline cars by 2035.

**Housing Development for Urban, Mixed Income and State Excess Sites.** The budget would provide nearly \$1 billion in 2022-23 for the following housing programs:

- \$375 million in 2022-23 (\$625 million for 2023-24) for housing programs focused on infill development within the state's urban core, as well as infrastructure improvements, and expedited development on state excess sites. \$500 million for the Low-Income Housing Tax Credit program, consistent with annual funding provided over the last four years.
- \$50 million General Fund in 2022-23 (\$150 million General Fund in 2023-24) for the California Housing Finance Agency's Mixed-Income Housing program, which provides support for middle-income families to purchase a home.
- \$50 million General Fund in 2022-23 (\$150 million in 2023-24) to further preserve targeted housing units in urban areas through the Portfolio Reinvestment program.

**Homekey Housing and Local Government Support for Homelessness Included in 2021 Budget Act.** The budget includes funding for homelessness programs that was previously included as part of the 2021 Budget Act. These include \$1.5 billion for the Homekey program and \$1 billion in flexible aid to local governments to continue to provide services and shelter to the homeless population.

**Supply Chain Investments.** The Governor proposes \$2.3 billion for supply chain investments, including \$1.2 billion for port, freight, and goods movement infrastructure and \$1.1 billion for other related areas such as workforce training and ZEV equipment and infrastructure related to the supply chain.

**Clean Energy Investments.** The Governor proposes \$2 billion General Fund over two years for clean energy investments, focusing on decarbonizing existing buildings, long duration storage, improvements to the Oroville Dam generation facility, industrial sector decarbonization, green hydrogen production and use, energy projects for food production facilities, and off-shore wind projects.

**Proposition 98 Education.** Proposition 98 funding from all sources for K-14 education reaches a new high at \$102 billion in 2022-23. This is an \$8.2 billion increase over revised budget act figures. Proposition 98 General Fund spending per pupil grows to \$15,278 in 2022-23, a 3.3 percent (\$500)



increase over revised 2021-22 levels. Per-pupil spending from all sources is \$20,855. Additional Proposition 98 augmentations include:

- \$3.3 billion base increase for the Local Control Funding Formula (LCFF), reflecting a 5.33 percent cost of living adjustment (COLA), bringing total LCFF funding to \$70.5 billion.
- \$9.7 billion balance in the Public School System Stabilization Account. This reflects deposits of \$3.6 billion and \$3.1 billion for 2021-22 and 2022-23, respectively. The balance triggers local school district reserve caps beginning in 2022-23.

**Universal Meals.** Continuing the prior year investment into universal school nutrition, the budget provides \$54 million in Proposition 98 General Fund to reimburse all meals served to students, including those that would not normally qualify for reimbursement under the state meal program. The budget requires all schools eligible for the federal universal meals provision waiver to apply for the program by June 30, 2022, as this will reduce the volatility in costs to the state and ensure the state is not paying for costs that would be reimbursed at the federal level. The state will continue to cover any remaining unreimbursed costs up to the federal free per-meal rate, at an estimated cost of \$650 million Proposition 98 General Fund annually.

An additional \$450 million in one-time General Fund is provided to school districts to support upgrades to kitchen infrastructure and equipment as well as provide training to food service employees.

**Universal Transitional Kindergarten.** The budget provides \$639 million General Fund to support the second year phase in of Universal Transitional Kindergarten (TK). The budget also proposes \$383 million General Fund to support an additional certificated or classified staff person in each TK classroom.

**Special Education.** \$500 million on-going General Fund is proposed in the budget to support a special education programs related to learning recovery for students with disabilities and an increase to the statewide base rate for education funding.

**Educator Professional Development.** The Governor's Budget proposal continues to make several investments in preparing, training, and recruiting the K-12 workforce. Specifically, the budget provides \$54.4 million in a mix of Proposition 98 and non-Proposition 98 General Fund to hire qualified teachers and substitutes.

**Community College.** The Governor's budget proposes \$1.8 billion in Proposition 98 General Fund items. The largest ongoing proposal is to provide \$409.4 million for a 5.33 percent cost-of-living adjustment (COLA). Other notable ongoing investments include \$53 million for a 5.33 percent COLA for select categorical programs, and \$25 million to support 0.5 percent enrollment growth. These investments reflect a collaborative multi-year roadmap that focuses on equity and student success and builds on the Community College Systems Vision for Success.

**California State University.** Ongoing General Fund investments for the California State University (CSU) include \$304.1 million General Fund for CSU operations, and \$211.1 million General Fund to support a five percent base increase and ongoing General Fund resources of \$81 million ongoing for California resident undergraduate enrollment growth of 9,434 full-time equivalent students in the 2022-23 academic year. These investments reflect a multi-year compact between the CSU and the Governor's Office that provides substantial and sustained funding increases to CSU in exchange for commitments to expand student access, equity, and affordability, and to create pathways to high-demand career opportunities.

**University of California.** Ongoing General Fund investments for the University of California (UC) include \$307.3 million for UC operations, and \$200.5 million for a five-percent base increase operations, and ongoing General Fund resources of \$68.7 million for California resident undergraduate enrollment growth of 7,132 full-time equivalent students. These investments reflect a multi-year compact between the UC and the Governor's Office that provides substantial and sustained funding increases to UC in exchange for commitments to expand student access, equity, and affordability, and to create pathways to high-demand career opportunities.

**Combatting Organized Retail Theft.** The Governor's budget proposes \$112 million General Fund each year for the next three years for local law enforcement, district attorneys, the Department of Justice, and the California Highway Patrol to crack down on organized retail theft. The budget also includes \$20 million one time in 2022-23 for grants to small businesses that have been the victims of organized retail theft. This funding is a necessary response to the recent spike in retail theft; however, it does nothing to address other categories of theft, like catalytic converter theft, nor does it address the root cause of recent increases in crime – namely the soft-on-crime policies that have been enacted in California over the past decade.

**Tightening the Noose on Firearm Ownership.** The Governor proposes more than \$35 million to buy back guns, track firearms and gun parts, enhance the state's firearms-related information technology systems, and produce research on gun violence that will undoubtedly lead to more gun control laws and generally make it more difficult to own a firearm in California. The bulk of this funding (\$25 million) is for a competitive grant to support local gun buyback programs, despite a significant body of research showing buybacks to be ineffective. These dollars would be better spent elsewhere, like funding solutions to the growing catalytic converter theft problem that can be especially devastating to low-income Californians.

**New Judgeships.** The budget proposes \$43 million to fund 23 new judgeships, which accounts for all of those that are established in law but to date unallocated due to a lack of funding. Including the 25 judgeships that were funded in the Budget Act of 2019, implementation of this proposal would reduce the statewide need for new judgeships from 173 in 2019 to about 125 (as identified in the 2019 updated judicial needs assessment). This is a good start, but still leaves more than 70 percent of the need unmet.

**Young Child Tax Credit.** The budget expands the \$1,000 Young Child Tax Credit to filers without income, and proposes to index the tax credit to inflation, benefitting 55,000 families.

**State Supplementary Payment (SSP) Increase.** The budget proposes an additional SSP increase of 24 percent, effective January 1, 2024, resulting in costs of \$296 million General Fund in 2023-24 and \$593 million ongoing, which would fully restore SSP monthly payments to pre-Great Recession levels. The increase is projected to bring maximum SSI/SSP grant levels to \$1,123 per month for individuals and \$1,940 per month for couples in 2024.

**Former Foster Youth Tax Credit.** The Budget proposes a refundable \$1,000 tax credit for young adults aged 18 through 25 who were former foster youth at age 13 or older. This would cost \$19 million and would assist former foster youth as they move from government dependence to a path of self-sufficiency.

**Tax Credits for Green Energy.** The budget includes \$350 million for two new tax credits focused on green energy and mitigating climate change. It is disappointing to see the Governor prioritize a small section of businesses while thousands more continue to endure financial hardships as a result of the



state's tax and regulatory structure, as well as recent actions by the Governor intended to mitigate the COVID-19 pandemic.

**Minimal Support for Small Business Relief.** The budget would provide \$150 million General Fund to businesses still waiting for relief from the state's Small Business Relief Grant program. With the state's record level of revenue, Senate Republicans are disappointed the Governor did not prioritize more support for the state's struggling small businesses.

**Tax Help for Businesses Left Out of Earlier Relief Efforts.** The budget would provide relief to recipients of two additional federal grant programs, consistent with previous state actions for other federal COVID-19 relief programs exempting forgiven loans from taxable income and allowing for qualified expense deductions.

**Various Business and Immigrant Assistance Programs.** The budget provides more than \$125 million within the Governor's Office of Business and Economic Development for grants to businesses impacted by retail theft incidents, education and technical assistance to start-ups, tourism media campaigns, and a new unit within GO-Biz that would coordinate immigrant integration activities through enhanced services and support for economic development.

**Employment Development Department (EDD) Problems.** The proposed budget includes \$134 million in short-term spending to continue developing IT systems, improving service for claimants, and protecting the state from fraud. While this may have potential, too many Californians are still waiting months for interviews needed to address their claims, and it is not yet clear what the timeline is for fixing the continuing EDD mess.

**Transportation Infrastructure.** The Governor proposes \$4.9 billion General Fund for transportation infrastructure projects that would primarily support non-road projects, including rail and transit, walking and biking, grade separations, and climate adaptation projects. Of this amount, the Governor requests an immediate legislative appropriation of \$4.3 billion in the current budget year. Notably, these projects will do little to improve roads, but perhaps a supplement of General Fund for non-road projects will leave more transportation dollars for fixing the roads.

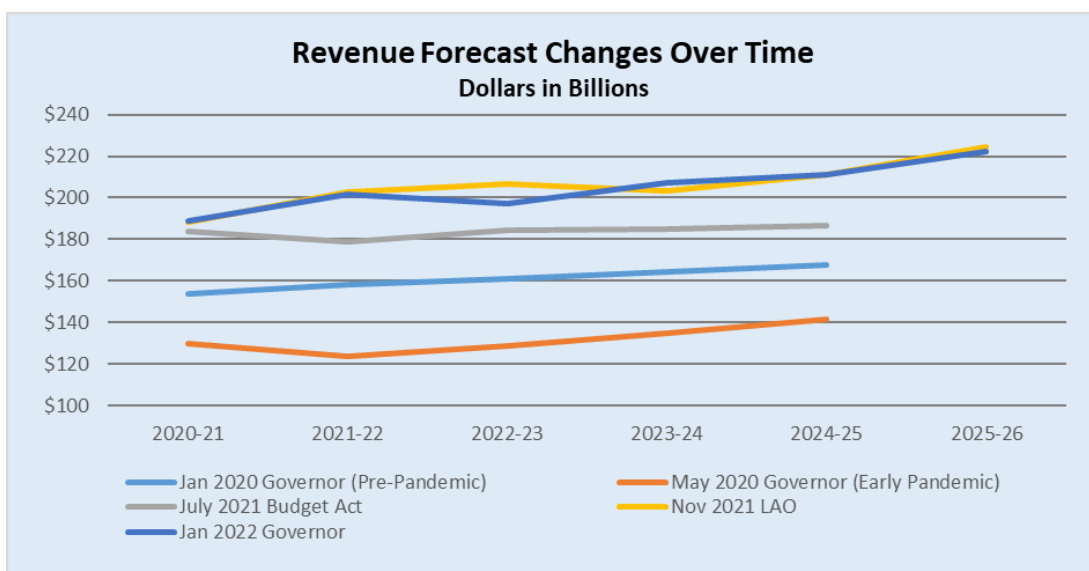
**High-Speed Rail.** The Governor requests an immediate legislative appropriation of \$4.2 billion in the current budget year to allocate the remaining bond funds for the high-speed rail project. The Legislature should deny this funding and end the rail fail.

# Overall Revenues, Expenditures, and Reserves

## Key Points

- **Revenues Rise Again.** Revenues adjust upward in the current year by 13 percent before leveling off to slower, more traditional growth.
- **Higher Expenditures Lead to Operating Deficits.** Expenditures would outpace revenue growth in the near term, leading to operating deficits in the near future, despite record revenues.
- **Surplus Estimates Vary.** Estimates of the surplus range from \$21 billion to \$31 billion or more, depending on definitions, though most proposed uses are one-time.
- **State “Gann” Spending Limit.** The budget estimates that state spending would exceed the constitutional Gann limit by \$2.6 billion in 2021-22, but would be under the limit for 2022-23.
- **Laundry List of New Spending Demands Oversight.** With another long list of new spending proposals to follow the 2021 actions, the Legislature should review last year’s new spending results before approving another grab-bag of goodies.
- **Reserve Percentage Should Be Higher.** Reserves for non-education spending would reach \$25 billion but would be below the pre-pandemic high as a percent of revenues and should be increased.

**Revenues Rise Again in Current Year.** The budget estimates an increase in General Fund revenue for the current year to \$202 billion, which is nearly 13 percent higher than the 2021 Budget Act level. This adjustment reflects continued strong capital gains and the projected short-term effects of additional federal stimulus. However, these revenues are projected to drop slightly to \$197 billion for the 2022-23 budget year before growing each year thereafter in the range of 1.8 percent to 5.0 percent annually. Recent iterations of budget forecasts have generally shifted higher, as seen in the table below. The Governor’s new forecast is largely similar to those projected by the nonpartisan Legislative Analyst’s Office in November 2021.



**Reconciling Rising Revenues and a Lagging Economy.** The state’s record revenues seem to be at odds with the state’s economy, which unfortunately leads the nation in unemployment at 6.9 percent. Key explanatory factors include:

- **Reliance on High-Income Earners.** California receives a hugely disproportionate share of its revenues from a small number of high-income earners, who have been largely unaffected by the pandemic. In 2019, the top one percent of income earners paid almost 45 percent of all personal income taxes, and that percentage is likely higher now.
- **Capital Gains Strength.** Capital gains have long been boom-or-bust for California, and, unlike the recessions in 2001 and 2009, those gains actually increased during this recession. Capital gains in 2021-22 are projected to provide 12.7 percent of all General Fund revenues, the highest level in at least more than a decade and possibly longer.
- **Strong Corporate and Sales Taxes.** The revised revenue estimates continue to show higher-than-normal corporate and sales tax revenues, which possibly is the result of federal government stimulus and inflation.

**Expenditures Increase Faster.** General Fund spending would reach nearly \$210 billion in the current year, an increase of \$14 billion (6.9 percent) from the level authorized by the 2021 Budget Act, and would rise again to more than \$213 billion in 2022-23. This new spending level for 2022-23 would be 8.5 percent higher than the 2021 Budget Act. Ten years ago, General Fund spending totaled \$96.6 billion. The Governor’s proposed spending for 2022-23 would be more than double that level, indicating growth of \$117 billion (121 percent) since then.

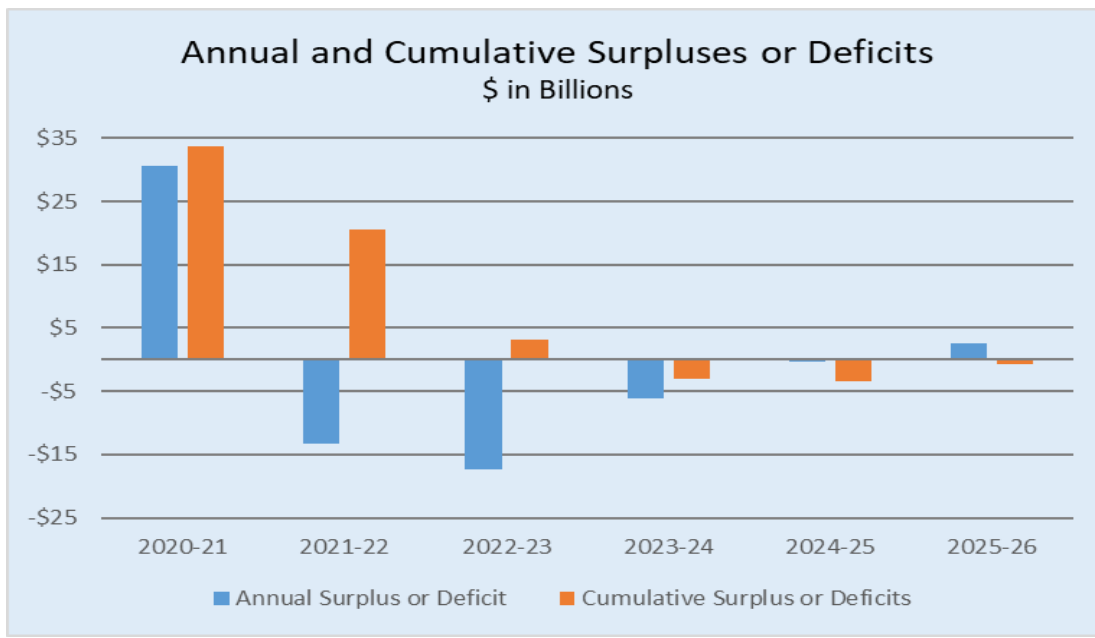
Spending from all state funds, including the General Fund and various other funds such as gas taxes, would reach \$286 billion in 2022-23, an increase of 8.9 percent compared to the level authorized by the 2021 Budget Act.

<b>Revenues and Expenditures by Fund Category</b>						
<i>Dollars in Billions</i>						
	<b>June 2021 Budget Act 2021-22</b>		<b>Jan 2022 Revised 2021-22</b>		<b>Jan 2022 Gov's Budget 2022-23</b>	
<b>Revenues - General Fund</b>	<b>\$179</b>		<b>\$202</b>		<b>\$197</b>	
<i>Change from 2021 Budget Act</i>			12.8%		10.3%	
<b>Expenditures</b>		<b>% of Total</b>		<b>% of Total</b>		<b>% of Total</b>
<i>General Fund</i>	\$196	43%	\$210	44%	\$213	50%
<i>Special &amp; Bond Funds</i>	\$66	14%	\$70	15%	\$73	17%
<b>Total, State Funds</b>	<b>\$263</b>	<b>57%</b>	<b>\$280</b>	<b>59%</b>	<b>\$286</b>	<b>68%</b>
<i>Change from 2021 Budget Act</i>			6.7%		9.1%	
<b>Federal Funds</b>	\$194	43%	\$195	41%	\$136	32%
<b>Total, All Funds</b>	<b>\$457</b>	<b>100%</b>	<b>\$475</b>	<b>100%</b>	<b>\$422</b>	<b>100%</b>
<i>Change from 2021 Budget Act</i>			3.9%		-7.6%	

Federal funds have added dramatically to overall state spending since the pandemic began. In 2021-22, federal funds would reach \$195 billion, or 41 percent of the all-fund state budget, pushing the

overall budget within shouting distance of half a trillion dollars. Federal spending through the state budget would decrease significantly to \$136 billion for 2022-23. More details on the components of federal spending are included in the *Pandemic Response and Federal Assistance* section.

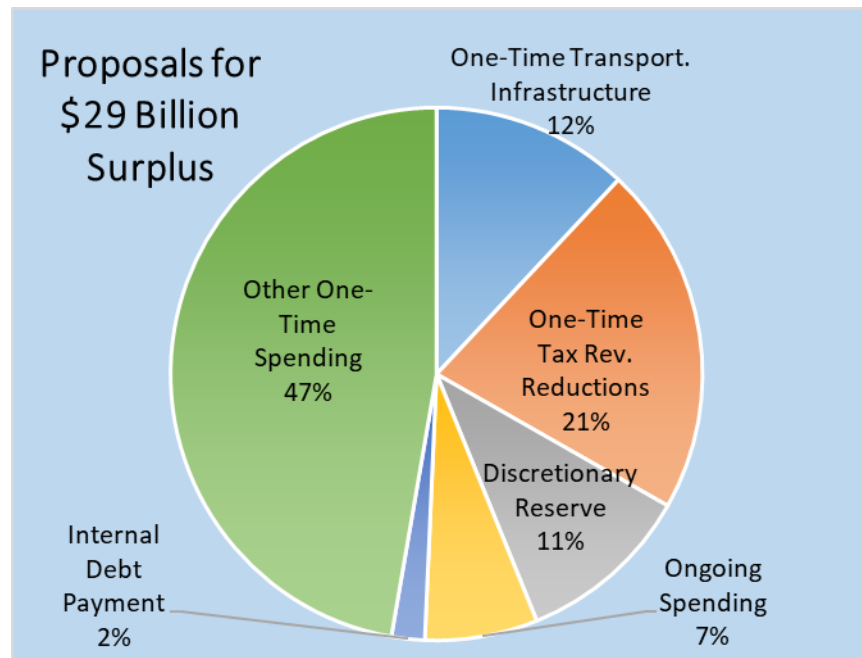
**Operating Deficits Projected Following Initial Surplus.** Despite the current revenue surge and short-term surplus, the operating deficit would exceed \$17 billion in 2022-23, and additional deficits are projected for the next two years. Revenues for 2020-21 and 2021-22 are estimated to be even higher than previously projected, which builds a temporary surplus before new spending decisions are made. The chart on the next page illustrates this sequence. Operating deficits indicate the state’s expenditures are outpacing the revenues in that particular year, and would potentially require reserves or cuts to cover the shortfalls. Reserves are intended to be available for unforeseen troubles, not for predictable deficits that will arise from spending beyond available revenues.



**Surplus Estimates Vary Widely.** Estimates of the surplus range from \$21 billion to \$31 billion or more, depending on definitions. The LAO projected a surplus of \$31 billion in its November 2021 forecast. The Governor first cited a surplus of \$46 billion before acknowledging that an “apples-to-apples” amount to compare with the LAO would be \$21 billion. The LAO now estimates that the Governor’s budget allocates a \$29 billion surplus, but excludes some ongoing spending commitments launched in the 2021 budget process that arguably should be counted as surplus spending. The LAO estimates that 60 percent of the surplus usage would be one-time or temporary in nature, though “one-time” spending is typically replaced by more “one-time” spending the next year. Using the LAO’s figure of \$29 billion, broad categories of surplus proposals include the following, as summarized below and in the table on the next page.

- **\$17 Billion for One-Time or Temporary Spending.** Notable components of this category include \$3.5 billion for transportation infrastructure and \$1 billion to pay down the Unemployment Insurance Fund debt.
- **\$6.2 Billion for Revenue Reductions.** This largely consists of \$5.5 billion one-time to reverse the previously enacted limits on corporate net operating losses and on research and development credits.

- **\$3.1 Billion for Discretionary Reserves.** This amount is the proposed balance for the Special Fund for Economic Uncertainties.
- **\$2 Billion for Ongoing Spending.** Significant items in this category include increases for the two university systems. (Note that the expansion of Medi-Cal to the remaining undocumented adult population is not counted here since it would be implemented until the 2023-24 budget.)
- **\$590 Million to Pay State Debt.** This item would pay down special fund loans taken out in 2020 when the state believed it faced a massive deficit.



**State “Gann” Spending Limit.** The budget estimates that state spending would exceed the constitutional Gann limit by \$2.6 billion in 2021-22, but would be under the limit for 2022-23. The Governor indicated he would propose how to address the \$2.6 billion after updating revenues at the May Revision.

The LAO estimated in November 2021 that the state would need to address \$26 billion in Gann-related spending or tax reductions, including \$14 billion by the end of June 2022 and \$12 billion for 2022-23. The Governor’s budget presents a substantial shift from the LAO’s estimate. More review is needed to reconcile the two, though part of the explanation lies in the Governor’s proposals for \$20 billion in spending on infrastructure projects, which are excluded from the Gann limit.

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 the changes stretched the limits of definitions in the state constitution.

**Laundry List of New Spending Demands Oversight.** Outside some major proposals in key areas such as education, wildfire, and tax reductions, the volume and type of spending in the budget raises concerns. In the 2021-22 budget the LAO counted roughly 400 new proposals, and this budget continues to throw new proposals around like candy to kids at a parade. For example, there are more than 20 new one-time workforce training proposals, which are spread across multiple departments at a cost of \$2 billion.

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 recommends that the Legislature spend time first evaluating the current year spending efforts, authorized in the 2021-22 budget, before approving new proposals.

**Reserves Short of Previous High in Percentage Terms.** The state's Rainy Day Fund (Proposition 2 of 2014) is projected to be \$20.9 billion by the end of 2022-23. The mandated balance would exceed 10 percent of revenues, which means the state must spend \$2.4 billion on infrastructure. The Governor plans to regard the infrastructure proposals included in the budget as meeting this requirement, rather than setting aside separate proposals for it.

Under the rules of Proposition 2, the budget also would make a deposit into the Public School Stabilization Account in both the current year and budget year. This balance would reach \$9.7 billion by the end of 2022-23, though use of this amount is limited to schools and does not help address broader General Fund deficits.

The Governor's budget also includes a discretionary reserve of nearly \$3.1 billion and a Safety Net Reserve of \$900 million. When combined with the Rainy Day Fund, the reserves available for non-Proposition 98 purposes would reach 18 percent of spending. However, 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 2020 deficit scare.

The Governor's budget summary notes, "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 makes sense.



# Pandemic Response and Federal Assistance

## Key Points

- **Governor Seeks Early Action for COVID-19 Response Funding.** The Governor proposes \$2.7 billion more in state COVID-19 response spending, but wants \$1.4 billion of it appropriated by the Legislature immediately.
- **Almost \$14 Billion in Total State Response Spending.** The state projects it will spend \$13.9 billion since the beginning of the pandemic through June 2023.
- **Almost Two-Thirds of a Trillion Dollars in Federal Assistance.** \$657 billion in federal assistance will have gone to California's state and local governments, individuals, and businesses.
- **Response Spending Process Could Improve Further.** The response process is better than the unilateral decision-making early in the pandemic, but "emergency" authority still grants too much spending latitude to the Governor.

**Early Action on COVID-19 Response Spending.** The Governor proposes \$2.7 billion in new spending to respond to the pandemic, specifically for vaccine distribution, testing, hospital surge staffing, contact tracing, and community outreach. Of this total amount, the Governor requests an immediate legislative appropriation of \$1.4 billion in the current 2021-22 budget year, with \$1.2 billion for the Department of Public Health and \$206 million for the Department of Corrections and Rehabilitation, specifically for inmate and staff testing. This new current year request would be on top of the \$1.7 billion that was appropriated in the 2021 Budget Act. The Governor has \$1.3 billion in spending proposed for the state's response activities in 2022-23. The chart on the next page summarizes this spending proposal.

With the Omicron variant surge adding more demands onto the healthcare system, upfront funding for testing and hospital staffing is warranted. However, this request for immediate funding also creates an opportunity for the Legislature to question spending on ongoing state contracts. For instance, the Governor's plan includes an additional \$158 million for the troubled Valencia Branch Laboratory, with signals that the administration has no intention of ending the no-bid contract with Perkin Elmer in 2022.

The Governor's request for immediate response funding also gives the Legislature a chance to broadly assess if the current pandemic response efforts are working or could be improved. For instance, in light of the highly contagious Omicron variant, members could question how effective contact tracing has been in stopping the spread of COVID-19. Members could also review if migrant quarantines in state-funded hotel rooms near the southern border have encouraged more COVID-19 positive migrants to illegally cross the border.

### COVID-19 Direct Response Budgeted and Proposed Costs

COVID-19 Direct Response Activities	2021 Budget Act <sup>1/</sup>	2021-22 Proposed Funding Over 2021 Budget Act	2022-23 Proposed Funding
<b>California Department of Corrections and Rehabilitation</b>	<b>\$410,486,000</b>	<b>\$205,547,000</b>	<b>\$424,669,000</b>
Hospital and Medical Surge	\$29,245,000	\$0	\$10,905,000
State Response Operations	\$82,767,000	\$0	\$32,154,000
Statewide Testing	\$198,440,000	\$205,547,000	\$380,109,000
Vaccine Distribution and Administration <sup>2/</sup>	\$2,500,000	\$0	\$1,501,000
Temporary Suspension of Prison Intake	\$97,534,000	\$0	\$0
<b>California Department of Public Health</b>	<b>\$904,931,000</b>	<b>\$1,224,710,000</b>	<b>\$760,750,000</b>
Contact Tracing	\$2,408,000	\$18,182,000	\$18,284,000
Hospital and Medical Surge	\$60,849,000	\$478,482,000	\$124,309,000
State Response Operations	\$96,276,000	\$115,327,000	\$0
Statewide Testing	\$625,163,000	\$213,587,000	\$361,934,000
Vaccine Distribution and Administration	\$120,235,000	\$399,132,000	\$182,323,000
Vulnerable Populations and Other Support Services <sup>3/</sup>	\$0	\$0	\$73,900,000
<b>Department of State Hospitals</b>	<b>\$69,208,000</b>	<b>\$0</b>	<b>\$64,600,000</b>
State Response Operations	\$54,828,000	\$0	\$50,600,000
Statewide Testing	\$14,380,000	\$0	\$14,000,000
<b>Other Departments</b>	<b>\$360,798,000</b>	<b>\$0</b>	<b>\$0</b>
<b>Grand Total</b>	<b>\$1,745,423,000</b>	<b>\$1,430,257,000</b>	<b>\$1,250,019,000</b>

<sup>1/</sup> Includes Control Section 11.91 transfers.

<sup>2/</sup> The 2021 Budget Act did not specifically identify an amount for vaccine distribution and administration for the California Department of Corrections and Rehabilitation (CDCR). Estimated costs for vaccine-related activities were reflected in the broader state response operations assumptions. CDCR currently estimates it will expend \$2.5 million for this purpose in 2021-22, which will be absorbed within existing resources.

<sup>3/</sup> 2022-23 figure includes funding for Emergency Medical Services Agency for response efforts at the border.

**Direct Pandemic Response.** From the beginning of the pandemic in March 2020 through June 30, 2021, the state spent \$9.5 billion on COVID-19 “direct” response. The administration projects that 2021-22 and 2022-23 combined spending will amount to another \$4.4 billion, bringing cumulative pandemic direct response spending to \$13.9 billion by June 30, 2023. Of that amount, the administration estimates the state will recover \$11.2 billion from the federal government. A table from the Department of Finance summarizing the actual expenditures in 2019-20 and 2020-21 by category appears on the next page.

### COVID-19 Direct Response Costs

Cost Category	2019-20 Actual Costs	2020-21 Actual Costs	Total Actual Costs
<b>State Response Operations</b>	<b>\$289,880,000</b>	<b>\$1,392,922,000</b>	<b>\$1,682,802,000</b>
State Hospitals	\$6,199,000	\$52,641,000	\$58,840,000
Testing	\$813,000	\$20,996,000	\$21,809,000
Surge Capacity (Norwalk)	\$0	\$2,460,000	\$2,460,000
Other Staffing and Operational Costs	\$5,386,000	\$29,185,000	\$34,571,000
National Guard	\$6,474,000	\$42,222,000	\$48,696,000
Corrections and Rehabilitation	\$151,877,000	\$984,979,000	\$1,136,856,000
Community Supervision	\$2,971,000	\$21,775,000	\$24,746,000
Temporary Suspension of Prison Intake	\$31,215,000	\$176,827,000	\$208,042,000
Reentry Housing	\$0	\$15,183,000	\$15,183,000
Project Hope (CDCR)	\$0	\$478,000	\$478,000
Project Hope (DGS)	\$0	\$1,440,000	\$1,440,000
Personal Protective Equipment	\$23,330,000	\$18,837,000	\$42,167,000
Medical Surge/Tents	\$1,198,000	\$154,600,000	\$155,798,000
Testing (Employee)	\$2,518,000	\$270,738,000	\$273,256,000
Testing (Inmate)	\$6,101,000	\$128,909,000	\$135,010,000
Cleaning	\$20,740,000	\$27,624,000	\$48,364,000
Other Staffing and Operational Costs	\$63,804,000	\$168,568,000	\$232,372,000
Other State Agency Response Operations Costs	\$125,330,000	\$313,080,000	\$438,410,000
<b>Procurements</b>	<b>\$1,020,239,000</b>	<b>\$1,891,365,000</b>	<b>\$2,911,604,000</b>
OES Masks Contract (Global Healthcare Product Solutions, LLC)	\$411,693,000	\$508,906,000	\$920,599,000
DGS and Other Procurements	\$608,546,000	\$1,382,459,000	\$1,991,005,000
<b>Hospital and Medical Surge (to support 5,000 beds)</b>	<b>\$91,520,000</b>	<b>\$1,140,389,000</b>	<b>\$1,231,909,000</b>
Staffing Costs	\$36,404,000	\$1,054,536,000	\$1,090,940,000
Facilities and Operating Costs	\$55,116,000	\$85,853,000	\$140,969,000
<b>Hotels for Health Care Workers/Support Staff</b>	<b>\$45,404,000</b>	<b>\$208,702,000</b>	<b>\$254,106,000</b>
<b>Housing for the Harvest</b>	<b>\$0</b>	<b>\$175,000</b>	<b>\$175,000</b>
<b>Vulnerable Populations and Other Support Services</b>	<b>\$438,766,000</b>	<b>\$814,202,000</b>	<b>\$1,252,968,000</b>
Project Roomkey	\$150,000,000	\$62,000,000	\$212,000,000
Food Banks (includes funding for diapers)	\$25,000,000	\$162,948,000	\$187,948,000
Immigrant Services	\$63,300,000	\$3,637,000	\$66,937,000
Support for Small Businesses	\$0	\$536,688,000	\$536,688,000
Great Plates Delivered	\$3,816,000	\$15,276,000	\$19,092,000
Other Program Allocations	\$196,650,000	\$33,653,000	\$230,303,000
<b>Statewide Testing</b>	<b>\$77,922,000</b>	<b>\$1,181,505,000</b>	<b>\$1,259,427,000</b>
PerkinElmer	\$0	\$695,590,000	\$695,590,000
Logistics Health, Inc. (Optum)	\$53,211,000	\$304,472,000	\$357,683,000
Other Statewide Testing	\$24,711,000	\$181,443,000	\$206,154,000
<b>Contact Tracing</b>	<b>\$14,924,000</b>	<b>\$243,399,000</b>	<b>\$258,323,000</b>
Operating Costs	\$10,404,000	\$94,306,000	\$104,710,000
Departmental Staff Redirection Costs	\$4,520,000	\$149,093,000	\$153,613,000
<b>Vaccine Distribution and Administration</b>	<b>\$1,560,000</b>	<b>\$507,490,000</b>	<b>\$509,050,000</b>
Supporting Vaccine Mega Sites and Management of the Statewide Provider Network	\$0	\$273,500,000	\$273,500,000
Administering the Statewide Provider Network	\$1,560,000	\$181,075,000	\$182,635,000
Departmental Staff Redirection Costs	\$0	\$18,339,000	\$18,339,000
Media Campaign	\$0	\$34,576,000	\$34,576,000
<b>Community Engagement</b>	<b>\$28,000</b>	<b>\$117,475,000</b>	<b>\$117,503,000</b>
<b>Totals</b>	<b>\$1,980,243,000</b>	<b>\$7,497,624,000</b>	<b>\$9,477,867,000</b>

**Federal Funds Assist in Response and Recovery.** Federal pandemic response assistance has provided an astonishing \$657 billion to California’s state and local governments, as well as individuals and businesses. About \$319 billion of this amount flows to or through the state budget, while the other \$338 billion has been or will be distributed directly to California residents, local governments, nonprofits, or businesses. The most recent federal assistance bill, the American Rescue Plan Act of 2021, provided \$27 billion for state fiscal relief, which can be spent through 2024. The table below summarizes the budget’s allocation of that \$27 billion.

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

(Dollars in Millions)

Coronavirus State Fiscal Recovery Fund Allocations	2021 Budget Act Funding Amount	2022-23 Governor’s Budget	Difference <sup>1/</sup>
<b>Address Public Health Impacts</b>	<b>\$1,804.8</b>	<b>\$1,188.7</b>	<b>-\$616.1</b>
COVID-19 Direct Response Costs	\$724.8	\$208.7	-\$516.1
Behavioral Health Continuum Infrastructure Program	\$530.0	\$530.0	\$0.0
Community Care Expansion	\$450.0	\$450.0	\$0.0
Mental Health Student Services Partnership Grant Program <sup>2/</sup>	\$100.0	\$0.0	-\$100.0
<b>Address Negative Economic Impacts</b>	<b>\$12,224.8</b>	<b>\$11,004.8</b>	<b>-\$1,220.0</b>
Address Increased Homelessness and Housing Shortages	\$4,876.0	\$4,876.0	\$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	\$1,777.9	\$1,407.9	-\$370.0
Small Business Grants	\$1,500.0	\$1,500.0	\$0.0
Community Economic Resilience	\$600.0	\$0.0	-\$600.0
Training and Education Support for Displaced Workers	\$472.5	\$472.5	\$0.0
Economic Support for Ports	\$250.0	\$0.0	-\$250.0
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	\$95.0	\$0.0
Legal Aid for Renters	\$80.0	\$80.0	\$0.0
Federal Tracking, Accountability, and Cost Recovery	\$10.9	\$10.9	\$0.0
<b>Replace Lost State Revenue</b>	<b>\$9,196.3</b>	<b>\$11,032.4</b>	<b>\$1,836.1</b>
<b>Broadband Infrastructure, Access, and Affordability</b>	<b>\$3,772.4</b>	<b>\$3,772.4</b>	<b>\$0.0</b>
<b>Reserve for Accountability and Oversight</b>	<b>\$18.6</b>	<b>\$18.6</b>	<b>\$0.0</b>
<b>Total</b>	<b>\$27,017.0</b>	<b>\$27,017.0</b>	<b>\$0.0</b>

<sup>1/</sup> The Governor’s Budget proposes to shift \$1.8 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.

<sup>2/</sup> Of the \$1.8 billion in funding shifts, \$100 million for youth behavioral health grants will be funded from the Mental Health Services Fund (MHSF). Other MHSF programs totaling \$100 million would in turn be funded with General Fund.

**Response Spending Process Could Improve Further.** To the great concern of those who value the separation of powers in government, much of the spending associated with the state’s response to the COVID-19 pandemic in 2020-21 was unilaterally authorized by the Governor, using emergency spending authority pursuant to the California Disaster Assistance Act (CDAA). In the months following an emergency proclamation, the CDAA provides the Governor with nearly unfettered access to spend

through the Disaster Response Emergency Operations Account (DREOA). This authority allowed the Governor to spend unilaterally, including hundreds of millions of dollars on no-bid contracts, with minimal notice to the Legislature, which was often left to learn details of the Governor's expenditures from reporters who filed public records requests.

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

Rather than further extend the DREOA authority through legislation, as the Governor had initially proposed in January 2021, the Budget Act of 2021 instead appropriated \$1.7 billion General Fund to nine state agencies and granted authority for the Department of Finance to shift those dollars around after 10-day notification to the Legislature. This was better than allowing the Governor to continue unlimited, unilateral pandemic spending, but still granted too much latitude and went too far in removing the Legislature from its proper role in directing spending.

The Governor's proposed budget for 2022-23 employs the same mechanism as the 2021 Budget Act for COVID-19 response spending. Both the nonpartisan Legislative Analyst's Office and the State Auditor have raised concerns about the Governor's emergency pandemic spending, but to date, legislative Democrats have neglected to hold the Governor accountable.



# Tax Policy

## Key Points

- **Includes Republican Priorities that Provide Tax Relief to Businesses.** Proposes to reverse the third year of the limit on business credits and net operating losses, providing \$5.5 billion in relief to businesses.
- **Conforming Income Tax Treatment.** Conforms to federal tax treatment of grants for recipients of loans from the federal Shuttered Venue Operator Grant program and the Restaurant Revitalization Fund.
- **Young Child Tax Credit No Longer Incentivizes Work.** Expands the \$1,000 Young Child Tax Credit to recipients without work or income, minimizing the program's incentive to work.
- **Former Foster Youth Tax Credit.** Proposes a refundable \$1,000 tax credit for young adults aged 18 through 25 who were former foster youth at age 13 or older.
- **Targets Tax Credits to Green Energy Companies.** Includes \$350 million revenue loss for two new tax credits focused on green energy and mitigating climate change.
- **Tax Payment Flexibility for Low- And Moderate-Income Households.** Proposes that families with less than \$150,000 in adjusted gross income would be given until September 30, 2023, to pay any personal income tax liability for certain years.

**Includes Senate Republican Priority to Reverse Business Tax Increases.** The January budget proposes to reverse the third year (2022- 2023) of the limit on business credits and net operating losses, providing \$5.5 billion in relief to businesses. The 2020-21 budget included these credit limits at a time the state thought it faced a massive deficit, but Democrats failed to reverse course in the 2021-22 budget. Albeit a year late now, it is encouraging to see the Governor include one of the Senate Republicans' priorities to provide relief to struggling California businesses.

**Income Tax Conformity for Restaurant and Venue Owners.** The budget proposes statutory changes that conform to federal tax treatment of grants for recipients of loans from the federal Shuttered Venue Operator Grant program and the Restaurant Revitalization Fund. This conformity would exempt the grant amount from taxable income and allow normal deductibility for the expenses related to those grants. These proposals would reduce revenues by \$130 million in 2021-22 and \$144 million in 2022-23. The proposed changes are consistent with recent state legislation (AB 80, supported by Senate Republicans) that provided tax relief to most California businesses who had their loans forgiven under the federal Paycheck Protection Program.

**California's Earned Income Young Child Tax Credit No Longer Tied to Income.** The budget expands the \$1,000 Young Child Tax Credit (YCTC) to filers without income, benefitting 55,000 families. In most cases, the current credit provides \$1,000 to every household that otherwise qualifies for the CalEITC and has a child age five or younger. For the 2020 tax year, 420,000 taxpayers claimed this credit and received credits totaling \$390 million.

In addition, starting in 2022, the budget indexes the \$1,000 YCTC for inflation. The other parameters of the CalEITC are indexed every year to prevent inflation from eroding its value. This proposal would provide consistency between the two tax credits. The cost of indexing will depend on the level of inflation and will compound over time, but the budget assumes a cost of \$19 million in 2022.

Senate Republicans supported the implementation and recent expansions of the state's Earned Income Tax Credit program as a way to incentivize work, but this proposed expansion of the Young Child Tax



Credit to anyone eligible for EITC, without any income requirements, turns this effective program into another handout effort by the Governor, lacking in accountability or positive incentives.

**Former Foster Youth Tax Credit.** The budget proposes a refundable \$1,000 tax credit for young adults aged 18 through 25 who were former foster youth at age 13 or older, at a cost of \$19 million in 2022-23. This tax credit is intended to assist former foster youth as they move from government dependence to a path of self-sufficiency. Given the concern that a number of the state's homeless youth are former foster kids, it may be prudent to look for more opportunities to provide assistance for former foster youth struggling to survive even beyond the Governor's proposal.

**Budget Targets Tax Credits to Green Energy Companies.** The budget includes \$350 million revenue loss for two new tax credits focused on green energy and mitigating climate change. The Innovation Headquarters Credit is for companies headquartered in California, and is projected to result in a revenue loss of \$250 million per year for three years. Unfortunately, while the Administration has a vague notion that the credit should be for climate-related research, the program criteria, eligibility, and details are still being developed.

The second green tax credit would focus on companies that opt in to develop green energy technologies, with funding provided for pre-development costs for new technologies such as: electric vehicle manufacturing and infrastructure; geothermal, lithium extraction, and battery manufacturing; long-duration storage; addressing methane emissions; and hydrogen technologies to reduce the use of natural gas. The budget assumes a revenue loss of \$100 million per year for three years. The credit will be awarded by a newly created clean energy board at the Governor's Office of Business and Economic Development (GO-Biz). These credits would be structured so that if the business becomes profitable, a share of profits will be repaid to the state, but the Administration is unable to explain exactly how this revenue sharing will work.

It is a disappointment to see the Governor prioritize a small section of businesses with these new programs while thousands more continue to endure financial hardships due to the state's tax and regulatory structure, as well as recent misguided actions by the Governor intended to mitigate the COVID-19 pandemic. Instead of narrowly targeting green energy companies and raking off a share of future profits, the Governor should provide ongoing fiscal relief to all businesses burdened by the high cost of doing business in the state.

**Clean-Up on Elective Pass-through Tax.** The budget proposes two changes to the new elective pass-through tax, allowing the credit to be claimed by single-member entities, and allowing the credit to reduce taxes owed below the tentative minimum tax. The 2021 Budget Act created a new elective tax for S Corporations, Limited Liability Companies, Limited Liability Partnerships, and Limited Partnership pass-through entities that allows filers with income from these entities to reduce state and/or federal tax liability. These changes could allow more entities to participate, and some entities would now be able to claim a higher credit amount, providing greater tax relief for these Californians. While the Administration estimates the proposals will likely have a revenue impact, the budget does not reflect any adjustments, but revisions may be included as part of the May Revision.

**Tax Payment Flexibility for Low- And Moderate-Income Households.** The budget proposes, for tax years 2019, 2020, and 2021, that families with less than \$150,000 in adjusted gross income (\$75,000 for individuals) would be given until September 30, 2023, to pay any personal income tax liability for those years. Participating taxpayers would also be relieved of any penalties and interest related to delayed filing or payments, and they would be allowed to make installment payments. Late penalties and interest would again apply to outstanding amounts, if any, at the end of the program. The extension would support those hit hard by the pandemic with additional flexibility in meeting their tax obligations.

# Wildfire Prevention, Response, and Recovery

## Key Points

- **\$1.2 Billion for Wildfire Resilience.** Proposes \$1.2 billion over two years to accelerate forest thinning, build fuel breaks, and help homeowners and fire-prone communities improve defensible space and resiliency.
- **More Needed for a Long-Term Solution.** Despite recent increases, the budget still does not identify a continuous funding source to achieve the most significant benefit from the state's wildfire mitigation efforts.
- **Augments CalFire's Fire Suppression Budget.** Further increases CalFire's budget, which has already grown by more than \$1.5 billion over the past three years.

**\$1.2 Billion for Forest Health, Community Resilience, and Wildfire Prevention Efforts.** The two-year plan proposes dedicating \$400 million General Fund in 2022-23 and 2023-24 each to support various fire prevention projects, forest health activities, and community hardening and capacity enhancements. The total of \$800 million would be in addition to the \$200 million Greenhouse Gas Reduction Fund (GGRF) continuously appropriated each year through 2023-24 in last year's budget. Nearly 67 percent of funding (\$800 million) is a one-time General Fund investment, more than in past years, while the remainder (\$400 million) depends on GGRF. Significant and long-overdue resources for wildfire mitigation, prevention, and response efforts represent the highest spending categories. Specific spending areas include:

- \$242 million for resilient forests and landscapes, including fuel reduction.
- \$50 million for reforestation
- \$190 million for wildfire fuel breaks.
- \$22 million for home hardening.
- \$55 million for conservancies and regional forest capacity.
- \$15 million for workforce training.
- \$19 million for science-based management.
- \$5 million for transportation grants for woody material (new program).

Senate Republicans recently called for wildfire prevention to be a major budget priority. The \$1.2 billion plan is a step in the right direction, but it depends on one-time General Fund spending and is not a long-term solution. The plan does not prioritize longer-term investments for wildfire prevention and forest management strategies by committing funds indefinitely to support cleanup and maintenance activities.

For example, the budget includes a funding extension through the 2028-29 fiscal year for forest health and fire prevention activities under SB 901 (Dodd, 2018). While the \$200 million in GGRF funds (from Cap and Trade revenues) would continue to support existing efforts, effective statewide wildfire mitigation requires an additional, ongoing funding source. It also requires that funding is utilized strategically and in the most efficient manner to get projects completed ahead of the next fire season. Shovel-ready projects that can be completed using local resources, such as Fire Safe Councils, should be prioritized over projects that have not received proper permitting or state-run projects that will take longer to complete.

**More Needed for a Long-Term Solution.** As mentioned above, proper and consistent forest management requires a continuous funding commitment. The state should identify a sustainable and continuous funding source to achieve the most significant benefit from the state's investments in wildfire mitigation. One option is shifting the 25 percent of GGRF (Cap & Trade) funds from High-Speed Rail to forest management. This amounts to roughly \$680 million per year and would provide a consistent funding source to support forest management efforts, protect lives, and create much-needed jobs in the forest sector. Also, preventing forest fires reduces greenhouse gas emissions in the near future, which High-Speed Rail cannot do.

**Wildfire Suppression Proposals.** The Governor's budget provides augmentations for various proposals related to fire suppression. Significant areas of fire spending include:

- \$400 million ongoing General Fund to improve the health and wellness of California Department of Forestry and Fire Protection (CalFire) firefighters. It is unclear at this point what these funds would actually do.
- \$190 million General Fund in 2022-23, along with some out-year funding, for equipment such as helicopters and fire engines.
- \$175 million in 2022-23 (\$120 million in General Fund and \$55 million in lease revenue bonds) for CalFire capital outlay projects.
- \$69 million General Fund in 2022-23, increasing to \$81 million ongoing, to increase the availability of year-round fire crews.

# Housing

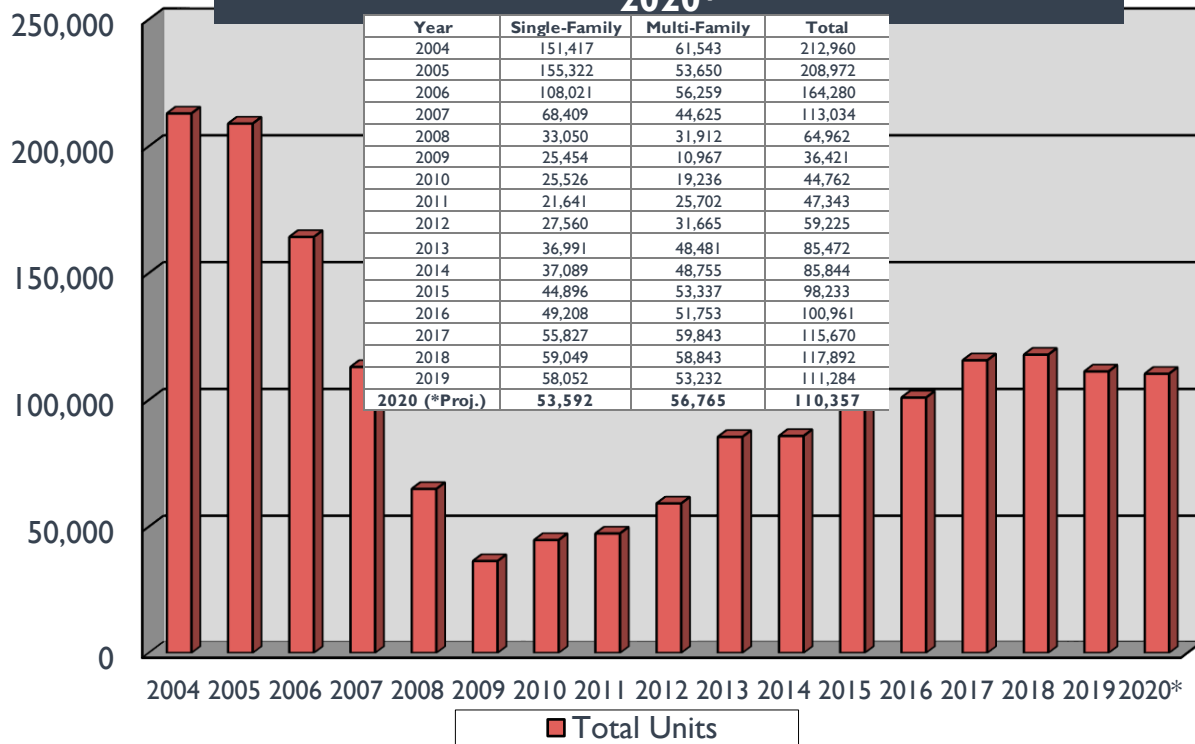
## Key Points

- **Housing Budget Continues to Reflect Policy Failures.** Budget fails to include broad regulatory and statutory reforms that could reduce the cost of housing and increase production.
- **Continued Support for State Tax Credit Program.** Proposes \$500 million for the State Housing Tax Credit Program, which works in conjunction with two federal tax credit programs to incentivize construction.
- **Infill Infrastructure Grants.** Includes \$500 million to provide funding for specific housing-related infrastructure such as water, sewer, roads, and public parks, available to local governments that have project-ready parcels.
- **Affordable Housing, Adaptive Reuse and Excess State Sites.** Includes \$150 million for affordable housing development, including the use of excess state sites, as well as adapting non-residential properties to residential.
- **Loans for Mixed-Income Rental Housing.** Includes \$50 million for loans to developers for mixed-income rental housing.

**Budget Maintains Housing Policy Status Quo.** The budget maintains the status quo and continues the tradition of failing to include significant housing reforms that could reduce the cost and increase the number of housing units built across California. Because cities and counties play the lead role in zoning decisions that determine where and how much housing can be built, the state must work with local governments to identify the most effective way to prioritize housing construction. The state is in need of broader policy changes that deal with the underlying cause of expensive housing. These include restrictive environmental reviews, extensive and cost-prohibitive zoning restrictions, and a host of excessive fees, which have raised the costs of building and slowed down the production of housing units.

Unfortunately, the Governor fails to propose reforms or prioritize funding that could incentivize local governments to achieve their targeted housing goals. In addition, Sacramento Democrats continue to ignore the restrictive structure of state housing laws, which have led to higher costs to build and restricted the growth of new housing units. Partly as a result of these misguided policies, the state's median price of a home surpassed \$800,000 in 2021 before declining slightly to \$793,000 in November 2021. Housing data continue to show that the state has failed in its goal of spurring enough new home building to meet demand, and given the Governor's proposed budget, the trend of failure is likely to continue. See the graph on the next page, with data from the California Building Industry Association, which provides historical housing permit data.

## HOUSING PRODUCTION IN CALIFORNIA 2004-2020\*



Data provided by: Construction Industry Research Board

**Relief for Developers of Multifamily Housing.** The January budget includes \$500 million in 2022-23 to continue the State Housing Tax Credit program, which works in conjunction with two federal tax credit programs to reduce a housing development’s funding gap. Since 2019-20, the state has provided \$500 million annually for the program, which supports new multifamily projects that pair with one of the underutilized federal tax credits. The program targets housing developments for households with incomes between 60 percent and 80 percent of the Area Median Income (the state area median income was \$75,235 in 2021).

**Infill Infrastructure Grant Program.** The budget proposes \$225 million General Fund in 2022-23 (\$275 million in 2023-24) 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. Unfortunately, while providing funding for the program may benefit local jurisdictions, it will do nothing to reduce the already-high cost to build in this state.

**Affordable Housing and Sustainable Communities.** The budget includes \$75 million General Fund in 2022-23 (\$225 million in 2023-24) for the Affordable Housing and Sustainable Communities program, which supports land-use, housing, transportation, and land preservation projects for infill and compact development that reduce greenhouse gas emissions.

**State Excess Sites Development.** The budget includes \$25 million General Fund in 2022-23 (\$75 million in 2023-24) to expand affordable housing development opportunities on state excess land sites. This funding is intended to leverage state land as an asset to expedite housing opportunities by offering low-cost, long-term ground leases in exchange for affordable and mixed-income housing.

**Adaptive Reuse Developments Prioritized.** The budget includes \$50 million General Fund in 2022-23 (\$50 million in 2023-24) for a new program within the Department of Housing and Community Development (HCD) that would provide grants to local jurisdictions. The Administration uses the term “adaptive reuse” for the program, which 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, plumbing/electrical design) and could accelerate residential conversions. Unfortunately, creating another new housing program, with as yet-to-be determined requirements, will likely lead to more bureaucratic hoops for developers to jump through. It would be more efficient to include this funding within an established program that already focuses on infrastructure and transit-oriented development in downtown areas.

**Mixed-Income Housing, Development Loans.** The budget includes \$50 million General Fund in 2022-23 (\$150 million in 2023-24) for the California Housing Finance Agency to provide loans to developers for mixed-income rental housing, specifically for households with incomes between 30 percent and 120 percent of the Area Median Income.

**Portfolio Reinvestment Program.** The budget includes \$50 million General Fund in 2022-23 (\$150 million in 2023-24) for the Portfolio Reinvestment Program, which restructures certain HCD loans in order to preserve affordable housing units. Without the restructuring of the loans, these housing developments would no longer be eligible to restrict rents and occupancy for low-income Californians.

**Mobilehome Park Rehabilitation and Resident Ownership Program.** The budget includes \$25 million General Fund in 2022-23 (\$75 million in 2023-24) for HCD’s Mobilehome Park Rehabilitation and Resident Ownership Program. These funds will finance the preservation and development of mobilehome parks.

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

- \$375 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.
- \$277 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 nearly \$9 billion in support of various housing programs, as shown in the table. Clearly, there is no lack of subsidies from the state for housing. 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.



**2022-23 Affordable Housing Funding at Governor's Budget**  
(Dollars in Millions)

Department	Program	Total Funding
Department of Housing and Community Development <sup>1/</sup>	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	\$228.0 <sup>2/</sup>
	Infill Infrastructure Grant Program	\$225.0 <sup>3/</sup>
	Veterans Housing and Homelessness Prevention	\$75.0
	Affordable Housing and Sustainable Communities Program (General Fund)	\$75.0 <sup>3/</sup>
	Adaptive Reuse	\$50.0 <sup>3/</sup>
	Portfolio Reinvestment Program (Preservation) (General Fund)	\$50.0 <sup>3/</sup>
	Various	\$13.0
	State Excess Sites (General Fund)	\$25.0 <sup>3/</sup>
	Mobilehome Park Rehabilitation and Resident Ownership Program (General Fund)	\$25.0 <sup>3/</sup>
	Office of Migrant Services	\$5.6
California Housing Finance Agency <sup>4/</sup>	Single Family First Mortgage Lending	\$2,500.0
	Homeowner Assistance Fund (American Rescue Plan Act)	\$1,055.0
	Multifamily Conduit Lending	\$1,300.0
	Multifamily Permanent Lending	\$350.0
	Single Family Down Payment Assistance/Homebuyer Assistance	\$140.0 <sup>5/</sup>
	Mixed-Income Housing Program	\$93.4 <sup>3/</sup>
Tax Credit Allocation Committee	Low Income Housing Tax Credits (State)	\$606.6 <sup>6/</sup>
	Low Income Housing Tax Credits (Federal)	\$458.6 <sup>7/</sup>
	Farmworker Housing Assistance Tax Credits	\$4.6
Strategic Growth Council	Affordable Housing and Sustainable Communities (GGRF)	\$389.0 <sup>8/</sup>
Department of Veterans Affairs	CalVet Farm and Home Loan Program (Prop 1)	\$150.0
Judicial Council	Legal Assistance for Renters and Homeowners	\$40.0
Office of Emergency Services	Domestic Violence Housing First Program	\$23.0
	Transitional Housing Program	\$17.0
	Specialized Emergency Housing	\$10.0
	Domestic Violence Assistance, Equality in Prevention and Services, Human Trafficking Victim Assistance, North American Domestic Violence and Sexual Assault	- <sup>9/</sup>
	Returning Home Well	\$10.6
California Department of Corrections and Rehabilitation	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	- <sup>9/</sup>
	Housing Opportunities for Persons with AIDS (HOPWA)	\$5.0
Department of Public Health	Housing Plus Program	\$1.0
	HIV Care Program	- <sup>9/</sup>
California Community Colleges		
California State University	Higher Education Student Housing Grant Program	\$750.0
University of California		
<b>Total</b>		<b>\$8,991.1</b>

1/ Notwithstanding multiyear or continuous appropriations, these estimates depict HCD's appropriations for the 2022-23 Governor's Budget.

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

3/ Note the Governor's Budget proposes 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 proposed to be allocated in the 2022-23 Governor's Budget.

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.

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 Governor's Budget funds for the Higher Education Student Housing Grant Program represent the second year of a total \$2 billion investment planned over a three-year period. The 2021 Budget Act provided \$500 million for this purpose to increase availability of affordable student housing.

# Homelessness

## Key Points

- **Aid to Local Governments and Homekey Program.** Budget reflects prior action allocating \$1 billion in funding to the locals for homeless efforts and \$1.3 billion for additional Homekey purchases.
- **Expansion of Encampment Resolution Program.** Provides \$500 million for local efforts to remove individuals from squalid environments and rehouse in interim shelter.
- **Funding for Behavioral Health-Focused Tiny Homes.** New program would build short-term structures with access to mental health treatment rather than costly and unachievable permanent housing for all homeless.
- **Questions Remain Open for RoomKey.** Questions about Project RoomKey's success remain unanswered following Governor's recent claims.

**Some Similarity to Republican Priorities.** Concerned with the growing homelessness crisis apparent on California's streets, on January 7, 2022, Senate and Assembly Republicans called on Governor Newsom to convene a special session of the Legislature to focus on new result-oriented solutions, rather than the current expensive, ineffective, and unachievable plan to provide permanent houses to all homeless individuals.

While the Governor has so far refused to call the special session, some of his budget proposals reflect Senate Republicans priorities to shut down homeless encampments, build more short-term shelters, and provide on-site behavioral health services to treat the mentally ill homeless population. Furthermore, the Governor proposed in concept an idea similar to another Senate Republican priority, namely to reform the state's conservatorship laws so the that state and local governments can no longer neglect severely mentally ill homeless individuals on their streets. Specific information on the Governor's proposal is not yet available.

**Some New Funds Expand Current Year Efforts.** The Governor's January budget reflects \$5.8 billion for homeless activities in 2022-23 started in the 2021 Budget Act, including \$1.3 billion for the Department of Housing and Community Development's Homekey program and \$1 billion in flexible aid to local governments, among others. The budget proposes an additional \$500 million to expand the Encampment Resolution Grant program and \$1.5 billion over two years to improve access to housing for vulnerable populations with complex behavioral health conditions. The new 2022-23 proposals include the following:

- \$500 million one-time General Fund to the California Interagency Council on Homelessness (Cal-ICH) to expand the Encampment Resolution Grant program. The 2021 Budget Act included \$50 million General Fund to establish the program, and Cal-ICH indicates the program received 39 applications requesting a total of \$120 million in funding. While the program may have merit and could provide local governments with critical resources necessary to provide interim shelter, services, and cleanup activities, it may be premature to expand the grant program before performance outcomes can be identified and measured.
- \$1 billion General Fund for the Department of Health Care Services for counties and tribes to purchase and install tiny homes to get unsheltered individuals with behavioral health conditions off the streets. The funding will also cover initial operations costs and is intended to complement

county behavioral health services. An additional \$500 million General Fund is scheduled for 2023-24.

While this is a welcome departure from the costly purchase and construction of permanent housing units in favor of quicker, low-cost shelters, drug testing or sobriety will not be a residency requirement in these tiny homes, making it less likely for residents to gain control over any underlying addictions needed for permanent stability. The department does intend to complement this new program with some helpful additional behavioral health services within Medi-Cal such as on-site mobile crisis treatment units and housing navigation services.

**Questions Remain for Project Roomkey.** Project Roomkey (PRK) was established in March 2020 in response to the COVID-19 pandemic to provide safe sheltering for vulnerable populations. PRK is a locally administered program in which participating counties and tribes provide non-congregate shelter and rehousing services to adults and families experiencing homelessness to reduce transmission, and relieve pressure on the hospital system by providing safe shelter for those who have or have been exposed to COVID-19.

The 2020-21 budget provided \$59 million to 50 counties and two tribes. The 2021-22 budget provided \$150 million to continue ongoing, non-congregate shelters and rehousing within 43 counties and one tribe. Of the \$150 million, \$6 million was allocated to the Department of Social Services (DSS) for technical assistance and support. While the 2022-23 budget does not provide additional funding for PRK, the 2021-22 funding can be utilized by counties and tribes as long as the monies are encumbered during the 2021-22 fiscal year.

The Governor claimed at his January 10, 2022 press conference that the state had taken 58,000 homeless individuals “off the street” between the Roomkey and Homekey programs (50,000 attributable to Roomkey, 8,000 to Homekey), but in reviewing the DSS Roomkey public dashboard, the website shows the state has 10,521 rooms secured, with a 64% occupancy rate. Given this information, it seems likely the 50,000 homeless the Governor claims to have “taken off the streets” were actually off the streets for a relatively short period of time. Until further information is provided on the outcomes of those served, such as how many of these individuals were transitioned to other short-term shelter, how many to long-term shelter, or how many back to life on the streets, it will be difficult to determine whether or not the program is effective as part of a long-term strategy to eliminate homelessness.

Including all programs and funding for homeless activities proposed for 2022-23 or launched previously, the state would spend nearly \$8 billion on homeless housing and services, as identified in the table on the next page.

**2022-23 Homelessness Funding at Governor's Budget**  
(Dollars in Millions)

Department	Program	Total Funding
Department of Housing and Community Development	Continued Homekey Acquisitions	\$1,300.0
	Federal Funded Programs for Homelessness	\$43.0 <sup>1/</sup>
	Foster Youth Housing Navigators	\$5.0
	Transitional Housing Program	\$17.0
California Interagency Council on Homelessness	Flexible Aid	\$1,000.0
	Homeless Landscape Assessment	\$0.6
	Encampment Resolution Efforts	\$500.3
Office of Emergency Services	Various Homeless Youth Programs	\$1.0
	Youth Emergency Telephone Network	\$0.6
Department of Social Services	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 <sup>2/</sup>
	Behavioral Health Bridge Housing	\$1,500.0 <sup>3/</sup>
	Community Based Residential Continuum Pilots for Vulnerable, Aging and Disabled Populations	\$287.2 <sup>4/</sup>
	Housing and Homelessness Incentive Program	\$644.2 <sup>4/</sup>
	Project for Assistance in the Transition from Homelessness	\$8.8
Department of State Hospitals	Acute Bed Capacity Expansion	\$88.5 <sup>5/</sup>
	Community-Based Restoration (CBR)	\$78.4 <sup>5/</sup>
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 Funding - Student Hunger and Homelessness Programs	\$30.0 <sup>6/</sup>
	Rapid Rehousing	\$9.0 <sup>6/</sup>
California State University	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15.0 <sup>6/</sup>
	Rapid Rehousing	\$6.5 <sup>6/</sup>
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15.0 <sup>6/</sup>
	Rapid Rehousing	\$3.5 <sup>6/</sup>
<b>Total</b>		<b>\$7,971.6</b>

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

2/ Of the \$2.2 billion total funds over 2021-22 and 2022-23, \$1.7 billion is General Fund and \$530 million is CFRF. 2022-23 includes \$277.5 million carried over from 2021-22.

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

4/ Both of these programs are part of the Home and Community-Based Services Spending Plan. The Community Based Residential Continuum Pilots targets various populations, including the homelessness population.

5/ 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.

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

# Health

## Key Points

- **Governor Seeks Early Action for COVID Response Funding.** The Governor proposes \$2.7 billion more in COVID response spending, but wants \$1.4 billion of it appropriated by the Legislature immediately.
- **Medi-Cal Eligibility for 764,000 More Undocumented Individuals.** The Governor proposes another expansion of Medi-Cal to undocumented individuals ages 26 to 49 beginning in 2024, at a cost of \$2.2 billion General Fund after full implementation.
- **Healthcare Workforce Shortages.** The proposed budget adds funding for health care workforce recruitment and retention incentives.
- **Mental Health-Focused Homelessness Efforts.** The Governor pivots to mental health-based solutions rather than housing-only efforts in facing the growing homelessness problem in California.
- **Propping Up the Abortion Industry.** The Governor proposes several measures intended to support abortions in California, while pro-life efforts gain momentum in other states.

**COVID-19 Response.** The Governor proposes \$2.7 billion in new spending on vaccine distribution, testing, hospital surge staffing, contact tracing, and community outreach. Of this total amount, the Governor requests an immediate legislative appropriation of \$1.4 billion in the current budget year (\$1.2 billion to the Department of Public Health and \$206 million to the Department of Corrections and Rehabilitation specifically for inmate and staff testing). With the Omicron variant surge adding more demands onto the healthcare system, upfront funding for testing and hospital staffing is warranted. However, this request for immediate funding also creates an opportunity for the Legislature to question ongoing state contracts, including the no-bid contract for the troubled Valencia Branch Laboratory, and to broadly assess if the current pandemic response efforts, such as contact tracing and migrant quarantines on the southern border, are actually working or could be improved. See Pandemic Response and Federal Assistance Section for more details.

**Undocumented Individuals to Fuel Medi-Cal Caseload Growth.** The Governor's budget proposes another Medi-Cal eligibility expansion in 2024 for roughly 764,000 undocumented individuals ages 26 through 49, at an estimated cost of \$2.2 billion General Fund annually. This expansion follows recent eligibility expansions to roughly 104,000 undocumented children (2016) and 99,000 young adults age 19-25 (2020), and the soon-to-be eligible 235,000 undocumented older adults age 50 and above (starting in mid-2022). Currently Medi-Cal has a shortage of providers to serve the 14.6 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 16 million enrollees, or more than 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 Funding.** Perhaps recognizing that Medi-Cal eligibility expansions don't equate to true health care access if there aren't enough providers to serve them, the Governor proposes \$297 million in 2022-23 (with \$371 million scheduled in both 2023-24 and 2024-25) for the Department of Health Care Access and Information to fund incentives to increase the state's workforce of nurses, social workers, EMTs, behavioral health workers, and community health workers. Some elements of this package are consistent with Senate Republican priorities, including funding for new

psychiatric residency slots and funding for county substance use disorder treatment workforce to focus on opioid addictions. California's health care workforce shortage is real, and, unlike the dangerous single-payer health plan offered up by some Democrats that will ration access to providers, serious efforts like this funding proposal will focus on adding more health care supply to meet ever-rising demand.

**Homeless-Focused Mental Health Services.** An increase in mental health and substance use treatment services and capacity was one of the main reform pillars in the homelessness special session letter that legislative Republicans sent to the Governor. The budget plan affirms some of the Senate Republican strategies in this area. Specifically, they include:

- \$1 billion in General Fund to the counties for construction of tiny homes to specifically shelter homeless individuals with serious behavioral health conditions.
- \$350 million General Fund to address capacity and competency care issues at the Department of State Hospitals for those mentally ill individuals deemed incompetent to stand trial on felony charges.
- \$96 million General Fund to expand the Medi-Cal medication assistance treatment program to tackle opioid addictions.
- \$16 million General Fund to make on-site mobile crisis treatment services a standard annual Medi-Cal benefit.
- A commitment to apply for additional federal funding for locked inpatient psychiatric care.
- A pledge to work on legislation to reform the state's conservatorship laws to end the neglect of seriously mentally ill individuals in need of help. Details of a possible proposal are not yet available.

While these efforts are promising, the Governor's plan doesn't go far enough. For example, Senate Republicans have previously called on the Governor to:

- Reconsider "housing first" funding restrictions to provide state funding for proven successful drug/alcohol recovery programs at non-profit and faith-based organizations.
- Expand conservatorship bed capacity at the Department of State Hospitals to ease the care delivery pressures on counties for this population.
- Use existing vacant state and local properties as potential new care delivery locations for jail-based treatment services.

Although this issue is complex, only with targeted solution-focused efforts will the state begin to see a decrease in the seriously mentally ill population living on our streets.

**Major Growth in Questionable Public Health Spending.** The Governor's budget includes \$300 million in new annual General Fund to implement an aspirational but suspect "Public Health Infrastructure Investment Spending Plan." The plan provides \$100 million for a whopping 404 new positions at the state Department of Public Health to identify new public health hazards, analyze community health trends, improve public health communication strategies, and modernize public health workforce practices. The plan also provides \$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. While the pandemic has shown that we certainly have public health blind spots, much of this new spending isn't for real health care infrastructure at local hospitals, clinics, and laboratories. Rather than responsibly preparing for future public health challenges, this funding's main purpose seems to be growing state and local government workforces.



**Third Attempt to Impose Healthcare Price Controls.** Despite more pressing pandemic needs, the Governor will introduce yet again his proposal to create an Office of Health Care Affordability that would impose financial penalties on hospitals and others 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 \$30 million annually and employ 123 enforcement staff. Funding for this office was included in the 2021 Budget Act, but due to concerns by hospitals and other providers, the Legislature did not act on the accompanying budget trailer bill nor the equivalent policy bill, AB 1130 (Wood), currently in the Senate. As hospitals struggle with staffing challenges in facing the current surge of Omicron variant cases, and embark on an uncertain future in COVID-19 response, the creation of an office to increase state interference in hospital operations seems counterproductive.

**Forcing Hospitals to Reprioritize Charitable Funds.** Current law states that non-profit hospitals must provide charitable community benefits but does not require a level of benefit, nor does it direct how the community benefits must be allocated. The Governor's budget includes a statutory proposal to require non-profit hospitals to demonstrate how they are making investments in local community health efforts and requires that 25 percent of a non-profit hospital's community benefit dollars go to social justice-focused community-based organizations. Non-compliance with this requirement will result in potential penalties by the new Department of Health Care Access and Information. While the language of this proposal is unavailable at this time, it seems like a disguised tax on hospital charity, reducing the amount of funding available for existing charitable giving to established community partners and redistributing those funds to potentially partisan entities that have found favor with state bureaucrats.

**Propping Up the Abortion Industry.** With the pro-life movement gaining ground nationally, Governor Newsom is circling the wagons to save the abortion industry with a number of new funding and statutory proposals. These include:

- \$20 million in one-time General Fund to provide scholarships and loan repayments to those who work in abortion clinics.
- \$20 million in one-time General Fund to provide security and IT upgrades at abortion clinics.
- \$20 million in General Fund annually to cover the costs of abortion-related health plan charges for Covered California consumers.
- Adding "flexibility" at abortion clinics by removing current Medi-Cal billing requirements that require in-person follow-up visits and ultrasounds if they aren't clinically indicated by an abortion provider.

The Governor stopped short of endorsing pro-abortion advocate proposals to make California an abortion "sanctuary" by subsidizing the abortion-related travel expenses for those living in other states, but remained open to the idea if the United States Supreme Court grants permission to impose state bans on abortions.

**California to Produce Insulin?** The Governor is reviving his pre-pandemic plan to finance and contract for the manufacturing of insulin. By increasing overall supply, the Governor hopes to lower insulin prices, but because the state would contract with an existing insulin manufacturer, the plan seems more like a subsidy to a chosen manufacturer at the expense of its competitors. The budget does not detail how much this venture would cost the state, nor does it provide any projections for return on investment or insulin prices, but economic history has taught us that government-controlled production usually leads to market inefficiencies and a draining of taxpayer dollars.

**Extension of the Skilled Nursing Facility Tax.** The Governor's budget proposes to extend the current "Quality Assurance Fee" imposed by the Department of Health Care Services on skilled nursing facilities beyond its December 31, 2022 sunset date. The "fee" is actually a tax equivalent to 6 percent 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 Governor also proposes to alter the facility tax revenue reimbursement methodology by moving from a facility cost-based methodology to a service value-based methodology. Many Senate Republicans supported past versions of this Quality Assurance Fee, but since there is no language yet available, it remains to be seen if the industry is supportive of this tax extension or the new methodology proposal.

# Human Services

## Key Points

- **Further Expansion of Child Care.** The budget proposes \$824 million for 36,000 additional subsidized slots, which, when combined with the slots funded in the 2021 Budget Act, would bring the total to over 145,000 with the goal of eventually reaching 200,000 slots. Additional rate increases would be provided.
- **Prevents Disruption of In-Home Supportive Services that (IHSS) Services.** Provides funding to establish a permanent back-up provider system for IHSS allows counties to help IHSS recipients obtain services from a secondary provider when needed.
- **Increased Benefits for Needy Californians.** Provides funding for an increase of 24 percent for SSP recipient cash assistance payments beginning in 2023-24.
- **Food Bank Capacity Enhancements.** The budget includes \$50 million one-time General Fund resources for food banks that serve food-insecure populations.
- **Continued Expansion of Food Assistance for Undocumented Persons.** The budget provides additional funding to expand the California Food Assistance Program to Californians age 55 and older regardless of immigration status, based on a 2021 budget action.
- **Provides for Full Child Support Payments.** The Department of Child Support Services will waive its share of recoupment at a revenue loss of \$52.3 million General Fund in 2022-23 and \$104.6 million General Fund ongoing.

## Child Care

**Expansion of Child Care.** The budget proposes \$824 million for 36,000 additional subsidized slots, which, when combined with the slots funded in the 2021 Budget Act, would bring the total to over 145,000 with the goal of eventually reaching 200,000 slots.

**Child Care Rate Increases.** The budget includes \$373 million ongoing to support a full year of rate increases while the state continues work with partners and stakeholders toward further rate reform.

**Child Care Initiative Project.** The budget includes \$25 million to fund the Child Care Initiative Project through June 30, 2023, to address areas underserved by child care providers, increase child care slots, and support providers who want to become licensed.

**California Infant and Early Childhood Mental Health Consultation Program.** The budget includes \$10.6 million in funding through June 30, 2023 for the California Infant and Early Childhood Mental Health Consultation program to support the mental health needs of children, families, and child care providers.

**California Supporting Providers and Reaching Kids.** The budget includes \$4.8 million General Fund to support infrastructure, planning, and initial design of a child care data system and information technology solution, referred to as California Supporting Providers and Reaching Kids, as part of the Brilliant Beginnings data initiative to facilitate data-driven decisions, enhance family-provider experience, and streamline state administration of the programs. In addition, \$3.1 million in funding

from the Preschool Development Grant Birth through Five Renewal from 2020 to 2023 is available to support the Brilliant Beginnings data initiative and the single verification hub.

### **California Work Opportunity and Responsibility for Kids (CalWORKs)**

**Caseload Continues to Increase.** The budget proposes an overall 2022-23 budget of \$6.6 billion for CalWORKs program expenditures and estimates a caseload of 398,000 families in 2022-23. This represents a 12.6 percent caseload increase over 2021-22.

**CalWORKs Grants.** The budget includes a 7.1 percent increase to CalWORKs maximum aid payment levels, with an estimated additional cost of \$200.7 million. This increase will be funded entirely by the Child Poverty and Family Supplemental Support Subaccount.

### **In-Home Supportive Services**

**Enrollment and Cost Growth in IHSS.** The budget includes \$18.5 billion (\$6.5 billion General Fund) in 2022-23 for the IHSS program. It estimates a 599,000 person caseload in 2022-23. This represents a 2.7 percent caseload increase over 2021-22.

**Minimum Wage.** The budget reflects \$399 million General Fund in 2022-23 to support the minimum wage increase to \$15 per hour effective January 1, 2022.

**Permanent Backup Provider System.** The budget includes \$24.8 million (\$11.2 million General Fund) to establish a permanent back-up provider system to avoid disruptions to caregiving. This system would allow counties to help IHSS recipients obtain services from a secondary provider when the primary provider is unavailable, to avoid the risk for emergency services and/or out-of-home placement if backup supportive services are not provided.

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

**Caseload Decrease.** The budget includes \$3.1 billion General Fund in 2022-23 for the SSI/SSP program. The estimated caseload for the SSI/SSP program is 1.1 million recipients, which is a 2.5 percent decrease from 2021-22. Effective January 2022, maximum SSI/SSP grant levels are \$1,040 per month for individuals and \$1,766 per month for couples.

**SSP Increase.** The budget assumes an additional SSP increase of 24 percent totaling roughly \$296 million General Fund in 2023-24 and \$593 million ongoing. This increase would fully restore SSP monthly payments to levels that have not been seen since before the Great Recession. This increase would not go into effect until the 2023-24 budget year. The increase is projected to bring maximum SSI/SSP grant levels to \$1,123 per month for individuals and \$1,940 per month for couples in 2024.

### **Child Welfare Services (CWS)**

The budget includes \$665.8 million General Fund in 2022-23 for CWS programs to provide services to children and families. Including federal and realignment funds, total funding for CWS programs totals more than \$8.5 billion.

**Former Foster Youth Tax Credit.** The budget proposes a refundable \$1,000 tax credit for young adults aged 18 through 25 who were former foster youth at age 13 or older. This would cost \$19 million and would assist former foster youth as they move from government dependence to a path of self-sufficiency.

**Foster Youth Independence Pilot Program.** The budget includes \$1 million one-time General Fund, available over two years, for county child welfare agencies to provide case management and support services for former foster youth utilizing federal housing choice vouchers in the Foster Youth Independence Pilot Program.

**Family Finding and Engagement.** The budget includes \$1 million (\$750,000 General Fund) ongoing to provide additional technical assistance and training to counties in meeting the need for children in foster care and unaccompanied minors to be connected to permanent family.

**Resource Family Approval (RFA) Applications.** The budget includes \$6.1 million (\$4.4 million General Fund) one-time, available over three years, for county child welfare agencies to address RFA applications that have pending or probationary approval for more than 90 days.

**Helpline for California Parents and Youth.** The budget includes \$4.7 million one-time General Fund, available over three years, to continue operation of a helpline for parents and youth. The helpline is a statewide triage and support system, established during the COVID-19 Pandemic, that helps deliver services to children, families, and caregivers by phone and online.

### **Food Assistance Programs**

**California Food Assistance Program Expansion.** The budget includes \$35.2 million General Fund for planning purposes, increasing to \$113.4 million General Fund annually in 2025-26, to expand the CFAP program to Californians age 55 and older regardless of immigration status, based on statute adopted with the 2021 Budget Act.

**Additional Resources for Food Banks.** The budget includes \$50 million one-time General Fund capital for food banks to mitigate increases in food needs among food-insecure populations. These grants are available to eligible non-governmental organizations to enhance food banks' abilities to meet the needs of those facing food insecurity and help them build resilience into the emergency food delivery system during climate crises and disasters.

**Child Support Pass Through.** The budget proposes a full "pass-through" of child support payments collected by the state for families formerly receiving state assistance. Under current law, families receiving (or formerly receiving) state assistance do not receive full child support payments, as the state takes a portion of those payments as recoupment for assistance. The budget would make statutory changes to fully pass through assigned arrears collections to families formerly assisted by CalWORKs.

# Developmental Services

## Key Points

- **Continues Rollout of Overdue Rate Increases for the Disabled.** The budget continues the significantly delayed service provider rate reform, pursuant to a 2019 DDS rate study, which will be fully implemented by 2025-26.
- **Targets Assistance for Young Children with Disabilities.** The budget strengthens the transition process for three-year-old children with intellectual and/or developmental disabilities moving from the Early Start program.
- **Empty Developmental Centers Costs Millions.** Despite three consecutive years of zero residents for Sonoma Developmental Center and two consecutive years of zero residents for Fairview Developmental Center, the budget extends funding and the warm shutdown for these facilities.

**Services for More Consumers.** The budget proposes an overall 2022-23 budget of \$12.4 billion (\$7.5 billion GF). The number of individuals served by regional centers is expected to be 386,431 in the current year and increase to 407,634 in fiscal year 2022-23. In addition, 322 individuals are projected to be served in state-operated facilities as of July 1, 2022.

**Continues Necessary Rate Increase.** This Budget builds on DDS investments made in the 2021 Budget Act, including \$256.25 million in 2022-23 to continue implementing service provider rate reforms and increases. This is the next phase of a multi-year roll-out that, when fully implemented in 2025-26, would cost an estimated \$1.2 billion GF. The future increases include \$332.5 million in 2023-24, \$27.5 million in 2024-25, and \$527.5 million in 2025-26. Republicans have long advocated for improving rates for community services, but previous administrations have refused to provide the funds, even though they created new programs or expanded eligibility in other areas of the budget. Given the state's \$21 billion surplus, and the fact that the current and previous Democratic governors delayed implementation of these overdue rate reforms for disabled residents, the Legislature should speed up the roll-out of the rate increases in 2022-23 rather than waiting another three years.

**Home and Community-Based Services (HCBS) American Rescue Plan (ARPA) Act.** The budget includes \$1.6 billion total funds and approximately \$1.1 billion in HCBS funding made available by ARPA through FY 2023-24. The funding is allocated to six initiatives: Service Provider Rate Reform, Social Recreation and Camp Services, Language Access and Cultural Competency, Coordinated Family Support Services, Enhanced Community Integration for Children and Adolescents, and Modernization of Developmental Services Information Technology Systems.

**Early Start.** The budget includes \$65.5 million (\$45.1 million GF) to strengthen the transition process for three-year-old children with intellectual and/or developmental disabilities moving from the Early Start program. This funding would support service coordinator-to-child caseload ratios, assistance for preschools to include more children served by regional centers, establishment of Individuals with Disability Education Act specialists at each regional center, and resources to facilitate interagency coordination.

**Communications Assessments for Deaf Individuals.** The budget includes \$15 million (\$9 million GF) one-time funding to support communication assessments that will be used in developing individual program plans to improve services for individuals with intellectual and developmental disabilities who are deaf. Funding includes \$700,000 to contract with an individual or entity to advise the department on the most appropriate assessment tools and services.



**Work Activity Programs.** The budget proposes \$8.3 million (\$5 million GF) for a new service model pilot program for work activity programs. The pilot will focus on expanding employment opportunities for individuals with intellectual and/or developmental disabilities who are currently served through Work Activity Programs (WAP) or are recent high school graduates.

**Subminimum Wage Phase-out.** The Budget includes funding (\$8.4 million TF, \$5.1 million GF) for one headquarters position and funding for a three-year pilot of a service model focused on career readiness for consumers exiting WAP or secondary education.

**Enrolling Vendors as Medicaid Providers.** The budget provides funding (\$550,000 GF, \$400,000 GF ongoing) for screening activities for regional centers and vendors, staffing to coordinate screening, and contract resources to conduct the federal database checks.

**Fairview and Sonoma Developmental Centers.** The budget proposes an extension of the warm shutdown funding for Sonoma Developmental Center and Fairview Developmental Center (\$18.2 million TF, \$11.7 million GF). The last resident moved out of Sonoma in December 2018 and the last resident moved out of Fairview in January 2020. The need for this much money to maintain empty facilities is doubtful; the Legislature should not tolerate wasting money simply because the current surplus eases funding pressure.

# K-12 Education

## Key Points

- **Proposition 98.** Proposition 98 funding is proposed at \$102 billion for K-14, an \$8.2 billion increase over the level provided in the 2021 Budget Act.
- **Local Control Funding Formula.** The budget proposes to amend the Local Control Funding Formula (LCFF) calculation to consider the greater of a school district's current year, prior year, or the average of three prior years' average daily attendance (ADA). Additionally, the budget provides \$3.3 billion ongoing Proposition 98 General fund which reflects a 5.33 percent a cost-of-living-adjustment (COLA).
- **Universal Transitional Kindergarten.** The budget proposes \$639.2 million General Fund to expand eligibility for transitional kindergarten (TK). These funds will increase the Proposition 98 Guarantee through the process of rebenching.

**Proposition 98.** The Governor's budget estimates the Proposition 98 minimum guarantee at \$87.3 billion for K-12 programs. This includes a year-to-year increase of \$2.9 billion in Proposition 98 funding for K-12 education, compared to the revised Proposition 98 K-12 funding level for 2020-21. Under this proposal, ongoing K-12 Proposition 98 per pupil expenditures increase from \$14,778 in 2021-22 to \$15,278, an increase of 3.4 percent, and \$20,855 per pupil when accounting for all funds. See figure below.

<b>Proposition 98 Funding by Segment and Source</b> <i>(Dollars in Millions Except Funding Per Student)</i>					
	2020-21	2021-22	2022-23	Change From 2021-22	
	Revised	Revised	Proposed	Amount	Percent
<b>K-12 Education</b>					
General Fund <sup>a</sup>	\$59,562	\$60,735	\$62,246	\$1,511	2.5%
Local property tax	22,527	23,672	25,080	1,408	5.9%
Subtotals	<b>\$82,089</b>	<b>\$84,407</b>	<b>\$87,326</b>	<b>\$2,919</b>	<b>3.5%</b>
<b>California Community Colleges</b>					
General Fund	\$7,392	\$7,528	\$7,827	\$299	4.0%
Local property tax	3,374	3,546	3,766	220	6.2%
Subtotals	<b>\$10,766</b>	<b>\$11,074</b>	<b>\$11,593</b>	<b>\$519</b>	<b>4.7%</b>
<b>Reserve Deposit/Withdrawal (+/-)<sup>b</sup></b>	3081	\$3,582	\$3,061	-\$521	-
<b>Totals</b>	<b>\$95,936</b>	<b>\$99,063</b>	<b>\$101,980</b>	<b>\$2,917</b>	<b>2.9%</b>
<b>Enrollment</b>					
K-12 attendance	5,871,581	5,711,791	5,715,844	4,053	0.1%
Community college FTE students	1,097,850	1,107,543	1,101,510	-6,033	-0.5%
<b>Funding Per Student</b>					
K-12 Education	\$13,981	\$14,778	\$15,278	\$500	3.4%
California Community Colleges	9,806	9,999	10,525	526	5.3%

<sup>a</sup> Includes funding for instruction provided directly by state agencies and the portion of state preschool funded through Proposition 98.

<sup>b</sup> Proposition 98 Reserve established by Proposition 2 (2014). Amounts consist entirely of General Fund.

FTE = full-time equivalent.

**Local Control Funding Formula.** The budget includes a COLA of 5.33 percent for the LCFF, the highest cost of living adjustment since the Great Recession. This increase will result in \$3.3 billion in additional discretionary funds for schools. Additionally, expenditure data provided by the California Department of Education show that a significant portion of the approximately \$30 billion in one-time COVID-related federal funding provided to schools in the 2020-21 and 2021-22 fiscal years remains available to spend. The availability of these funds means there is significant available cash for schools in the 2022-23 fiscal year.

The budget additionally proposes to amend the LCFF calculation to consider the greater of a school district's current year, prior year, or average of three years' prior ADA. This formula change is intended to allow school districts the ability to adjust to enrollment-related funding declines and minimize the impacts of a single-year drop in enrollment. The Governor's Administration intends to engage in outreach and discussions with interested parties throughout the spring to explore options for providing declining enrollment protections for charter schools. Ongoing costs associated with these policies are estimated to be \$1.2 billion Proposition 98 General Fund.

**Universal Transitional Kindergarten.** The budget proposes \$639.2 million General Fund to expand eligibility for transitional kindergarten, from all children turning five-years-old between September 2 and December 2 to all children turning five-years-old between September 2 and February 2, beginning in the 2022-23 school year. The additional investment of resources into TK continues to build upon the 2021 Budget Act's intent to expand TK over the next four years, with the goal of having all four-year olds eligible for the program beginning in 2025-26.

Last, the Budget proposes \$383 million Proposition 98 General Fund to add one additional certificated or classified staff person to every transitional kindergarten class, reducing student-to-adult ratios to more closely align with the State Preschool Program.

**Universal Meals.** The 2021 Budget Act requires all schools to provide two free meals per day to any student who requests a meal, regardless of income eligibility by June 30, 2022. Further, all schools will be required to apply for the federal universal meals provision program in order to reduce the costs to the state and to maximize federal reimbursement for meals served. The Governor's budget proposes \$596 million Proposition 98 General Fund, in addition to the \$54 million provided in the 2021 Budget Act, to fund universal access to subsidized school meals.

Additionally, the budget proposes \$450 million one-time Proposition 98 General Fund, available over three years, to upgrade school kitchen infrastructure and equipment. Last, the budget includes \$3 million one-time Proposition 98 General Fund to support the School Breakfast and Summer Meal Start-up and Expansion Grant Program.

**School Stabilization Account Deposits.** The budget includes payments of \$3.1 billion, \$3.6 billion, and \$3.1 billion for 2020-21, 2021-22, and 2022-23 (respectively) into the Public School System Stabilization Account. At the end of 2022-23, the account balance will be approximately \$9.7 billion.

Under current law, there is a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the Account is equal to or greater than 3 percent of the total K-12 share of the Guarantee. The balance of \$6.7 billion in 2021-22 triggers school district reserve caps beginning in 2022-23. Senate Republicans have raised concerns on these district-level caps, which reduce local control and force schools to spend more.

**Professional Development and Teacher Recruitment.** The budget proposes a total of \$54.4 million in a mix of Proposition 98 General Fund and non-Proposition 98 General Fund to support districts in their effort to hire qualified teachers and substitutes. The additional resources are in addition to the

funds included in the 2021 Budget Act and are intended to address the current staffing shortages that have been exacerbated by the COVID-19 pandemic. More specifically, the budget proposes the funding the following efforts:

- \$24 million one-time General Fund to waive certain teacher's examination fees.
- \$12 million one-time General Fund to extend the waiver of select credentials fees.
- \$10 million one-time General Fund to support a competitive grant program that provides grants to public and private institutions to develop and implement integrated teacher preparation programs.
- \$5.2 million Proposition 98 General Fund and \$322,000 General Fund to re-establish the Personnel Management Assistance Teams to assist schools in improving hiring and recruitment practices.
- \$1.4 million General Fund to establish career counselors for prospective educators at the Commission on Teacher Credentialing (CTC).

The proposed budget additionally amends current statute authorizing any holder of a credential or permit issued by the CTC to serve in a substitute teaching assignment aligned with their authorization, including for staff vacancies, for up to 60 cumulative days for any one assignment.

**Early Learning and Care.** The budget includes the following proposals for early learning and care:

- \$309 million in a mix of Proposition 98 and non-Proposition 98 General Fund to fund new requirements for California State Preschool Programs to serve at least 10 percent students with disabilities, and provide additional supportive services for dual language learners.
- \$166.2 million Proposition 98 General Fund to cover full-year costs of State Preschool rate increases that began January 1, 2022.
- \$712 million in a mix of one-time Proposition 98 and non-Proposition 98 General Fund to for efforts including:
  - \$500 million one-time for grants to high-needs schools to hire and train literacy coaches and reading specialists.
  - \$200 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 Health Care Services 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, and \$60 million one-time to provide training for educators on effective use of these tools.

**Expanded Learning Opportunities Program.** The proposed budget includes an additional \$3.4 billion ongoing Proposition 98 General Fund for the Expanded Learning Opportunities Program (ELOP). The additional funds are intended to increase per pupil funding for the program and expand the number of schools offering no-cost services. The disbursement of 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.

The budget also proposes \$937 million one-time Proposition 98 General Fund to support ELOP infrastructure, with a focus on integrating arts and music programming into the enrichment options for students.

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

- Changes to the special education funding formula to calculate special education funding 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.
- 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.

**Career Pathways.** The proposed budget includes \$1.5 billion one-time Proposition 98 General Fund over four years to support the development of pathway programs focused on technology, health care, and climate-related fields. These programs are predicated on developing local partnerships that bring together school systems, higher education institutions, employers, and other relevant community stakeholders. This effort is intended to be separate from the Career Technical Education Incentive Grant program and workforce development program offerings in that it is focusing primarily on the current workforce needs related to technology, health and climate response.

**Dual Enrollment.** The budget proposes \$500 million one-time Proposition 98 General Fund, also available over four years, to expand student access and participation in dual enrollment opportunities, in which students are able to attend both high school and community college classes. The funds are intended support these dual enrollment efforts in conjunction with student advising and support services.

#### **Additional K-12 Budget Adjustments:**

- **Green Transportation.** \$1.5 billion one-time Proposition 98 General Fund, available over three years, to support school transportation programs, with a focus on greening school bus fleets. These funds will be spent via a grant program, specifically grants of \$500,000 would be available with priority for schools with high concentrations of low-income students, youth in foster care, and English language learners, as well as small and rural schools.
- **Farm to School Program.** Adds to the 2021 Budget Act funding for the California Farm to School program by providing another \$30 million one-time General Fund to establish additional farm to school demonstration projects. Another \$3 million ongoing General Fund is provided to expand the regional California Farm to School Network by adding 16 new positions at the California Department of Food and Agriculture.

- **Facilities.** Allocates the remaining Proposition 51 bond funds, approximately \$1.4 billion, to support school construction projects. Proposes an additional \$1.3 billion one-time General Fund in 2022-23 and \$925 million one-time General Fund in 2023-24 to support new construction and modernization projects through the school facility program. The budget also includes \$30 million ongoing Proposition 98 General Fund to support eligible facilities costs for the Charter School Facility Grant program.
- **Model Curricula.** An increase of \$14 million one-time Proposition 98 General Fund to support county offices of education in developing model curricula related to the Vietnamese American refugee experience, the Cambodian genocide, Hmong history and cultural studies, and Native American studies.
- **Agricultural Career Technical Education Incentive grant.** An increase of \$2 million ongoing Proposition 98 General Fund to support an augmentation to the Agricultural Career Technical Education incentive grant program.



# Higher Education

## Key Points

- **Total Higher Education Funding Decreases.** The budget proposes total funding of \$39.6 billion for the three segments for higher education including investments for the California Student Aid Commission. This amount is a decrease of \$4.9 billion from prior year following the expiration of one-time COVID relief funds.
- **Multi-year Compacts.** The Governor’s budget includes multi-year compacts, including conditional five percent increases each year, with the University of California (UC) and California State University (CSU) and a multi-year roadmap with the California Community Colleges (CCC) that focuses on shared priorities benefitting students.
- **Continued Investments toward College Affordability.** The 2022-23 budget proposal provides \$925 million in a mix of one-time and ongoing General Fund to expand prior year investments in college affordability.

**Funding for Higher Education.** Overall funding for higher education decreased by \$4.9 billion from prior year levels. The composition of funds changes, though, following the expiration of one-time COVID funds provided in 2021-22. See Figure below.

### Higher Education Expenditures (Dollars in Millions)

	2020-21 <sup>3/</sup>	2021-22 <sup>3/</sup>	2022-23	Change from 2021-22	
				Dollars	Percent
University of California					
Ongoing General Fund	3,465.3	4,011.0	4,318.5	\$307.5	7.7%
One-Time General Fund	8.7	741.8	295.0	-	-
Total Funds <sup>1/</sup>	\$9,247.8	\$11,328.3	\$10,437.8	-\$890.5	-7.9%
California State University					
Ongoing General Fund	4,025.6	4,597.4	4,983.2	\$385.8	8.4%
One-Time General Fund	15.2	981.4	234.4	-	-
Total Funds <sup>1/</sup>	\$8,291.5	\$10,471.8	\$8,453.6	-\$2,018.3	-19.3%
California Community Colleges					
General Fund & Property Taxes	11,897.9	12,158.4	12,718.3	\$559.9	4.6%
Total Funds	\$18,068.3	\$19,091.0	\$16,789.1	-\$2,301.8	-12.1%
California Student Aid Commission					
General Fund <sup>2/</sup>	2,000.0	2,689.4	3,457.3	\$767.9	28.6%
Total Funds	\$2,427.7	\$3,595.6	\$3,877.8	\$282.1	7.8%
<b>General Fund</b>	<b>\$21,412.7</b>	<b>\$25,179.4</b>	<b>\$26,006.7</b>	<b>\$827.3</b>	<b>3.3%</b>
<b>Total Funds</b>	<b>\$38,035.3</b>	<b>\$44,486.7</b>	<b>\$39,558.2</b>	<b>-\$4,928.5</b>	<b>-11.1%</b>

<sup>1/</sup> These totals include tuition and fee revenues and other funds the universities report as discretionary.

<sup>2/</sup> General Fund expenditures for the Cal Grant program are offset by reimbursements, including approximately \$400 million in federal Temporary Assistance for Needy Families (TANF) funds received through an agreement with the Department of Social Services.

<sup>3/</sup> 2020-21 Total Funds include federal Coronavirus Response and Relief Supplemental Appropriations Act funding provided directly to colleges and universities, and 2021-22 Total Funds include federal American Rescue Plan Act of 2021 funding provided directly to colleges and universities.

Though some of the federal COVID relief funds are available in 2022-23, they are displayed in the year in which they were received.

**Multi-year Compacts Tied to Base Growth and Expectations.** The Governor’s budget includes multi-year compacts with the UC, CSU and the CCC. Each compact is a discrete agreement between the segment and the Governor’s administration centered on an understanding that each segment work toward aligned goals and achieve an increased level of intersegmental collaboration. The largest part of the compact includes sustained funding, equivalent to a five-percent increase in base General Fund resources annually over 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.

The UC and CSU compacts build on the respective UC 2030 and Graduation Initiative 2025 goals. The agreements’ priorities include closing equity gaps, improving time-to-degree completion, reducing students’ total cost of attendance, increasing predictability, increasing California resident undergraduate enrollment of both freshmen and transfer students, and better aligning curricula and student learning objectives with workforce needs. In a similar fashion, the roadmap for the CCC system builds upon the existing Vision for Success and focuses on student success by enhancing intersegmental collaboration to facilitate effective and timely transfer of CCC students, improving time-to-degree and certificate completion, closing equity gaps, and better aligning the system with K-12 and workforce needs.

While the establishment of multi-year compacts with the higher education segments is not new, concerns with their use as leverage for funding remains consistent despite their laudable intentions. Specifically, the current proposed compacts have no input from the Legislature. There is no doubt that the Governor’s administration shares similar interests with the Legislature related to improving student outcomes, but it is likely that some interests may diverge. Second, there is no language related to benchmarking what progress toward specific goals looks like. Finally, the compacts reflect future base increases irrespective of whether the budget can continue to afford it.

**College Affordability.** The 2021 Budget Act provided significant investments related to college affordability, including supporting learning-aligned employment opportunities, education and training grants for displaced workers, additional funding toward child savings accounts, funds to develop “zero textbook costs” degrees, and additional investments supporting student basic needs and emergency financial aid.

The Governor’s budget proposes \$925 million in a mix of one-time and ongoing General Fund resources to expand on some of the prior year investments. Specific proposals include:

- An increase of \$515 million ongoing General Fund to support a modified version of the Middle Class Scholarship Program in an effort to cover non-tuition costs for more families.
- An increase of \$300 million one-time General Fund to fulfill the \$500 million total commitment to support the Learning-Aligned Employment program administered by the California Student Aid Commission.
- An increase of \$100 million ongoing Proposition 98 General Fund to support the community college Student Success Completion Grant Program.
- Modification of the Cal Grant B Dreamer Service Incentive Grant program to increase participant stipends from the equivalent of a \$10 hourly wage to the equivalent of a \$15 hourly wage. This is a result of the program being undersubscribed in the prior year. If future years continue show

the program to be undersubscribed, it might be worthwhile to redirect the funds toward other financial aid programs.

**California Community Colleges.** The Governor's proposed budget provides an increase of \$409.4 million ongoing Proposition 98 General Fund to support a 5.33 percent cost-of-living adjustment (COLA) and \$24.9 million ongoing Proposition 98 General Fund to support 0.5 percent enrollment growth. This is the largest ongoing proposal for the CCC and is linked with the collaborative multi-year compact/roadmap that focuses on equity and student success. Specific goals and expectations in the roadmap include:

- Increasing by 20 percent the percentage of CCC students who acquire associate degrees, credentials, certificates, and specific skill sets that prepare them for in-demand jobs by 2026.
- Decreasing the median units to completion by 15 percent and establishing systemwide goals regarding the number of students completing their educational program or transferring to a four-year institution within the minimum amount of time necessary.
- Proportionally increasing the number of CCC students transferring annually to a UC or CSU relative to enrollment growth at the UC and CSU.
- Annually publishing the two-year associate degree graduation rates for all community colleges and the percentage of first-time students meeting sophomore standing when entering their second year, disaggregated to reflect underrepresented students and Pell Grant students to facilitate evaluations of equity gaps.
- Improving student success and advancing equity.
- Increasing intersegmental collaboration to benefit students.
- Supporting workforce preparedness and high-demand career pipelines.

The budget includes \$150 million one-time Proposition 98 General Fund to continue increasing student retention rates and enrollment. This reflects the continued enrollment declines experienced throughout the community colleges, exacerbated by the COVID-19 pandemic.

Additionally, the Governor's budget proposes to change the Student Centered Funding Formula on a permanent basis. More specifically, the budget proposes to provide all districts with no less than their 2024-25 hold harmless amount, regardless of the number of students they serve that year or in the future. This provision would be achieved via a change to statute. It raises the concern that the Governor is propping up the institution by providing funds to support salaries and wages, and programs for students that have not materialized.

Other notable adjustments include:

- \$387.6 million one-time Proposition 98 General Fund to support deferred maintenance and energy efficiency projects.
- \$373 million one-time General Obligation bond funding for the CCC facilities. This provision represents the next installment of the \$2 billion available to CCCs under Proposition 51.
- \$200 million ongoing Proposition 98 General Fund to augment Part-Time Faculty Health Insurance Program to expand healthcare coverage provided to part-time faculty.

- \$130 million one-time Proposition 98 General Fund toward Healthcare Vocation Education.
- \$100 million Proposition 98 General Fund toward CCC Technology Modernization and Sensitive Data Protection. This provision may be in response to the recent and ongoing investigation into enrollment fraud via computer bots.

**University of California.** The Governor's budget proposes an increase of \$307.3 million in ongoing General Fund for the University of California (UC), including \$200.5 million ongoing General Fund for a five-percent increase in base resources and \$67.8 million ongoing General Fund to support California resident undergraduate enrollment growth of 6,230 full-time equivalent students. \$31 million ongoing General Fund is provided 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. The base increase is linked to achieving the following goals through a multi-year compact with the Governor's administration:

- Increasing access to the UC.
- Improving student success and advancing equity.
- Increasing the affordability of a UC education.
- Increasing intersegmental collaboration to benefit students.
- Supporting workforce preparedness and high-demand career pipelines.
- Providing access to online course offerings.

Additional ongoing and one-time proposals are provided below.

- \$6 million ongoing General Fund to increase support for foster youth students.
- \$2 million ongoing General Fund to support research conducted by the University of California Firearm Violence Research Center.
- \$185 million one-time General Fund to support three complementary climate initiatives. Of this amount, \$100 million is for climate action research seed and matching grants available to researchers from the UC system and other institutions, \$50 million is for regional climate innovation incubators, and \$35 million is for the establishment of climate workforce development and training hubs.
- \$100 million one-time General Fund for deferred maintenance and energy efficiency projects.
- \$10 million one-time General Fund to support the University of San Francisco Dyslexia Center.

**California State University.** The Governor's budget includes \$304.1 million ongoing General Fund resources to support CSU, including \$211.1 million ongoing General Fund for a five-percent increase in base resources and \$81 million ongoing General Fund to support California resident undergraduate enrollment growth of 9,434 full-time equivalent students. The budget also includes \$233 million one-time General Fund to support a variety of one-time initiatives. The increased General Fund resources for CSU are linked to the Governor's multi-year compact with the CSU intended to achieve the following goals:

- Increasing access to the CSU.
- Improving student success and advancing equity.
- Increasing the affordability of a CSU education.
- Increasing intersegmental collaboration to benefit students.
- Supporting workforce preparedness and high-demand career pipelines.
- Providing access to online course offerings.

Other Notable Adjustments include:

- \$12 million ongoing General Fund to increase support for foster youth services.
- \$100 million one-time General Fund for deferred maintenance and energy efficiency projects at CSU campuses.
- \$83 million one-time General Fund to support the construction of the CSU Bakersfield Energy Innovation Center.
- \$50 million one-time General Fund for equipment and infrastructure improvements at CSU University farms.

**California Student Aid Commission.** The Governor’s budget proposes total financial aid expenditures at \$3.8 billion, of which \$3.4 billion supports the Cal Grant Program and Middle Class Scholarship Program.

The state’s Cal Grant entitlement program is estimated to provide over 502,000 financial aid awards to students who meet specified eligibility criteria in 2022-23, including more than 170,000 awards to CCC students newly eligible due to the entitlement expansion made in the 2021 Budget Act. Students who demonstrate financial need but do not meet all of the criteria for entitlement awards may qualify for one of 13,000 proposed competitive Cal Grant awards.

Additional adjustments to the Cal Grant program include:

- \$515 million ongoing General Fund, for a combined total of \$632 million, to support a modified version of the Middle Class Scholarship program that will focus resources toward reducing a student’s total cost of attendance.
- \$300 million one-time General Fund for the Learning-Aligned Employment program.
- \$500,000 one-time General Fund to expand and supplement existing Cash for College Regional Coordinating Organizations that offer technical assistance to help complete college financial aid application.
- \$479,000 ongoing General Fund for five positions at the California Student Aid Commission to support financial aid programs.

Cal Grant program adjustments include a decrease of \$43.8 million onetime General Fund in 2021-22 and an increase of \$143.8 million ongoing General Fund in 2022-23. These adjustments reflect revised

estimates of the number of new and renewal Cal Grant awardees in 2021-22 and the impact of the UC's recently adopted cohort-based tuition model, which increases Cal Grant tuition and fee award amounts for some UC students beginning in the 2022-23 academic year.

### **Other Higher Education Proposals**

- **Student Housing Update.** The 2021 Budget Act established the Higher Education Student Housing Grant program to provide one-time grants for CCCs, CSU, and UC to construct housing or to acquire and renovate commercial properties into housing for low-income students. The Governor's budget provides \$750 million one-time General Fund for the second installment of the planned \$2 billion one-time General Fund provision over a three-year period.
  
- **Workforce Initiatives Outside of the CCC Budget.** The Governor's budget includes multiple workforce proposals outside of CCC's budget that will likely have implications for community colleges. Notable adjustments include \$1.5 billion one-time Proposition 98 General Fund (available over four years) for high schools to develop career training pathways in technology, health care, education, and climate-related fields, and \$500 million one-time Proposition 98 General Fund (also available over four years) to expand dual enrollment opportunities for high school students to earn associate degrees.



# Business, Labor, and Workforce Development

## Key Points

- **California Lags Nation in Jobs Recovery.** California has recovered only 69.6 percent of jobs lost to the pandemic, compared to 82.5 percent for the nation as a whole. Our unemployment rate of 6.9 percent remains significantly higher than the nation's 4.2 percent.
- **Unemployment Insurance Debt Payment.** Proposes \$3 billion over two years to reduce the massive unemployment debt owed to the federal government.
- **Employment Development Department (EDD) Woes Continue.** Proposes additional funds for improvements while services remain woeful at EDD.
- **Minimal Small Business Relief.** Provides \$150 million General Fund to businesses still waiting for relief from the state's Small Business Relief Grant program.
- **Waives Business Filing Fees.** Includes \$40 million General Fund to waive filing fees on a one-time basis for all new businesses registering with the Secretary of State.
- **Retail Theft Grants for Small Businesses.** Includes \$20 million General Fund for grants to small businesses that have suffered damages in retail theft incidents.
- **Immigrant Integration and Talent.** Includes \$9.5 million General Fund to provide coordination, economic development activities, and support services to the state's immigrant community.
- **Tourism Media Campaign, Innovation Hub Program Expanded.** Includes more than \$75 million within the Governor's Office of Economic Development for various programs.
- **Potential Paid Sick Leave Legislation.** The Governor states that new legislation is needed for paid sick leave, though no specific proposal is available yet.

**California Lags Nation in Jobs Recovery.** All business and workforce proposals should be viewed through the lens that, despite Governor Newsom's claims, this state is behind the nation in recovering jobs. California has recovered only 69.6 percent of jobs lost to the pandemic, compared to 82.5 percent for the nation as a whole, according to the latest available data (November 2021). Our unemployment rate of 6.9 percent remains significantly higher than the nation's 4.2 percent. This means that another 520,000 would be employed if California could just reach the national average unemployment. California has trended above the national average unemployment rate for years, suggesting that there are fundamental problems in the state's labor market. These problems are unlikely to be solved by a few workforce training program expansions; broader reforms outside the budget are needed.

**Employment Development Department (EDD) Woes Continue.** Few issues in 2020 produced such bipartisan agreement in the Legislature as criticism of EDD's disastrous performance. The 2021 Budget Act provided over \$300 million to address various concerns. However, though nearly two years have passed since the start of the pandemic, EDD continues to underperform by several metrics. For example, legislative liaisons recently reported the EDD is taking 11 weeks to process "immediate determination" requests from legislative staff. Also, claimants needing phone interviews to resolve issues must still wait up to 27 weeks.

The budget for EDD proposes the following improvements, though it is not clear that these will address the delays:

- \$96 million to continue vendor service contracts for various functions, including document uploading, claims review, and fraud prevention.
- \$24 million and 122 positions to continue technology modernization and improve benefit system usability.
- \$9 million for three years for cybersecurity and prevention efforts.
- \$2 million and 10 positions for three years for a command center to centralize branch management and conduct data analytics.

**Unemployment Insurance Debt Payment.** The budget proposes a total of \$3 billion, including \$1 billion in 2022-23 and \$2 billion in 2023-24, to reduce the massive unemployment debt owed to the federal government. The EDD projected this debt would reach nearly \$21.8 billion by the end of 2022. Employers must repay the principal of the debt through increased contributions beginning in 2023. Senate Republicans previously proposed paying down this debt using the state's surplus funds, and the Governor's budget moves in that direction. However, it would be reasonable to pay down more than \$3 billion and to do so in 2022-23, rather than delaying payments until future years, when budget commitments could change.

**Minimal Support for Small Business Relief.** The budget would provide \$150 million General Fund to approximately 150,000 business still waiting for relief from the state's Small Business Relief Grant program. A total of \$4 billion (\$2.5 billion General Fund and \$1.5 billion federal funds) has been allocated for this program up through the 2021-22 budget. There have been nine rounds of grants, including two rounds exclusively for nonprofit cultural institutions. As of December 2021, over 308,700 small businesses received grants at an average grant amount of \$11,000. With the state's record level of revenue, Senate Republicans are disappointed the Governor did not prioritize more support for the state's struggling small businesses.

**Budget Would Waive Initial Filing Fees for New Businesses.** The budget includes \$39.8 million one-time General Fund to waive filing fees on a one-time basis for all new businesses registering with the Secretary of State from July 1, 2022 through June 30, 2023. The state provided nearly \$120 million one-time General Fund in 2020-21 to offer fee waivers to individuals (including barbers, cosmetologists, and manicurists) and smaller entities (including restaurants and bars) disproportionately impacted by health and safety restrictions imposed in response to the COVID-19 Pandemic. The proposal would provide at least a small amount of fiscal relief to businesses across the state that are struggling to recover.

**Retail Theft Grants for Small Businesses.** The budget proposes \$20 million one-time General Fund for grants to small businesses that have suffered damages in retail theft incidents. Grant funds could be used to assist businesses with costs related to repairing or replacing damaged property, and could help bolster local law enforcement efforts to reduce and prevent organized retail theft. The grants will be administered by the Governor's Office of Business and Economic Development (GO-Biz).

**Immigrant Integration and Talent.** The budget includes \$9.5 million General Fund in 2022-23, and \$350,000 annually thereafter, for GO-Biz to continue statewide coordination, enhanced service provisions for immigrant communities, and supports for economic development activities. Based on a cursory review of budget documents released so far, it is difficult to determine exactly what the mission of this new immigrant unit would be and what outcomes would be expected. Budget proposals include \$8.7 million one-time for competitive grants to local governments to help immigrant populations

navigate state and local services, as well as \$600,000 to expand the number of Business Quick Start Guides, develop navigational guides regarding professional licensing for immigrants, and provide additional translations for these resources and online services.

**Tourism, Export Training Networks, and Trade Missions.** The budget includes the following proposals within GO-Biz:

- \$45 million one-time General Fund to support strategic media recovery campaigns that will help continue the recovery of the California travel and tourism industry.
- \$20 million General Fund over four years to (1) expand the California Innovation Hub program from 10 to 13 regions across the state, and (2) establish the Entrepreneurship Fund to provide grants of up to \$100,000 per business for five new businesses incubated at each of the Hubs. These grants will encourage science and technology-based business creation in traditionally underserved communities.
- \$6 million General Fund in 2022-23, and \$23 million ongoing, to expand and permanently support the Technical Assistance Expansion Program.
- \$3 million ongoing General Fund beginning in 2023-24 to support the continuation of the Capital Infusion Program, which supports one-on-one business consulting provided by the Small Business Development Center Network to assist small businesses in accessing capital.
- \$2 million one-time General Fund to support the statewide expansion of the export training networks, which develop programs and curriculum aimed at underserved business owners, including immigrant entrepreneurs and small business operators.
- \$150,000 ongoing General Fund to implement four to five virtual or hybrid trade missions in the California-Mexico border region, enabling cross-border economic growth and development.

**Enforcement of New Labor Laws.** The budget proposes roughly \$10 million per year for three years from various funds to the Department of Industrial Relations to enforce the complex and often unreasonable labor laws recently imposed on business owners. The budget would also add \$1.4 million for “outreach” and other likely one-sided efforts against job providers. In addition, there is no indication that funds to enforce AB 5 have declined since being added for that purpose in past budgets.

**Potential Paid Sick Leave Action.** Legislation passed last year (SB 95, Skinner) required employers to provide COVID Supplemental Paid Sick Leave to covered employees through September 30, 2021. The Governor now states that new legislation is needed to modify the previous policy, though no specific proposal is available yet. Any new policy should be thoroughly evaluated in a policy committee process and not jammed at the last minute into a trailer bill.

# Public Safety and Judiciary

## Key Points

- **Susanville Prison Closure on Hold.** Judge reminds Administration that it too must follow the law.
- **Gun Buyback Proposal Unlikely to Reduce Gun Violence.** Despite decades of research concluding they are ineffective, Governor makes feel-good gesture to fund local buybacks anyway.
- **Expanded Effort to Curb Organized Theft May Help Retailers.** Proposed funding to support local crackdown efforts is surely needed, but ignores other crimes and fails to address the root problem.
- **Emergency Response Funding Emphasizes Wildfires.** Technology investments support improved tactical decision-making, while boost in maintenance dollars protects state-owned mutual aid fleet.
- **Significant Investments in Trial Courts Continue.** Budget funds 23 new judgeships for much needed relief to severely under-resourced courts and provides additional flexible funding for trial court priorities.

## Department of Corrections and Rehabilitation (CDCR)

The Governor's proposed 2022-23 budget includes total funding of \$14.2 billion (\$13.8 billion General Fund) for CDCR.

**Closure of Susanville Prison Halted Pending Litigation.** In April 2021, with the closure of Deuel Vocational Institution in Tracy well underway, CDCR announced its intent to close a second prison – the California Correctional Center (CCC) in Susanville. In late July, the City of Susanville sued the Governor and CDCR over the closure, alleging that the state violated the California Environmental Quality Act by moving forward with the closure without conducting an environmental impact review, and also that CDCR failed to comply with Penal Code requirements that outline criteria for choosing prisons for closure. In September, the court issued a preliminary injunction halting the closure pending hearing and further order of the court. In his initial temporary restraining order, the judge in the case stated, “It does not appear to the Court that the necessary requirements imposed upon the executive branch in facilitating the decision to close the California Correctional Center have been complied with. The executive branch of the government of the state of California, like the citizens it serves, must comply with the law.”<sup>1</sup>

**Promising Drug Treatment Program Expands.** The 2019 Budget Act provided annual baseline funding of \$165 million for CDCR to implement the Integrated Substance Use Disorder Treatment Program, which combines 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 Governor's budget would provide an additional \$127 million General Fund in 2022-23 (\$163 million ongoing) for CDCR to nearly double the number of inmates served by the program. Importantly, this expansion would include the addition of an aftercare component, which

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<sup>1</sup> *City of Susanville, a California Municipal Corporation v. California Department of Corrections and Rehabilitation, Et Al.* [Order RE: Petitioner's Application for Restraining Order and Order to Show Cause Regarding Temporary Restraining Order](#). August 2, 2021. Pg. 3, ln. 1.

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.

**Rollout of High-Quality Audio/Video Prison Surveillance System Continues.** The 2021 Budget Act included \$38 million General Fund to expand CDCR’s modern video surveillance system infrastructure to four institutions in addition the four original facilities to be equipped. The proposed budget includes another \$80 million one-time General Fund, plus \$8 million ongoing, to continue the expansion to ten additional institutions, which would bring high-quality audio and video surveillance to 18 of the state’s 34 prisons. Video surveillance employing high-quality recording capabilities has been proven to deter criminal activity in the prisons, reduce the incidence of false reports against both staff and inmates, and generally make prisons safer.

**Condemned Inmates Leaving Death Row.** In November 2016, voters passed Proposition 66, which, among other things, now requires condemned inmates to work so they can pay restitution to their victims. The measure eliminated the long-standing statutory requirement for condemned inmates to be housed only at San Quentin State Prison’s “Death Row” or, under certain exceptions, at special condemned inmate housing at Folsom State Prison. Now they may be housed at any institution that CDCR deems appropriate, but must be returned to Death Row once an execution date has been set. As of December 17, 2021, 83 condemned inmates had transferred from San Quentin to other facilities and another 16 were in process. The Governor’s budget proposes \$1.5 million for a consulting contract to determine how to best repurpose vacated condemned housing at San Quentin.

## **Gun Control**

As has been the case virtually every year for the past decade, the Governor’s 2022-23 budget includes an array of proposals in the area of gun control. Several merely fund the implementation of recently enacted legislation. The others are described below.

**Gun Buyback Grant Program Would Be Symbolic Waste of Taxpayer Funds.** The Governor requests \$25 million one-time General Fund for a grant program administered by the Board of State and Community Corrections (BSCC) to support local government gun buybacks.

This proposal essentially ignores decades of research suggesting that gun buybacks are largely ineffective. First, after five decades of experimenting with buybacks in the United States, there is almost no empirical evidence that they have any effect in reducing violent crime. Second, the types of firearms that tend to be turned in at buybacks are not the types of firearms that are typically used to commit crimes. Third, the people who surrender their firearms are not the people who are committing crimes.

Some emerging thought amongst gun control advocates suggests that buybacks might still be useful as part of a multipronged approach to reducing gun violence. Such an approach would seek to leverage buyback programs to increase community engagement and education on gun safety. In that context, buyback programs are more of prop than a strategy. In fact, Sacramento Democrats’ darling of gun control research, Dr. Garen Wintemute himself, has acknowledged that gun buybacks remove a very small percentage of the firearms from a given community and that their impact is mostly symbolic.<sup>2</sup> Dr. Wintemute, whose Firearm Violence Research Center at UC Davis (the Center) notably received \$5 million from the state in 2017 to launch the Center and fund its first five years of research, thinks these symbolic gestures are important despite their ineffectiveness at reducing gun violence.<sup>3</sup>

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<sup>2</sup> <https://www.npr.org/2013/01/15/169439243/newtown-prompts-gun-buybacks-but-do-they-work>

<sup>3</sup> Ibid.



**More Money for UC Davis Gun Control Research.** The Governor also proposes providing a permanent funding source of \$2 million per year for the UC Center. This would essentially double the original state funding level of \$5 million over five years, which is coincidentally about to run out, and would likely be sufficient to purchase a steady stream of reliably pro-gun-control “research” in perpetuity. All of this research would then undoubtedly lead to any number of “symbolic gestures” that are sure to keep the taxpayer dollars flowing while doing little to actually decrease gun violence.

**Citizen-Enforced Assault Weapon and Ghost Gun Ban.** In December 2021, the Governor announced his intent to champion a new law that would give private citizens the right to sue providers of assault weapons or ghost guns. The proposed law would attempt to exploit the path created by the Supreme Court’s recent refusal to block a Texas abortion ban. Under that model, the specter of being sued by a virtually unlimited number of private citizens might be enough to halt an activity regardless of whether the law banning the activity is constitutional. The Governor’s proposed law would attempt to turn this army of private enforcers against those engaged in the manufacture, distribution, or sale of assault weapons or ghost guns.

To date, the proposed law has yet to take the form of a bill. It is unclear if it will be introduced as a budget trailer bill, but it seems likely given the recent state appellate court decision in *Howard Jarvis Taxpayers Association v. Shirley Weber* that essentially gave legislative Democrats carte blanche to include any policy matter in a trailer bill.

### **Compensation for the Wrongfully Imprisoned**

The California Victim Compensation Board (Board) administers a process whereby the state compensates any claimant who was erroneously convicted of a felony, served time in custody, and successfully meets the burden of proving his or her innocence at a hearing before the Board. An exception to this process is that certain court findings establishing the claimant’s innocence are binding on the Board and eliminate the claimant’s burden of proof. Existing law requires the Board to immediately (without a hearing) refer a claim meeting this exception to the Legislature for an appropriation of funds to pay the claim. Claimants then sometimes wait as much as a year from the time their claim is referred for appropriation until they are paid.

The Governor proposes to expedite payment of these exceptional claims by eliminating the step of referring them to the Legislature. Instead, the budget includes a request for \$7 million per year to allow the Board to pay these claims expeditiously and without the need for a separate appropriations bill. This proposal would certainly streamline the process and provide more timely compensation for some erroneously convicted individuals. On the other hand, it may be seen by some as a further erosion of the Legislature’s power of the purse and a breach in the separation of powers that keeps our government accountable to the people.

### **Local Public Safety**

**Organized Retail Theft Crackdown.** The Governor’s budget proposes \$112 million in new General Fund spending each year for the next three years to back local efforts to crack down on organized retail theft (ORT). The proposal includes the following elements:

- \$85 million for the BSCC to provide competitive grants to local law enforcement agencies for theft enforcement. Funds could be used to hire and train officers, provide additional law enforcement presence in retail locations, provide diversion opportunities and supervision for individuals who commit retail theft, or participate in ORT task forces.



- \$20 million one-time for grants through the Governor’s Office of Business and Economic Development to help small businesses that have been the victims of ORT to recover.
- \$10 million for competitive grants through the BSCC for district attorneys to establish dedicated retail theft vertical prosecution units.
- \$6 million for the California Highway Patrol to expand its taskforce presence to support local law enforcement efforts against ORT in the Bay Area, Sacramento, San Joaquin Valley, Los Angeles, and San Diego regions.
- \$6 million for the Department of Justice (DOJ) to support regional ORT taskforces and prosecute multi-jurisdictional ORT cases.
- \$5 million for DOJ to continue leading other specialized anti-crime task forces throughout the state.

This funding is necessary given the recent spike in retail theft, including the alarming and costly smash-and-grabs that have begun plaguing cities throughout the state. However, it does not address other categories of theft that are on the rise, like catalytic converter theft, nor does it address the root cause of recent spikes in crime – namely the soft-on-crime policies that have been enacted in California over the past decade.

**Law Enforcement Accountability Measures.** The Governor’s budget includes \$34 million in 2022-23 (\$30 million ongoing) to implement a number of recently-enacted bills that will impact both state and local law enforcement officers and the way they do their jobs. The funding supports DOJ’s workload to implement peace officer use of force investigations (AB 1506, 2020), expanded public access to peace officer employment records (SB 16, 2021), and investigations of peace officer misconduct associated with “law enforcement gangs” (AB 958, 2021) and the Commission on Peace Officer Standards and Training’s implementation of the new peace officer decertification process (SB 2, 2021).

### **Office of Emergency Services (OES)**

The Governor’s budget proposes total OES funding of \$2 billion in 2022-23 (\$1.1 billion federal funds, \$541 million General Fund, \$285 million various special funds).

**Emergency Response Investments.** The Governor’s budget includes \$46 million in new OES spending for 2022-23, increasing to \$55 million annually thereafter, for five proposals intended to improve the state’s emergency response posture, including:

- \$24 million to establish the Fire Integrated Real-time Intelligence System (FIRIS). The program would integrate aircraft, real-time video, and data analysis to improve situational awareness and enhance tactical decision-making to improve wildfire response efforts.
- \$1.2 million in 2022-23, increasing to \$11 million annually thereafter, to provide additional staffing for the unit within OES that maintains and dispatches the Fire and Rescue Mutual Aid Fleet (state-owned apparatus that are assigned to local agencies throughout the state). In addition to increasing staffing, this proposal would fund enhanced maintenance and periodic replacement of the existing fleet. However, it would not actually increase the size of the fleet.
- \$10 million ongoing for OES to reimburse state agencies that are mission tasked with responding to a disaster but are not budgeted accordingly. This would establish permanent

baseline funding for these incidental assignments that has been provided over the past few years through a series of one-time augmentations.

- \$6 million for 20 additional OES positions to better support local emergency management agencies' planning and operations.
- \$5 million for 21 additional positions within OES' Disaster Logistics Planning and Coordination Branch to bring staffing levels in line with current workload and allow for cross training and redundancy that should improve resiliency of the workforce.

## **Judicial Branch**

The Governor's budget proposes total funding of \$4.9 billion (\$3 billion General Fund) in 2022-23 for the Judicial Branch, including \$3.8 billion to support the trial courts. Relative to the 2021 Budget Act, proposed 2022-23 Judicial Branch spending levels are about \$133 million higher.

**Investment in the Trial Courts.** The budget reflects significant investment of approximately \$256 million ongoing in the trial courts, including the following adjustments:

- ***Judgeships Established in 2006 Finally Funded.*** The need for additional judgeships to meet caseload demands in trial courts throughout the state has been well documented and ongoing since 2001. The last legislation to establish new judgeships was AB 159 (Jones, 2007), which established a total of 50. Those positions remained unfilled and unallocated to specific courts due to a lack of funding until the Budget Act of 2018 funded the first two. The 2019 Budget Act subsequently funded 25 more. The Governor's budget proposes \$43 million in 2022-23 (\$42 million annually thereafter) to fund the remaining 23 judgeships that were established by AB 159. The need for new judges is particularly acute in the Central Valley and Inland Empire. Accordingly, that is where the many of these 23 positions would be allocated. Even after these positions are filled, however, there will still be a need for 125 additional judgeships. Nevertheless, this proposal is a step in the right direction.
- ***Baseline Operational Funding Enhancement.*** The Governor also proposes \$184 million to augment the trial courts' baseline operational funding. The funding is mostly discretionary, although \$100 million of it would be earmarked for allocation by the Judicial Council to promote fiscal equity among courts.
- ***Employee Benefit Cost Adjustment.*** The Governor's budget includes \$29 million to cover the increasing costs of trial court employee health and retirement benefits.

**Expanding Access to Justice Through Technology.** The budget would provide \$83 million in 2022-23 (\$45.7 million ongoing) to increase accessibility of court records online, expand the courts' capacity to accept online case filings, and develop the capacity for remote court appearances to be made available statewide. These changes represent efficiencies that the Judicial Branch desperately needs, but which have been met with much resistance by litigants and court employees over the years. The pandemic may have provided the nudge necessary for the Branch to finally make these improvements on a large scale.

# Resources & Environmental Protection

## Key Points

- **Climate Change Budget.** Proposes \$22.5 billion in additional spending on climate mitigation over the next five years.
- **Drought.** Includes \$750 million over the next three years to address drought impacts, but omits investments in surface storage infrastructure critical to future drought management.
- **Extreme Heat.** Provides \$2.1 billion General Fund to prepare for severe weather conditions through a plethora of programs attempting to address extreme heat and accelerate energy-efficient practices.
- **Continues Activities to Phase Out Oil.** Appropriates over \$2.2 billion for cleaner vehicles, conservation projects, and workforce development activities to move the stage away from fossil fuels.

## Climate Budget Overview

**“Climate and Opportunity” Budget.** The budget places climate change at the forefront of the spending plan for Resources, identifying it as one of the “top five challenges facing California.” The below list highlights the most significant areas funded in the Governor’s Climate Budget, which are discussed in more detail in this section and other sections of this report:

- **\$2.1 billion - Nature-Based Solutions, Extreme Heat, Coastal, and Community Resilience.** The funding would add to the \$3.7 billion provided in the 2021-22 budget. Collectively, the Governor is proposing \$5.8 billion over the next three years for projects that support multi-benefit and nature-based solutions, address the impacts of extreme heat, build ocean and coastal resilience, and deliver community resilience and capacity.
- **\$1.2 Billion - Wildfires, Emergency Preparedness, and Response.** The Governor proposes \$1.2 billion (\$800 million General Fund and \$400 million Greenhouse Gas Reduction Fund) one-time over two years to reduce the risk of catastrophic wildfires. (Please refer to the *Wildfires, Emergency Preparedness, and Response* section of this document for more details).
- **\$750 Million - Drought Resilience and Response.** The Governor proposes \$750 million one-time General Fund to build upon the \$5.2 billion over three years approved in last year’s budget.
- **\$465 Million – Assistance for Displaced Workforce** Over the next three years, the funding would create new jobs and training centers for displaced oil and gas industry workers.

## Drought

**Misses Opportunity to Secure More Water... Again.** Despite a budget surplus of \$21 billion, this year’s budget proposal includes a measly \$750 in drought funding. The funding would support efforts to improve water efficiency, limit damage to fish and wildlife, and conserve water—none of which create the water savings required to mitigate severe drought conditions impacting communities and businesses today. Surface storage projects guarantee water savings in wet years and are a critical component of reliable water supply to both farmers and fish alike. Senate Republicans recently called for the state to fund overdue storage like Site Reservoir as well as badly needed conveyance improvements in the Central Valley.

**Spending Reflects Misguided Environmental Policy Agenda.** Some spending categories do not demonstrate priorities that a Drought Relief Plan should command under current statewide conditions, such as the proposed \$40 million for land repurposing projects. The program provides incentives to repurpose irrigated agricultural land and provide wildlife habitat. Instead of encouraging farmers to fallow their land through multi-benefit projects, the state could aid local farmers with grants that preserve their livelihoods *and* benefit habitat resources.

**Significant Change to Groundwater Recharge Policy.** The blatant omission of surface storage proves that the priorities reflected in the budget are misguided. Rather than taking steps to ensure water supply for the future, the budget includes provisional language that would significantly change funding and eligibility requirements for groundwater recharge projects. Funding for groundwater recharge projects in the budget should be made available to struggling Groundwater Sustainability Agencies (GSAs) to help them comply with the Sustainable Groundwater Management Act (SGMA). Instead, the budget provides no incentive to GSAs, requiring all recharge projects funded to meet conservation requirements under the land repurposing program—barring any future extraction. It also prohibits any additional benefit typically available to GSAs through recharge projects to comply with SGMA.

### **Extreme Heat**

**Funds Mitigation Efforts.** The reoccurring theme of the Governor’s proposal enhances funding for existing programs to provide multi-year funding commitments for climate-centric projects. The budget includes a \$2.1 billion General Fund for programs that received \$3.7 billion support last year, which are aimed toward accomplishing the goals outlined above in the Climate Budget. Significant areas of spending include, but are not limited to, the following:

- \$25 million for the Community Resilience and Heat Program to reduce extreme heat and the urban heat island effect.
- \$25 million for the Low-Income Weatherization Program to accelerate energy-efficient upgrades in low-income households. For example, air conditioning heat pumps and low global warming potential refrigerants qualify as eligible upgrades.
- \$100 million for urban and community forestry and urban greening to cool communities through nature-based solutions, such as expanding tree canopy and green infrastructure projects.

### **Oil and Gas Industry**

**Forging an “Oil-Free Future.”** The budget includes yet another assault on the oil and gas industry. Irrespective of one’s view of oil and gas, the simple reality is that California’s non-fossil fuel energy supplies are nowhere near reliable enough or affordable enough to provide a valid alternative. The budget would fund the below list of efforts to accelerate transitioning California away from fossil fuels permanently.

- \$946 million in Greenhouse Gas Reduction Fund, including \$676 million to expand zero-emission vehicle adoption and advance equitable clean mobility options.
- \$550 million over three years to expand climate workforce strategies. These are listed under the *Business, Labor and Workforce* section.

# Energy and Utilities

## Key Points

- **Shift to Clean Energy Increases Costs to Californians.** Proposes a two-year, \$2 billion package for clean energy investments, with a focus on replacing natural gas appliances with electric.
- **Lithium Valley Development.** Proposes streamlining permits related to geothermal facilities and lithium extraction in the Salton Sea area, ahead of a study due to the Legislature later this year.
- **Continued Broadband Implementation.** Allocates second year of broadband funding from the 2021 Budget Act. The Department of Technology, Public Utilities Commission, and Department of Transportation continue to work on middle-mile investments.

**Shift to Clean Energy Increases Costs to Californians.** The Governor proposes a two-year, \$2 billion (General Fund) Clean Energy Investment Plan. Of the \$2 billion, \$938 million is proposed for 2022-23, leaving \$1.1 billion for the following year. Notably, there is no binding obligation to provide the remaining funding in future years.

Last year's June budget included \$400 million General Fund for clean energy investments, but legislative Democrats and the Governor failed to reach an agreement on exactly how to allocate the money and the funds were stripped from the budget at the end of session. This proposal is much larger but includes many of the same programs discussed last year. One significant difference is the large investment in building decarbonization in this year's proposal. Most of the funding proposed for building decarbonization would be for the replacement of fossil fuel appliances with electric appliances in existing buildings, including \$622 million for a low-income direct install program and \$300 million for consumer rebates.

Irrespective of the program's intent, a shift to electric appliances in homes and businesses will incur higher utility costs than those with natural gas connections, and thus exacerbate the state's already-high poverty rate. While the proposed subsidy programs help with the cost of the initial conversion, they do nothing to offset the more expensive cost of power from electricity. According to a July 2020 report by The Foundation for Research on Equal Opportunity, "Restrictions on natural gas use will result in even-larger energy bills for California residents and further exacerbate the state's poverty problem...banning the use of natural gas imposes a regressive energy tax on low- and middle-income consumers. Prohibiting the direct consumption of natural gas in furnaces, stoves, clothes dryers, and water heaters forces consumers to buy electricity, which in California is four times as expensive as natural gas on an energy-equivalent basis." While the state has not yet banned natural gas, shifting to electric appliances will result in consumers paying more for their energy needs. Additionally, as the state continues to shift to all-electric buildings and incentivize the replacement of natural gas appliances with electric models, existing natural gas customers who cannot afford the required investment to convert to electric, even with such subsidy programs, will be stuck paying more, as the fixed costs of natural gas utilities are spread among fewer customers. These types of incentive programs are just a first step to a statewide ban.

Additionally, considering the state's expensive and unreliable electricity systems, one might argue California is not ready for additional electricity demands and that consumers cannot afford this shift to electric appliances. In 2020, California had the sixth most expensive residential electricity rates in the country. Additionally, parts of California experienced more than 62,500 hours of intentional public safety power shutoffs (PSPSs), impacting nearly 1 million customers that year. A 2021 Christmas snowstorm struck the Sierra Nevada Mountains, leaving more than 60,000 Pacific Gas and Electric

customers without power, some for more than two weeks. Folks with all-electric appliances were left with no way to prepare food and no heat in freezing temperatures.

On a positive note, the investment of General Fund dollars for the remaining clean energy investments would help advance technologies necessary to achieve the majority party’s goal of 100 percent clean energy by 2045 while keeping the lights on. Absent such General Fund investments, the cost burden to achieve the clean energy goals would fall completely on the backs of ratepayers.

The following chart summarizes the Clean Energy Investment Plan.

### Energy Package

(Dollars in Millions)

Department	Program	Fiscal Year 2022-23	Fiscal Year 2023-24	Two-Year Total
California Energy Commission	Incentives for Long Duration Storage Projects	\$140	\$240	\$380
	Green Hydrogen Grants for Green Electrolytic Hydrogen	\$100		\$100
	Industrial Decarbonization	\$110	\$100	\$210
	Food Production Investment Program	\$85		\$85
	Equitable Building Decarbonization	\$322.6	\$599.8	\$922.4
	Offshore Wind Infrastructure	\$45		\$45
	Energy Modeling to Support California's Energy Transition	\$7		\$7
Air Resources Board	Equitable Building Decarbonization - Accelerating Adoption of Ultra-Low Global Warming Potential Refrigerants	\$20	\$20	\$40
Department of Water Resources	Oroville Pump Storage	\$100	\$140	\$240
Various	Resources to Support Offshore Wind Generation and Energy Reliability	\$8.2	\$1.5	\$9.7
<b>Total</b>		<b>\$937.8</b>	<b>\$1,101.3</b>	<b>\$2,039.1</b>

Source: Department of Finance

**Lithium Valley Development.** Although details are largely absent, the Governor proposes to work with the Legislature and the Lithium Valley Commission to simplify permitting for geothermal facilities and lithium extraction in the Salton Sea area. After pointing out that lithium is a crucial component of batteries needed to power electric vehicles, the Governor’s Budget Summary states, “California has abundant untapped lithium reserves, including in geothermal brine more than a mile underground near the Salton Sea. The state is poised to become a global leader in the deployment of new, environmentally sound technologies that can coproduce lithium with renewable electricity from geothermal power plants in the Imperial Valley. Experts estimate the region could satisfy more than one-third of today’s global lithium demand. Building out a world-class battery manufacturing ecosystem



in tandem with lithium production and processing would also increase economic opportunity in the Salton Sea region, delivering quality jobs and community benefits to the region.” Assembly Bill 1657 (Eduardo Garcia, 2020) created the Lithium Valley Commission to analyze issues and incentives related to lithium extraction in the Salton Sea area. A report on the Commission’s findings is due by October 1, 2022. The Governor’s proposal has potential, but it makes sense to complete and review the report prior to moving forward.

**Continued Broadband Implementation.** The 2021-22 budget included \$4.4 billion of a \$6 billion promised package for broadband infrastructure including, including:

- \$3.25 billion (American Rescue Plan Act of 2021, or ARPA) for the California Department of Technology (CDT) to build a state-owned, open-access middle-mile broadband network.
- \$1.1 billion (ARPA) for the California Public Utilities Commission (CPUC) to fund last mile broadband projects.
- \$50 million (General Fund) to fund a loan loss reserve account.

The Governor’s proposed budget includes the second year of General Fund allocations to the CPUC, including \$125 million for last mile investments and \$125 million for the loan loss reserve account. Next year’s budget is expected to contain funding for the final year of the package, including \$803 million for last mile investments and \$575 million for the loan loss reserve account. Notably, there is no binding obligation to provide the remaining funding in future years.

SB 156 (Committee on Budget, 2021) required the CDT to contract with a third-party administrator for construction of the middle-mile network. In September 2021, CDT awarded a contract to CENIC California Middle-Mile Broadband Initiative. Estimates produced by CDT, the California Department of Transportation (Caltrans), and the CPUC indicate a need for approximately 8,100 miles of middle-mile broadband infrastructure for unserved and underserved communities. The CPUC, in collaboration with Caltrans and CDT, identified 18 initial middle-mile project locations to test approaches for the middle-mile network, accelerate projects in areas of the state that are unserved by open-access middle mile infrastructure, leverage efficiencies with pending Caltrans construction projects, and coordinate with pending last-mile broadband infrastructure grants that include middle-mile infrastructure. CDT will continue to build and develop the statewide open-access middle-mile broadband network in collaboration with the third-party administrator and Caltrans, as CPUC continues to recommend additional locations for middle-mile buildout.

SB 156 also provided an allocation methodology for the \$2 billion last mile investment, beginning with the creation of two pots of \$1 billion each for rural and urban counties. From those pots, the CPUC allocates \$5 million to each urban and rural county for projects. Remaining funds are allocated based on each county’s proportionate share of California households without broadband internet service with at least 100 Megabits per second (Mbps) download speeds, with the pots remaining separate for urban and rural counties. The CPUC plans to release a Proposed Decision for the rules and allocations of this funding in the first quarter of 2022, after thoroughly reviewing, analyzing, and incorporating the formal and informal input from stakeholders.

SB 156 also set up a loan loss reserve account to assist local governments, tribes, and non-profits to secure financing to construct and operate new public fiber networks. This is another way communities, particularly rural communities, will be able to close gaps in last mile service. This program includes a technical assistance component, for which a final decision on program rules from the CPUC is expected in the first quarter of 2022. At that time the CPUC will begin accepting applications for technical assistance. The CPUC plans to issue a staff level proposal to solicit feedback on the implementation of the loan loss reserve program in the first quarter of 2022.

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

# Transportation

## Key Points

- **Gas Tax Increase Paused for One Year.** Proposes to suspend the inflationary adjustment on gas and diesel taxes for one year. Californians would get greater relief from the Republican-proposed gas tax holiday.
- **Transportation Infrastructure Boost.** Proposes \$4.9 billion for various transportation investments, including \$4.3 billion to be considered in January as an early action.
- **Billions More for Zero-Emission Vehicle Subsidies and Infrastructure.** Proposes \$6.1 billion over five years for zero-emission vehicle (ZEV) subsidies and infrastructure investments.
- **Port Infrastructure and Goods Movement.** Proposes \$2 billion for port-related projects, workforce training, and process and operational improvements to increase goods movement.
- **Legislature Should End the High-Speed Rail Fail.** Proposes to allocate the \$4.2 billion in remaining bond funds through an early action. A rejection of this funding by the Legislature would effectively end the project.

**Gas and Diesel Tax Increases Paused for One Year.** Pursuant to SB 1, the 2017 gas and car tax bill, gas and diesel taxes are adjusted for inflation each year on July 1<sup>st</sup>. The tax on gasoline is scheduled to increase by 3 cents per gallon on July 1, 2022. Similarly, the diesel excise tax would increase by 2.2 cents per gallon. These increases would generate an additional \$523 million in tax revenues, on top of the \$3.6 billion that will be generated by current SB 1 gas and diesel taxes.

In June 2020, **Republicans proposed a one-year gas tax holiday to provide relief to overburdened drivers by completely suspending the 51.1 cent tax, but Democrats voted it down**, even though there were sufficient state revenues to continue fully funding all transportation programs without the gas tax revenue.

In this election year, the Governor has agreed with Republicans that gas taxes are too high and proposes to suspend the 3 cent per gallon increase on gas and the 2.2 cent per gallon increase on diesel for one year. This pause would avoid a further *increase* in gas costs, but it would not actually *decrease* what consumers pay. California gas prices averaged \$4.65 per gallon, the highest in the nation, as of January 11, 2022. Therefore, while the Governor's proposal is a positive step, Republicans will continue to advocate for a full gas tax holiday, temporarily suspending the entire gas tax of 54.1 cents per gallon.

The Governor also considers using existing transportation money to backfill the local share of reduced revenues resulting from the proposed suspension. While this would leave the locals unharmed, it would reduce funding available for maintenance and projects on the state highway system. Conversely, with an estimated \$21 billion surplus, the General Fund could backfill the state and local share of the Governor's proposed smaller suspension, or the Republican's full gas tax holiday.

**Transportation Infrastructure.** The Governor proposes a significant one-time investment of \$4.9 billion General Fund in the state transportation system. While a substantial portion of this funding is earmarked for Democrat priorities like active transportation, transit, and climate adaptation, using General Fund dollars for these projects means California's transportation dollars can remain focused on more conventional projects that may actually improve roads. Notably, included in the proposal is \$500

million for high-priority grade separations and grade crossing improvements, which Republicans typically support.

Similarly, \$3.3 billion General Fund was proposed for these projects last year, but legislative Democrats and the Governor could not come to an agreement on exactly how to spend the money and the funding was removed from the budget in September. As a result, *\$4.3 billion of the proposed funding this year is expected to be considered in January as an early action.*

**Zero-Emission Vehicle Subsidies and Infrastructure Investments.** Despite billions in subsidies and investments over the last decade, ZEVs have failed to gain an appreciable share of the vehicle market. At the end of 2020, only about 2 percent of registered light-duty (passenger) vehicles in California were ZEVs. In misguided efforts to combat climate change, the Governor set a target to end the sale of passenger gasoline vehicles in California by 2035 and medium- and heavy-duty gasoline vehicles by 2045. The proposed budget continues to pursue that goal with a new \$6.1 billion package (\$3.5 billion General Fund, \$1.5 billion Proposition 98, \$676 million Greenhouse Gas Reduction Fund, and \$383 million Federal Funds) over five years to subsidize ZEVs and ZEV infrastructure, focused on low-income consumers and communities, heavy-duty trucks, transit buses, and school buses. Coupled with last year's investment, California would spend \$10 billion over six years on this ZEV transition.

Considering the state's expensive and unreliable electricity systems, one might argue California is not ready for new demands on electric grids and that consumers cannot afford this shift to more costly ZEVs. In 2020, California had the sixth most expensive residential electricity rates in the country. Additionally, parts of California experienced more than 62,500 hours of intentional public safety power shutoffs (PSPSs), impacting nearly 1 million customers that year. ZEVs cannot charge without electricity, which could be problematic if evacuations are subsequently ordered in these areas.

**Port Infrastructure and Goods Movement.** Proposes \$2 billion General Fund for port-related projects, workforce training, and process and operational improvements to increase goods movement. Of this amount, \$1.2 billion 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 proposal, including project eligibility and project selection criteria are unknown at this time. The remaining funding is proposed for a workforce training campus (\$110 million), increased capacity at the Department of Motor Vehicles to issue commercial drivers' licenses (\$40 million), and the Governor's Office of Business and Economic Development to provide funding for operational and process improvements at the ports (\$30 million).

### **California High-Speed Rail Authority**

**Legislature Should End the High-Speed Rail Fail.** As an early action item to be considered in January, the Governor proposes to allocate the \$4.2 billion in remaining Proposition 1A (2008) bond funds to the High-Speed Rail Authority (Authority) to continue the construction of the Merced-Fresno-Bakersfield high-speed rail line. The Legislature should end this project now by denying this proposal.

While the Authority sought these funds in the 2021-22 Budget, the Governor and the Legislature could not come to an agreement to allocate the funds to the Authority. However, it seems negotiations between the Governor and legislative Democrats over the past few months have led the Governor to seek the funds through an early action of the Legislature.

Notably, the 2022 Draft Business Plan is expected to be issued in February, potentially after an early action is taken on the allocation of the bond funds. However, it is likely a new plan will reflect consistent continued patterns of costs increases, project delays, and insufficient funding. The 2020 Business Plan (finalized in April 2021) reflected a cost increase of \$2.6 billion, as compared to 2019

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

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

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

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

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

# Cannabis

## Key Points

- **Cannabis Tax Reform Coming Soon?** The Governor supports cannabis tax reform and plans to work with the Legislature to make modifications.
- **More Retail Pot Shops.** Industry advocates want to expand the availability of cannabis by increasing the number of legal retail cannabis locations.
- **Cannabis Tax Allocation.** The proposed budget includes \$595 million in cannabis tax revenue to be allocated in 2022-23, as required by a specified formula.

**Cannabis Tax Reform Coming Soon?** 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. The Governor stated his support for cannabis tax reform and indicated he plans to work with the Legislature to (1) help stabilize the market; (2) better support California's small licensed operators; and (3) strengthen compliance with state law. The cannabis industry is calling for the elimination of the cultivation tax, a three-year holiday from the excise tax, and streamlining the tax collection process. Industry advocates say these changes would reduce operational costs and barriers to entry, as well as increase tax compliance by simplifying collection. With the Governor's backing and a legal cannabis industry on the verge of failing, it is likely some type of reform will be implemented this year. However, simply eliminating or reducing taxes is unlikely to save the legal industry.

**More Retail Pot Shops.** In addition to tax changes, industry also desires expanded access to retail sales. According to a [Politico report](#), 68 percent of California cities ban retail cannabis. Industry advocates request legislation aimed at expanding legal access, such as AB 1356 (Ting, 2019), which would have superseded local control by requiring local jurisdictions to issue a minimum number of retail licenses if more than 50 percent of the local jurisdiction's electorate supported Proposition 64. Assembly Republicans opposed AB 1356 in two committees, and the bill never was heard on the floor in its own house. Industry advocates also suggest incentive grants, modification of environmental review requirements, and expanding curbside pick-up or drive through to increase the legal retail market.

Whether or not more retail shops will help California's legal industry is debatable. By some estimates from industry insiders, the legal cultivation market is producing more than three times the amount of cannabis sold by legal dispensaries. If that is even close to accurate, opening more legal retail shops throughout the state may help, but it's unlikely to solve the entire oversupply issue. Additionally, there are allegations that legally grown cannabis is finding its way into the illegal market via "burner distribution licenses". An ongoing lawsuit alleges criminals have been legally buying an unknown number of cannabis distribution licenses - known as "burner distributors" - by using "front men" to disguise true identities and intentions. These burner distributors purchase cannabis from legal growers at wholesale prices and even remit the cultivation taxes to the state. But, because of an alleged loophole in the state's track and trace system, the product is diverted into the illicit market and sold within and outside of California. The lawsuit alleges the Department of Cannabis Control is aware of the system loophole but refuses to take action to fix the issue. Regardless, this cheaper product undercuts the legal industry downstream from the cultivators but some argue it is the only thing propping up the legal cultivators because of the oversupply of legal cannabis. On top of a potential oversupply of legal product, many illegal grows remain, further increasing supply and pushing product prices downward. Perhaps instead of forcing local jurisdictions to allow pot shops to open, the state



should contemplate whether it has authorized too much cannabis to be grown, strengthen penalties against illegal operators, and dedicate more resources to enforcement against illegal operators.

**Funding for Proposition 64 Programs.** The Governor’s budget proposes \$595 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:***

- \$259 million to the Department of Education to subsidize child care for school-aged children of income-eligible families, though child care subsidies may not be an intended use of cannabis tax revenues under Proposition 64.
- \$69 million to the Department of Health Care Services for competitive grants to develop and implement new youth substance prevention and treatment programs.
- \$17 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:***

- \$71 million to the Department of Fish and Wildlife for clean-up, remediation, and restoration of watersheds and enforcement activities on public lands.
- \$48 million to the Department of Parks and Recreation to identify illegal cannabis grows, remediate and restore illegal grow sites on state park land, and make roads and trails accessible for peace officer patrol.

**3) *Public safety-related activities:***

- \$69 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.

# General Government

## Key Points

- **Budget Proposes Billions for Infrastructure.** Includes \$20 billion for numerous infrastructure spending proposals.
- **State Needs to Avoid IT Pitfalls as New Payroll System Developed.** Includes \$97.8 million for resources to continue to develop a new state payroll system.
- **Governor's Office of Policy and Research Continues to Grow.** Following \$728 million in new spending in 2021-22, the budget includes more than \$150 million to add and expand programs within OPR, which is becoming a grab-bag of unrelated programs.

**Resources for Infrastructure Spending Has Merit.** The budget includes \$20 billion for numerous infrastructure proposals that span multiple policy areas and would be supported by the General Fund and other fund sources. Some of the proposed funding continues projects and initiatives previously approved or agreed to by the Legislature, whereas others would support new projects and initiatives.

Following are several of the Governor's major infrastructure proposals:

- **Transportation.** Proposes \$3.3 billion in 2021-22 and \$1.6 billion in 2022-23 to support various transportation projects, including transit and intercity rail, active transportation, and climate adaptation. In addition, the Governor's budget includes \$1.8 billion in 2021-22 and \$1.9 billion in 2022-23 in new federal transportation funds that the state is expected to receive through formula-based transportation programs as part of the Federal Infrastructure Investment and Jobs Act that was enacted in November 2021.
- **Water and Drought Resilience.** Proposes \$5.2 billion (\$4.7 billion General Fund) over three years to support drought response and long-term water resilience, including funding to support drought response; drinking water, wastewater, and water supply reliability; water recycling and groundwater clean-up; flood management; Salton Sea; groundwater sustainability; water conveyance; and water and habitat improvement for environmental flows.
- **Zero-Emission Vehicles.** Proposes \$3.9 billion (\$2.9 billion General Fund) over three years for investments in zero-emission vehicles and infrastructure to accelerate the state's progress toward meeting its climate and transportation goals.
- **Climate Resilience.** Proposes \$3.7 billion General Fund over three years to support investments that promote climate change abatement, including impacts of extreme heat and building ocean and coastal resilience, among others.
- **Port Infrastructure and Goods Movement.** Proposes \$1.2 billion from the General Fund (\$600 million in 2022-23 and 2023-24) for projects that improve the movement of goods on rail and roadways that serve ports, including railyard expansions and new bridges.
- **School Facilities.** Proposes one-time General Fund (\$1.3 billion in 2022-23 and \$925 million in 2023-24) to support new school construction and modernization projects.

**Proposition 2 Impact on Infrastructure Spending.** Under Proposition 2 (2014), the state is required each year to set aside funds for reserves, debt payments, and, depending on the level of the Rainy Day

Fund (RDF), infrastructure. The state must deposit funds into the RDF until its constitutional deposits reach 10 percent of General Fund tax revenue. Once the RDF reaches this threshold, required deposits that would bring the fund above 10 percent of General Fund taxes instead must be spent on infrastructure.

Under the administration's revenue estimates, the state would reach the 10 percent threshold in 2022-23. As a result, the state would be required to spend \$2.4 billion on infrastructure in 2022-23. The Governor's budget does not allocate these funds to specific proposals, but notes it has fulfilled this constitutional requirement within the proposed spending levels for infrastructure.

**Infrastructure and the State "Gann" Spending Limit.** The budget estimates that state spending would exceed the constitutional Gann limit by \$2.6 billion in 2021-22, but would be under the limit for 2022-23. The Governor projects spending "room" under the Gann limit in 2022-23 as a result of including infrastructure spending, as well as other programmatic expenditures in areas excluded from the spending limit. To maintain appropriations below the Gann spending limit in 2022-23, any excluded spending proposals, such as infrastructure spending, rejected by the Legislature must be redirected to an expenditure that also meets the exclusionary distinction, such as capital outlay, emergency spending, tax reductions, debt reduction, school payments, or unrestricted funds to local governments.

**Avoiding IT Pitfalls as State Attempts New Payroll System.** The budget includes \$97.8 million (\$58.7 million General Fund) for resources within the State Controller's Office (SCO) in 2022-23 to continue to develop a new state payroll system. In February 2013, after the project experienced various problems during its pilot stage, the SCO terminated its contract with the project's vendor, SAP. In November 2013, the SCO filed a lawsuit against SAP for breach of contract, seeking to recover payments for system integration costs prior to project termination. The lawsuit was eventually settled and the state was awarded \$59 million in a settlement agreement with the project vendor.

**California Arts Council Growth Continues.** The budget includes several new proposals for funds in 2022-23, including the following:

- **Support for Cultural Districts.** The budget includes \$30 million General Fund, to be spent over three years, to support 14 existing cultural districts. Funding will also expand the cultural districts program
- **California Poet Laureate and Youth Poet Laureate.** The budget includes \$173,000 ongoing General Fund to support the California Poet Laureate and California Youth Poet Laureate. This funding will also enable the Arts Council to provide outreach and technical assistance to all 58 counties for literary arts programs.

**Governor's Office of Policy and Research.** The 2021-22 budget included the establishment of several new programs within the Governor's Office of Policy and Research, as well as the expansion of several other programs costing the state \$728 million. The budget continues the recent practice of growing OPR's influence and budget with several new programs proposed for the 2022-23 budget year, creating a hodge-podge of unrelated programs. Many of these fall more naturally into various established state departments, and it is not clear why OPR is seeking to wear multiple program hats. New proposals in the Governor's budget include the following:

- **New Office of Community Partnerships and Strategic Communications.** Includes \$65 million ongoing General Fund to create the Office of Community Partnerships and Strategic Communications to leverage the work of the Census 2020 and COVID-19 public awareness and community engagement campaigns.

- **Golden State Awards.** Provides \$30 million General Fund for the California Education Learning Lab to establish and support the Golden State Awards Program.
- **Carnegie Science Grant.** Includes \$20 million General Fund to support a grant to Carnegie Science for the Pasadena Climate Research Hub facility.
- **Foster Grandparent and Senior Volunteering Program.** Includes \$10 million General Fund to create a new volunteer program to engage older adults in volunteer service.
- **Neighbor-To-Neighbor Networks in California.** Includes \$10 million ongoing General Fund to expand California’s existing volunteer infrastructure and bolster the statewide Neighbor-to-Neighbor initiative.
- **Precision Medicine.** Includes \$10 million General Fund for a competitive grant program to support precision medicine-based approaches to preventing, diagnosing and treating depression.
- **Equitable Inclusion in Biomedical Research.** Includes \$9.3 million General Fund to increase participation in biomedical research to better reflect California’s diversity.
- **CA Climate Action Corps.** Permanently continues funding for the California Climate Action Corps Program at its existing funding level of \$4.7 million, which was originally budgeted to decline to \$823,000 ongoing beginning in 2024-25.
- **California Education Learning Lab Restoration.** Provides an increase of \$2 million General Fund to restore the 2020 Budget Act reduction to the California Education Learning Lab’s grant pool.
- **Individualized Adaptive Learning.** Provides \$1 million General Fund for the California Education Learning Lab to establish an open educational resources platform offering free and responsive homework modules in STEM.

**Local Property Tax Adjustments.** The state’s Proposition 98 education formula directs how much state General Fund and local property tax revenue each must contribute toward education costs. The budget includes a decrease of \$127.8 million Proposition 98 General Fund in 2021-22, and a decrease of \$1.4 billion Proposition 98 General Fund in 2022-23 as a result of increased offsetting property taxes. For the state’s higher education system, the 2022-23 budget includes a decrease of \$230.5 million in Proposition 98 General Fund due to increased offsetting property tax revenues.

# State Employee Compensation and Retirement

## Key Points

- **State Employee Growth Outpaces Population Dramatically.** The number of state employees grew five times faster than the state population over the past decade.
- **State Employee Pension Costs Jump.** State pension costs would jump by more than 25 percent in the budget year.
- **Teacher Pension Contribution Flat Following Investment Performance.** State retirement contribution for teachers declines slightly following high investment returns that may address liabilities soon.

**State Employee Growth Outpaces Population Dramatically.** Over the past decade, the state population has grown by only four percent in total, to about 39.5 million people, and has been flat for the past six years. In contrast, the number of state employees began growing steadily following the Great Recession, showing growth of nearly 21 percent in the past ten years. The number of state employees per 1,000 residents would 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.

**Employee Salary Costs Jump in Current Year.** Total state employee costs would jump by 23 percent in the current year, from \$33 billion to more than \$41 billion, before steadying at 2 percent growth into 2022-23. The most significant increases for the current year are seen in Corrections and Rehabilitation (\$2.3 billion increase) and Health and Human Services (\$705 million increase), likely due in part to extra COVID response staffing.

**Bargaining Costs Reflected.** The budget proposes \$771 million (\$378 million General Fund) in additional costs for previous bargaining agreements. In addition, the state will negotiate with six additional bargaining units, representing attorneys and administrative law judges, firefighters, engineers, scientists, stationary engineers, and psychiatric technicians, whose contracts expire in the summer of 2022.

**State Employee Pension Costs Jump.** The budget proposes \$8.4 billion total funds (\$4.7 billion General Fund) in employer contributions to Public Employee Retirement System (PERS) for state employees’ retirement costs, including \$756 million for California State University employees. This is \$1.7 billion more (25 percent) than budgeted towards these pensions in 2021-22. The significant jump results in part from the payroll impact of terminating the Personal Leave Program of 2020, which raised long-term costs for short-term savings when the COVID recession hit.

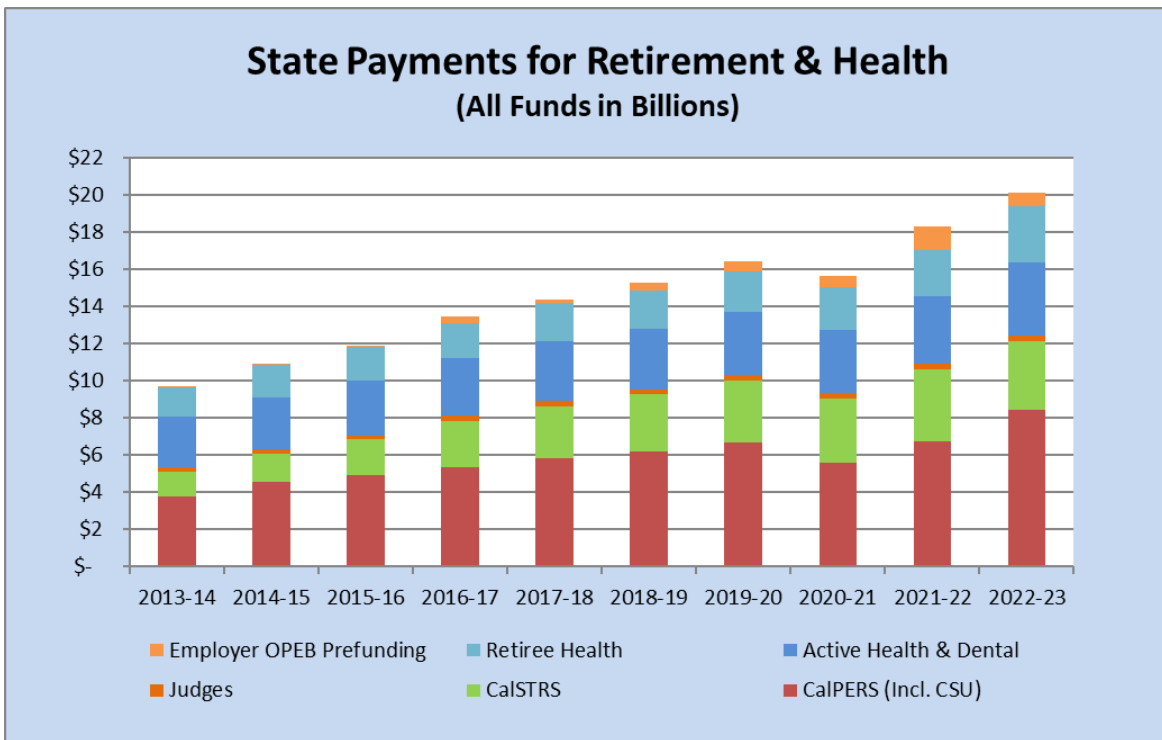
**Teacher Pension Costs Decline Slightly.** The budget proposes \$3.7 billion General Fund to pay for the state’s share of State Teacher Retirement System (STRS) costs, a slight decline from the 2021-22 level. Following a reported investment return of 27.2 percent for 2020-21, STRS claims that the state’s share of its unfunded liability may be addressed by 2024-25 and that it will not raise the required contribution.

**Retiree Health Care Benefits.** The budget proposes \$3.0 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. Pre-funding contributions from the state will provide \$735 million in the budget year.

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

As shown in the graph, state pension, retiree health, and other benefit costs combined will reach over \$20 billion in 2022-23, more than doubling over the past decade. During that same period the state’s overall budget grew by slightly more than double as well, following the dramatic increase in General Fund spending in the past three years.



The Legislature and Governor Brown enacted “funding plans” for both PERS (2012) and STRS (2014) in an effort to reduce unfunded liabilities. While these plans did help to mitigate the creation of some future liabilities, pension and retiree health liabilities still reach nearly \$196 billion, as shown in the *State Debts and Liabilities* section. Democrats have taken only modest steps to address this problem, while repeatedly awarding significant new raises to employees, thus increasing the challenge of addressing retiree costs.

**Private Child Care Providers Union Negotiations.** 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 Again to Expedite Debt Reduction.** Despite the second year of surplus, the budget fails to propose extra payments to reduce the state's long-term obligations or to pay off recent deficit borrowing.
- **Local Governments to Receive Minor Mandate Relief.** Provides nearly \$63 million General Fund to repay local agencies for mandate costs, but state still has \$549 million in local mandate debt outstanding.
- **Unemployment Insurance (UI) Debt.** Proposes \$3 billion over two years toward the UI debt, but could go further considering the size of the surplus.

**State Debt Estimated at \$278 Billion.** The state continues to face voluminous debts from various sources, which are estimated to reach \$278 billion. This total does not count pension and other retiree debts faced by the University of California (\$40 billion) or teacher pension debts held by local school districts (\$76 billion). The table on the following page summarizes these debts.

**Fails to Expedite Long-Term Debt Reduction.** Despite the state seeing two straight years of surpluses, which together amount to more than \$50 billion in extra discretionary funds, the Governor has not proposed any reductions to debt beyond the minimum required by Proposition 2 or bond payment schedules. In the Governor's budget press conference, he touted "supplemental" debt payments, but these refer only to the amounts required by Proposition 2. The surplus provides an opportunity to reduce California's long-term obligations for unfunded retiree health and pension obligations.

**Local Governments Get Minor Relief for Mandates.** The budget includes nearly \$63 million General Fund to repay local agencies for costs related to mandates. Given the state's surplus, as well as the nearly \$549 million in outstanding suspended mandate debts, the Governor misses an opportunity to provide assistance to local governments for state-mandated activities, leaving those governments with less funding for critical programs and services.

**Continued Special Fund Borrowing.** Despite the surplus, the budget fails to pay back \$1.3 billion in special fund loans authorized in 2020. These internal loans were taken out solely to address the then-projected General Fund deficit; now that the budget has flipped to surplus for two years, it would be reasonable to pay back the unnecessary loans instead of using them as an ATM. As pointed out by the LAO, the state's failure to pay these deficit loans back means that the budget continues to borrow in order to pay for current spending.

**Unemployment Insurance Debt.** As described more fully in the *Business, Labor, and Workforce Development* section earlier in this report, the budget proposes only \$1 billion for 2022-23, plus \$2 billion more the following year, to pay down the \$22 billion debt owed by the state's Unemployment Insurance (UI) Fund to the federal government. While a positive step that is in line with Senate Republican priorities, the surplus empowers the state to go further. The default course of action under federal law is for this debt to be repaid by a surcharge on employers beginning in 2023. (Note that since the UI debt is not a General Fund obligation, it is not included in the table on the next page.)

**Bond and Proposition 2 Debt Payments.** The Budget Act includes \$12.6 billion to pay down the state's current debts and liabilities. Debt payments include the following components:

- **Normal Bond Debt Service.** \$8 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 \$69.7 billion and has authorization to issue \$32.4 billion more. Outstanding lease-revenue bonds total \$8.5 billion, and the state has authorization to issue \$7.4 billion more.
- **\$3.9 Billion in Required Pension Debt Repayment.** The budget proposes using the constitutionally-required Proposition 2 debt repayment to pay down unfunded pension liabilities. Specifically, the budget allocates \$3.5 billion for CalPERS debt, \$365 million for retiree health debt, and \$56 million for the pension loan from the Surplus Money Investment Fund (SMIF).

<b>State and Other Public Debts and Liabilities</b>						
<i>(Dollars in Millions)</i>	At Start of 2022-23	Estimated Payments			Remaining Liabilities	
	2022-23	2023-24	2024-25	2025-26		
<b>Special Fund Loans</b>	\$1,360	\$590	\$63	\$707	-	-
<b>Education Deferrals*</b>	-	-	-	-	-	-
<b>State Retirement Liabilities</b>						
State Retiree Health	\$95,191	\$365	\$325	\$340	\$360	\$93,801
State Employee Pensions	\$62,991	\$3,508	\$2,995	\$1,690	\$1,322	\$53,476
Teachers' Pensions (state portion)	\$31,526					\$31,526
Judges' Pensions	\$3,085	-	-	-	-	\$3,085
SB 84 Loan from Surplus Money Invst. Fd.	\$3,100	\$56	\$14	\$768	\$556	\$1,706
Deferred payments to CalPERS	-	-	-	-	-	-
<b>Subtotal</b>	<b>\$195,893</b>	<b>\$3,929</b>	<b>\$3,334</b>	<b>\$2,798</b>	<b>\$2,238</b>	<b>\$183,594</b>
<b>Other State Debts</b>						
Long-Term Bonds - General Obligation & Lease-Revenue	\$78,200	\$8,058	\$7,939	\$8,068	\$8,371	\$45,764
Suspended Local Mandates	549	-	-	-	-	\$549
Education Mandates	1,100					\$1,100
<b>Subtotal</b>	<b>\$78,749</b>	<b>\$8,058</b>	<b>7,939</b>	<b>8,068</b>	<b>8,371</b>	<b>46,313</b>
<b>State - Total Debt</b>	<b>\$276,002</b>	<b>\$12,577</b>	<b>\$11,336</b>	<b>\$11,573</b>	<b>\$10,609</b>	<b>\$229,907</b>
<b>Other Related Public Debts</b>						
Teachers' Pensions (Local Districts)	\$76,473	-	-	-	-	N/A
University of California Liabilities**						
UC Employee Pensions	16,400	-	-	-	-	N/A
UC Retiree Health	23,300	-	-	-	-	N/A
<b>UC Total</b>	<b>\$39,700</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total, State and Other Public</b>	<b>\$392,175</b>	<b>\$12,577</b>	<b>\$11,336</b>	<b>\$11,573</b>	<b>\$10,609</b>	

\*The 2022 Governor's Budget includes a payment in 2021-22 of \$1.45 billion Proposition 98 General Fund to retire the remaining prior year deferrals.

\*\* 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.

# Senate Republican Fiscal Staff Assignments

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<b>Natural Resources &amp; Environment</b>	<b>Emilye Reeb</b>
<b>Health &amp; Veterans Affairs</b>	<b>Anthony Archie</b>
<b>Human Services &amp; Labor</b>	<b>Peter Anderson</b>
<b>Revenue, General Government &amp; Housing</b>	<b>Chantele Denny</b>
<b>Transportation, Energy &amp; Consumer Affairs</b>	<b>Heather Wood</b>
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*For more information, please visit our website at <https://cssrc.us/>*