CALIFORNIA SENATE REPUBLICANS

Highlights and Analysis of the 2023-24 Governor's Budget

January 17, 2023

**SENATE REPUBLICAN
FISCAL OFFICE**

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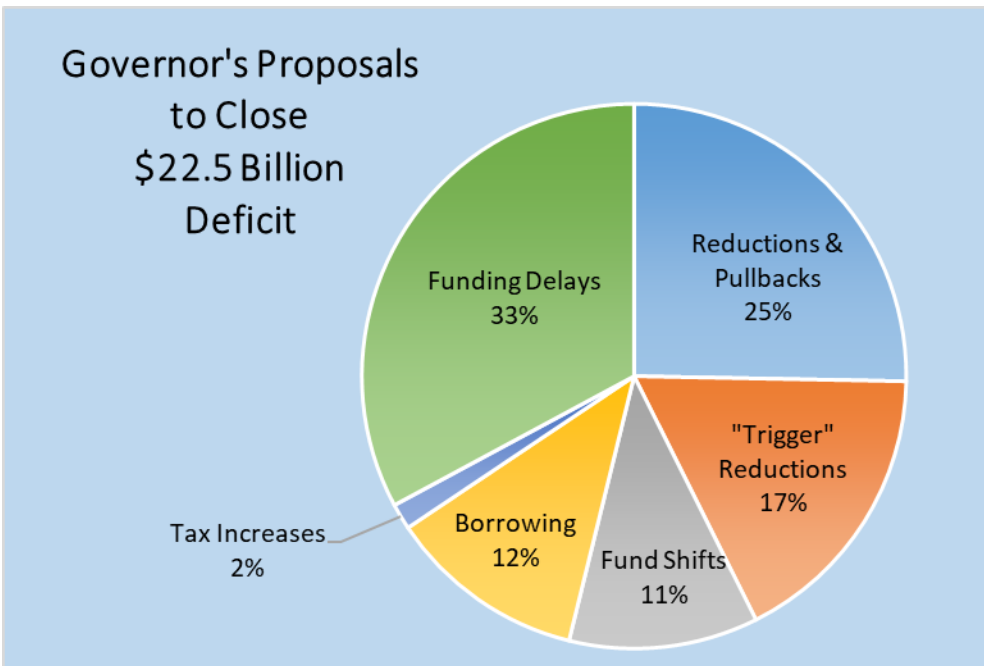
Overall Budget

Deficit Proposals Emphasize Delays and Fund Shifts. California's recent string of increasing surpluses has come to an end. The Governor's January budget now projects a deficit of $22.5 billion by the end of 2023-24. This is 10 percent lower than the $25 billion deficit projected by the nonpartisan Legislative Analyst's Office (LAO) in November, though the difference is largely due to technical assumptions.

In order to address the deficit, the Governor proposes a mix of solutions that emphasize short-term delays and fund shifts rather than reducing the significant ongoing program expansions made in recent years. This approach largely kicks the can down the road, rather than get spending truly under control. The solution categories are summarized in the chart and descriptions below.



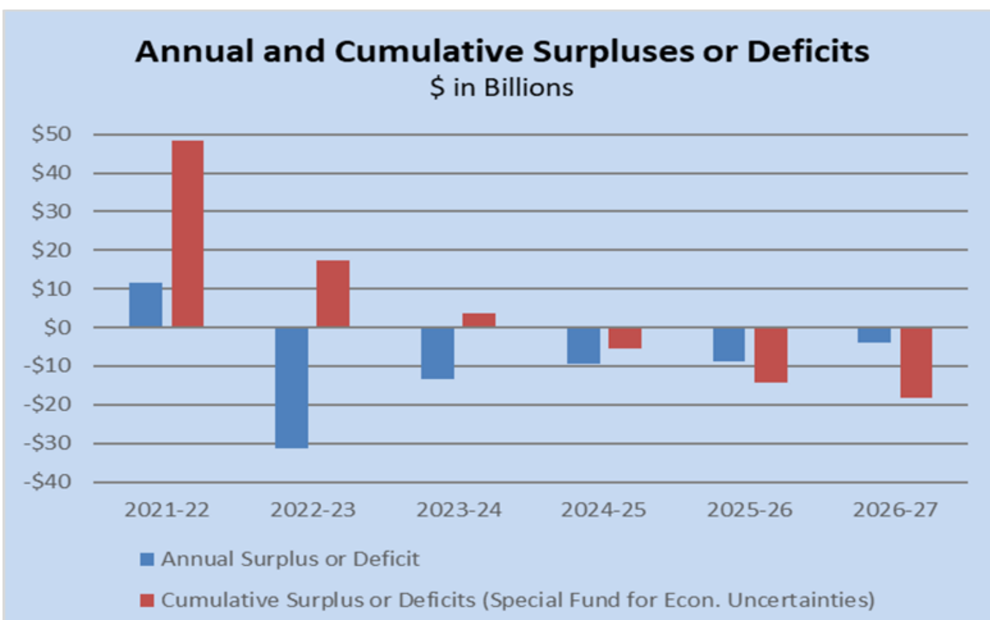
- Funding delays of $7.4 billion spread across multiple programs, the largest of which is $900 million for higher education student housing.
- Reductions and pullbacks totaling $5.7 billion, most notably including $3 billion for inflationary adjustments and eliminating $750 million that had been budgeted to reduce California's Unemployment Insurance debt to the federal government.
- "Trigger" reductions of $3.9 billion that include $3.1 billion for climate and transportation projects. The Governor proposes an automatic trigger to restore these items midway through the year if, based on his determination in January 2024, revenues appear sufficient to cover the costs.
- Borrowing of $2.7 billion, which includes $1.8 billion in shifts from General Fund cash to bond financing, as well as $850 million in loans from various state special funds.
- Fund shifts of $2.5 billion, which mostly consists of $1.5 billion for zero-emission vehicles.

- Tax revenues of $317 million in 2022-23 for a renewal of the state's Managed Care Organization (MCO) tax, though this reflects only a partial year effect. The tax increase would grow to $2 billion annually once fully phased in. Though directed at one industry, this tax would free up General Fund for any Democratic spending goal.

No Surprise: Revenues Fall by Tens of Billions. California's tax revenue surge has unsurprisingly abated. The Governor's budget estimates that revenues will be lower by nearly $35 billion over 2022-23 and 2023-24 combined. Capital gains play a significant role in this change. In 2021-22, those gains reached a record $27 billion, but now are projected to drop to $17 billion by 2023-34. This $10 billion decline in capital gains over two years would account for most of the projected $13 billion decline in comparable General Fund revenues.

Expenditures Shift Between Years and Drop Modestly. General Fund expenditures under the Governor's proposal would total $240 billion in 2022-23, which represents an increase of $5.7 billion compared to the level enacted in June 2022. This is due to a shift of $20 billion from 2021-22 to the current year as well as to following years. For the proposed 2023-24 budget year, expenditures would decline to $224 billion, a drop of $11 billion (4.6 percent) compared to the enacted 2022-23 budget. Some policy areas would see an increase in spending, such as Health and Human Services, while other would see a decrease. Despite the deficit, the budget includes discretionary increases totaling about $2 billion in 2023-24, spread across a variety of policy areas.

Long-Term Deficits with Short-Term Solutions. The Governor's proposals would have the state continue to live off the recent short-term revenue surge while planning for ongoing spending increases. Thus, the Governor's multiyear forecast indicates the state will have operating deficits each year through 2026-27, but his solutions only address the deficits through 2024-25, as illustrated in this chart.



Reserves Left Intact for Now. The proposed budget maintains an estimated $36 billion in total reserves, which the Governor proposes to maintain without tapping to address the deficit. The Department of Finance and LAO both note that, should even a mild recession materialize, state revenues could decline by an additional $20 billion to $40 billion. The reserve balances include the following categories:

- $22.4 billion in the Rainy Day Fund.
- $8.5 billion in the Proposition 98 Rainy Day Fund
- $3.8 billion in the discretionary reserve (the Special Fund for Economic Uncertainty)
- $900 million in the Safety Net Reserve Fund

Housing

Includes $1.6 billion for Housing Programs. Although the Governor proposes $1.6 billion for various housing programs, the budget would reduce or revert $350 million General Fund in 2023-24 (some of which was authorized as part of the 2022 Budget Act but not appropriated). This would include reverting $200 million of the $500 million for the California Dream for All Program, reverting $50 million from the Accessory Dwelling Unit program provided in 2022-23, and not providing $100 million in funding for the CalHome Program.

No Significant Housing Reforms Included. The Governor states his intent to work with the Legislature on identifying and eliminating barriers that delay housing production or increase the cost to build housing. Unfortunately, the budget does not include a proposal to achieve these goals, and ironically remains silent on the fact that, according to the California Building Industry Association, recent rules and regulations, especially those imposed as part of his climate change package, will add a minimum of $50,000 per housing unit. In addition to the $50,000 increase in cost, the changes also add complexity, confusion, and an opportunity for housing opponents to force delays of needed home construction.

Homelessness

Democrats' Homelessness Strategy Failing So Far. Democrats' massive recent spending increases to combat homelessness are failing. The state has committed more than $20 billion to address homelessness since 2018-19, yet new federal data show that California saw the largest increase in homelessness of any state from 2020 to 2022 (6.2 percent) and from 2007 to 2022 (23 percent). Democrats' insistence on only using the "Housing First" approach, combined with a lack of accountability for homeless individuals engaged in substance abuse, are likely key factors in this failure. Rather than continue to throw good money after bad, the state should halt ineffective programs and re-evaluate its approach to addressing homelessness. Otherwise, no amount of budget increase will have any significant lasting effect.

Funding for Local Governments' Homeless Services Tied to State Housing Law. The Governor's budget includes $1 billion for the Homeless Housing, Assistance, and Prevention (HHAP) program, but proposes to tie the funding (and future funding) to local compliance with state housing law. The Governor, however, fails to include statutory language that identifies the program criteria and legal restrictions necessary to achieve this goal. Additionally, the budget states the Governor's intent to work with the Legislature to advance homeless accountability legislation, but fails to include details on the accountability measures or how those measures would be evaluated.

Encampment Resolution Grant Program. The proposed budget includes $400 million for the Encampment Resolution Grant program, which partners with local governments and provides grant funding to assist them with resolving critical encampment concerns and transition individuals into housing. The previous two budget acts included $350 million for the recently established program.

Medi-Cal Managed Care Plans to Cover Rent. The administration seeks federal approval to allow Medi-Cal managed care plans to pay for up to six months of rent for the homeless or those at risk of homelessness. While this may get some off the streets temporarily, without accountability for behavioral health and substance use treatment, this benefit may just be a costly endeavor without permanent results.

Mental Health

Inadequate Funding for County Mental Health Bed Expansion and CARE Court Implementation. Showcasing the Governor's misplaced priorities, the Governor's budget proposes just $17 million General Fund in 2023-24 for county behavioral health departments to implement CARE Court, with annual funding in future fiscal years limited to only $109 million. Further, the Governor delays roughly $730 million General Fund scheduled in the 2022 Budget Act for mental health facility construction and expansion and short-term housing for the seriously mentally ill homeless population. Given the recent federal data showing an increase in California's homelessness population, this funding should have been a priority for protection.

Health

Another Managed Care Tax to Sustain Democrat Overspending. The Governor proposes another three-year managed care organization provider tax (MCO tax) -- from January 1, 2024 until December 31, 2026 -- on all commercial full-service health plans and on all Medi-Cal managed care plans. Although this mechanism's purpose is to provide a source of revenue to "draw down" matching federal funding, the end result is to free up $317 million General Fund in 2023-24 (and $6.2 billion General Fund through 2026-27) to "protect" other Democrat priorities such as abortion subsidies and Medi-Cal expansions to undocumented populations.

More Abortion Industry Support Using Federal Funds. The Governor proposes to create another subsidy program for the abortion industry, but plans on securing federal funding to pay for it. The new program would provide $200 million in grants (starting in 2024-25) to abortion providers in order to offset service costs for the uninsured, update infrastructure, and provide the abortion workforce with scholarships and loan repayments.

Public Safety

Prison Closures. Consistent with the Department of Corrections and Rehabilitation's (CDCR) announcement in December, the Governor's budget reflects the administration's intent to close two more prisons (in addition to the one already closed and the one underway) and deactivate six individual yards at facilities throughout the state in the near term. The budget assumes annual savings of $150 million per year associated with the deactivations. In light of recent increases in crime, especially violent crime, the state should proceed with caution when considering whether to close prison facilities.

In-Prison Drug Treatment Program May be Faltering. Rumors are percolating about potential mismanagement of the Medication Assisted Treatment component of CDCR's Integrated Substance Use Disorder Treatment Program. Inmates may be abusing the primary treatment drug, Suboxone, and it appears that illicit trafficking of Suboxone may be occurring within the prison system, yet the Governor's budget continues the program at all-time high funding levels.

Maintaining Court Operations. The Governor's budget includes a $94 million General Fund augmentation to cover trial court cost increases, including inflationary and employee health and retirement benefit costs. It also provides $200 million to backfill declining revenues to the Trial Court Trust Fund and the State Court Facilities Trust Fund. Overall, it appears the intent is to maintain existing levels of service in the courts.

Education

Proposition 98 Education. The 2023-24 Proposition 98 funding for K-12 schools and community colleges is $109 billion, an increase of about $1.8 billion or 1.7 percent relative to the 2022-23 revised budget.

Proposition 98 General Fund spending per pupil would increase to $17,519 in 2023-24, an estimated 3.3 percent increase from 2022-23, and $23,723 per pupil from all funding sources. This includes:

- $4.2 billion increase in the Local Control Funding Formula (LCFF), reflecting an 8.13 percent cost of living adjustment (COLA) and growth adjustments. This is an increase of almost 1.6 percent from the COLA adjustment in the 2022-23 budget, which was already the largest COLA adjustment in the history of LCFF. This brings the total LCFF funding to $80 billion.

- $8.5 billion balance in the Public School System Stabilization Account. This reflects deposits of $3.7 billion, $1.1 billion, and $365 million in 2021-22, 2022-23, and 2023-24 respectively. As in the prior budget year, this balance triggers previously authorized (but ill-advised) local school district reserve caps in 2023-24.

Proposition 28 Implementation. The budget includes $941 million to implement the newly approved Proposition 28, which creates an ongoing program to fund arts and music education beginning in 2023-24. The proposition requires one percent of the Proposition 98 Guarantee be allocated to schools for these education programs. It should be noted that the Governor's budget simultaneously cuts $1.2 billion in Proposition 98 General Fund spending from the Arts, Music, and Instructional Materials Discretionary Block Grant included in the 2022 Budget Act. This decreases the one-time allocation from $3.5 billion to $2.3 billion Proposition 98 General Fund.

Opioid Overdose Drugs in the Classroom. The budget proposes $3.5 million ongoing Proposition 98 General Fund for all middle and high schools to have at least two doses of naloxone hydrochloride or other opioid overdose medication for emergency aid on campus. While potentially lifesaving, this proposal illustrates the state's failure to properly get ahead of an alarming epidemic that is now impacting our students.

Transitional Kindergarten. The budget provides $690 million to support the second year of the Universal Transitional Kindergarten (TK) expansion. This figure provides funding for an additional 46,000 TK students in the budget year. The budget also proposes $165 million General Fund to support an additional certificated or classified staff person in each TK classroom. Full implementation of universal TK is anticipated in 2025-26.

Full-Day Kindergarten Program Delay. The 2022-23 budget included $100 million one-time General Fund and proposed an additional $550 million in 2023-24 to support the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program (FDK Program). The Governor's budget would delay the 2023-24 investment to 2024-25.

Higher Education

California State University. Ongoing General Fund investments for the California State University (CSU) include $254 million General Fund for CSU operations, and $227 million General Fund to support a five percent base increase.

University of California. Ongoing General Fund investments for the University of California (UC) include $253 million for UC operations, and $216 million for a five-percent base increase, and ongoing General Fund resources of $30 million for California resident undergraduate enrollment growth.

Shifts and Delays in Capital Outlay Projects. As part of the Governor's deficit solution package, the budget would shift $405 million in CSU projects from General Fund to CSU bonds, and would delay $366 million in UC projects across several campuses.

California Community Colleges. The Governor's budget proposes an increase of $93 million ongoing Proposition 98 General Fund to provide an 8 percent COLA for select categorical programs and the Adult Education Program. This is approximately a $40 million increase compared the investment in last year's budget. Other notable proposals include an increase of $14 million one-time Proposition 98 General Fund to support the administration of workforce training grants in collaboration with the California Department of Forestry and Fire Protection. The budget would also provide an increase of $200 million one-time Proposition 98 General Fund to continue community college efforts to increase student retention rates and enrollment.

Energy and Utilities

Strategic Energy Reliability Reserve. Retains $1 billion of future year funding promised last year, including $845 million for 2023-24. The Solar + Storage program has a proposed reduction of $270 million.

California Arrearage Payment Program. Reflects savings of $400 million based on approved applications for assistance with utility debt.

Clean Energy Incentive Programs Modestly Reduced. Maintains most of the previously promised $1.4 billion for clean energy programs, with reductions of about $200 million across various programs.

Defers Some Broadband Investments. Proposes to defer $550 million for last-mile broadband infrastructure and $575 million for the Loan Loss Reserve Fund, used to finance local broadband infrastructure development, to future years. While these deferrals do not reduce funding now, they may slow the progress of closing the digital divide.

Transportation

Continues to Propose Gas Price Gouging "Penalty." Fails to propose any tax or regulatory reforms to reduce the price of gasoline, instead relying on previous blame-shifting "penalty" proposal.

Gasoline and Diesel Taxes to Increase Again. Annual gas and diesel tax adjustments would increase the price of gas by 4.3 cents per gallon and the price of diesel by 3.3 cents per gallon.

Transportation Infrastructure. Proposes decreasing last year's $9.5 billion General Fund investment in transportation by $2.2 billion.

Zero-Emission Vehicle Subsidies and Infrastructure Investments Decreased. Proposes reducing zero-emission vehicle subsidy, infrastructure, and equity projects by $1.1 billion.

High-Speed Rail Office of the Inspector General. Includes $1 million for the implementation of the High-Speed Rail Office of the Inspector General.

High-Speed Rail. In addition to spending previously appropriated bond funds, proposes expenditures of $526 million in 2023-24 from Cap and Trade funds.

Resources and Environment

Maintains Most Multiyear Wildfire Funding Commitments. Since 2021, the budget has committed $2.8 billion to accelerate forest health and fire prevention activities through multiyear budgeting. The 2023-24 budget maintains $2.7 billion of those commitments to advance fire prevention, reduce the risk of catastrophic wildfires, and provide fire protection and response resources.

Investments in wildfire prevention are a welcome change from budget years past, and are a high priority for Senate Republicans. However, it is still not enough to eliminate the devastation Californians face each wildfire season or make up for the years of neglect and mismanagement of our forests by the Democrats. Adequately funding this effort will take billions of dollars annually over the next decade to get California's forests cleaned up enough to manage the risk of catastrophic wildfires.

Maintains Drinking Water and Drought Commitments from Past Budget Cycles. Like Wildfire funding, the budget maintains $8.6 billion committed in the 2021 and 2022 Budget Acts for immediate drought response activities to help communities in the near term. However, the proposal falls short on long-term planning and represents yet another missed opportunity by Democrats to fund critical water infrastructure projects, such as Sites Reservoir, protect farmers' and farmworkers' livelihoods, and provide Californians safe and affordable drinking water.

Infrastructure Investments Needed for Flood Preparedness and Response. The budget proposes $202 million in much-needed investments in statewide flood control and reduction activities to reduce urban flood risk, reinforce our levees, and protect the Central Valley from devastation. However, the budget completely omits critical maintenance upgrades or enhancements to the state's aging dam infrastructure. Investing in the state's network of dams is a matter of public safety. They control 70% of the state's water supply, supply 15% of the power, and provide flood control. Yet, the state has neglected to finance and perform regular maintenance on over half of California's dams, which are now categorized as high-hazard dams. Their failure would result in loss of life, loss of human life, and economic damage.

Reduces Climate Budget. The proposed budget would reduce multiyear climate spending by $6 billion through deferrals, reductions, and trigger cuts. While reducing spending in this area is prudent given the multibillion-dollar deficit, it would be more beneficial to eliminate program funding for projects that do not generate immediate benefits. Funding for programs like urban greening and zero-emission vehicles could instead finance water infrastructure projects or forest management activities. The budget should prioritize funding to put a dent in areas where state investments are deficient and pose threats to human life and property.

Business Support, Workforce Development and Employment

Pulls Back Promised Relief for Job Creators and Small Businesses. Proposes deletion of $750 million, promised in last year's budget, to help pay down the Unemployment Insurance (UI) debt, and withdraws the commitment of $500 million in 2024-25 for small businesses to offset rising federal UI tax rates.

California Small Business COVID-19 Relief Grant Program. The budget proposes a reversion of $92 million from the California Small Business COVID-19 Relief Grant Program. According to the Governor, of the $150 million included in 2022-23 for the remaining eligible businesses, only $58 million is needed to fully fund all eligible businesses. Given this administration's poor treatment of businesses generally, that $92 million could at least be redirected toward helping businesses pay the costs of the Unemployment Insurance tax increase, if there is truly no more demand for the grants.

IBank's Small Business Finance Center and the California Rebuilding Fund. The 2023-24 budget includes a $50 million reduction in funding for the IBank's Small Business Finance Center and the California Rebuilding Fund. This would leave approximately $38 million available for financial assistance to small businesses.

CalCompetes Grant Program Continues Without Performance Review. The January budget includes $120 million General Fund for the California Competes grant program. The program is in the early stages of implementation and outcome data is not available yet, leaving the Legislature unable to determine whether the program is actually achieving results. The Legislature would be prudent to require a performance review before the state continues to provide scarce General Fund resources to a program that could be wholly ineffective and a waste of resources.

Employment Development Department (EDD) Modernization. Includes $198 million in funding for EDD IT systems, improved service for claimants, and fraud prevention. This funding continues a five-year modernization plan initially funded in 2022-23.

Film and Television Tax Credit. The January budget proposes $330 million per year beginning in 2025-26 to extend the existing program through 2029-30 and make the tax credit refundable.

Reductions to Apprenticeship, Workforce Development, and Training Program. Proposes decreases to various programs totaling $130 million. Also delays $397 million for various healthcare and workforce development initiatives within Department of Health Care Access and Information.

Human Services

CalWORKs Grant Increase. The 2023-24 budget includes a 2.9 percent increase to CalWORKs Maximum Aid Payment levels, estimated to cost $87 million in 2023-24. This increase is in addition to $296 million included in the 2022-23 budget, an 11 percent increase in CalWORKs maximum aid payment levels, and $816 million in one-time spending provided over the next three fiscal years, temporarily increasing CalWORKs grants by an additional 10 percent through September 2024. This combined funding in the 2022-23 budget provided a total increase of 21 percent in CalWORKs grants that began in October 2022.

Electronic Benefit Fraud Mitigation. The budget includes $50 million ($17 million General Fund) in 2023-24, $23 million ($7.9 million General Fund) in 2024-25, and $3.5 million ($1.2 million General Fund) in 2025-26 to address the increasing Electronic Benefit Transfer (EBT) theft of CalWORKs and

CalFresh benefits. Electronic benefit theft has increased at an alarming rate over the past few years, and the outdated EBT technology and security have left these benefits especially vulnerable.

Child Care Programs

Child Care Slot Expansion Timing Delay. The 2021 Budget Act initiated the addition of 200,000 child care slots by 2025-26, which was continued in the 2022 budget act. While the 2023-24 budget continues to support this goal, thousands of the newly available slots have yet to be filled. To allow more time to fully utilize the slot expansions already authorized, 20,000 new slots will be funded in 2024-25 instead of 2023-24.

Child Care COLA. The 2023-24 budget includes $302 million General Fund for Child Care and Development programs and $1.5 million for the Child and Adult Care Food Program. This increase is reflective of an estimated 8.13 percent statutory COLA.

Developmental Services

Protects the Developmentally Disabled Rate Reform Plan from Cuts. The Governor's budget sustains the plan to fully implement the developmentally disabled service provider rate reforms at a cost of $1.2 billion annually through 2024-25. The budget also increases a variety of safety net services to high-intensity individuals, individuals with autism spectrum disorders, and supports to foster youth that are eligible for regional center services. Senate Republicans have long fought to protect and adequately fund these programs.

State Debt

Capital Outlay Fund Shifts and Deferrals. The budget would shift approximately $1.4 billion of capital projects to lease-revenue bonds, partially reversing a 2022 action to shift $3.2 billion from bonds to General Fund cash. The budget also proposes to shift capital projects totaling $680 million from cash to bonds in future years. An additional $850 million of new capital projects would be deferred to future years. These actions would result in significant new borrowing for the state, at a time of fiscal uncertainty, and should be considered through a long-term lens of budgetary responsibility.

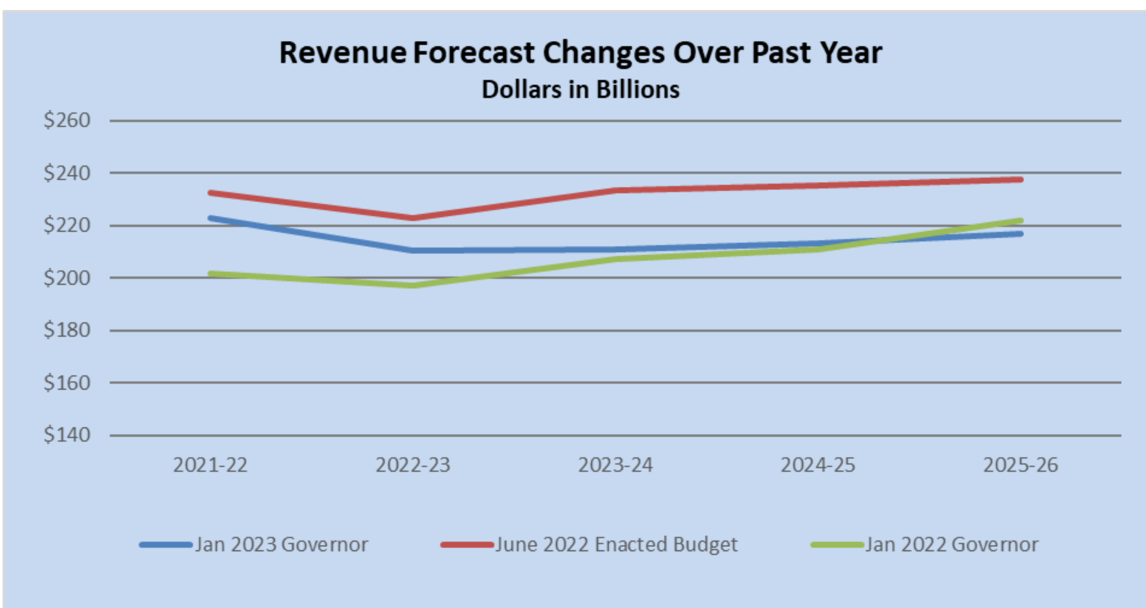
Budget Increases State Debt with Elimination of Bond Redemption. The 2022 Budget Act included a scheduled redemption of callable general obligation bonds totaling $1.7 billion in 2024-25. The Governor's budget now proposes to reverse that action, worsening the state's financial situation, increasing annual debt service costs, and negatively impacting the state's borrowing position.

Overall Revenues, Expenditures, and Reserves

Key Points

- **No Surprise: Revenues Fall by Tens of Billions.** Revenues projected tobe lower by nearly $35 billion over 2022-23 and 2023-24 combined as short-term capital gains drop.
- **Expenditures Double in Just Six Years, Lead to Operating Deficits.** Following rapid rise, expenditures would remain above revenues for entire forecast, leading to operating deficits in the near future.
- **Short-Term "Solutions" Despite Long-Term Deficits.** Governor's solutions emphasize funding delays and fund shifts more than ongoing reductions, offering no sustainable plan for longer term.
- **Reserves Remain Intact For Now.** Governor's proposal would avoid tapping into budget reserves for now, citing potential for further tax revenue declines.
- **State "Gann" Spending Limit.** Decline in revenue plus recent manipulations lead to $12 billion in projected "spending room" for budget year.

No Surprise: Revenues Fall by Tens of Billions. California's tax revenue surge has unsurprisingly abated. The Governor's budget predicts that revenues will be lower by nearly $35 billion over 2022-23 and 2023-24 combined. The chart below shows the changes in revenues as forecast in the Governor's January 2022 budget, the enacted 2022 Budget Act, and the new Governor's budget. As shown, revenues would remain above projections from a year ago for 2022-23 but then largely match that forecast for the next three years. Each year's revenue in the forecast is now less than projected last June for the enacted 2022-23 budget.



Revenues Rely Disproportionately on High-Income Earners. California receives a hugely disproportionate share of its revenues from a small number of high-income earners, whose incomes are more volatile. In 2020, the top one percent of income earners paid 49 percent of all personal income taxes. It remains to be seen how much the ability to work remotely will draw additional high-income workers out of California.

Capital Gains' Boom-and-Bust. Capital gains have long been boom-or-bust for California, and, unlike the recessions in 2001 and 2009, those gains actually increased during the pandemic recession. Capital gains in 2021-22 reached a record $27 billion, but now are projected to drop to $17 billion by 2023-34. This $10 billion decline over two years would account for most of the projected $13 billion decline in comparable General Fund revenues (not counting transfers).

The Department of Finance and LAO both note that, should even a mild recession materialize, state revenues could decline by an additional $20 billion to $40 billion, while a more significant recession could reduce revenues by $60 billion over the budget window.

Expenditures Shift Among Years. General Fund expenditures under the Governor's proposal would total $240 billion in 2022-23, which represents an increase of $5.7 billion compared to the level enacted in June 2022, as shown in the total General Fund expenditures in the table below.

General Fund Expenditures by Agency
(Dollars in Millions)

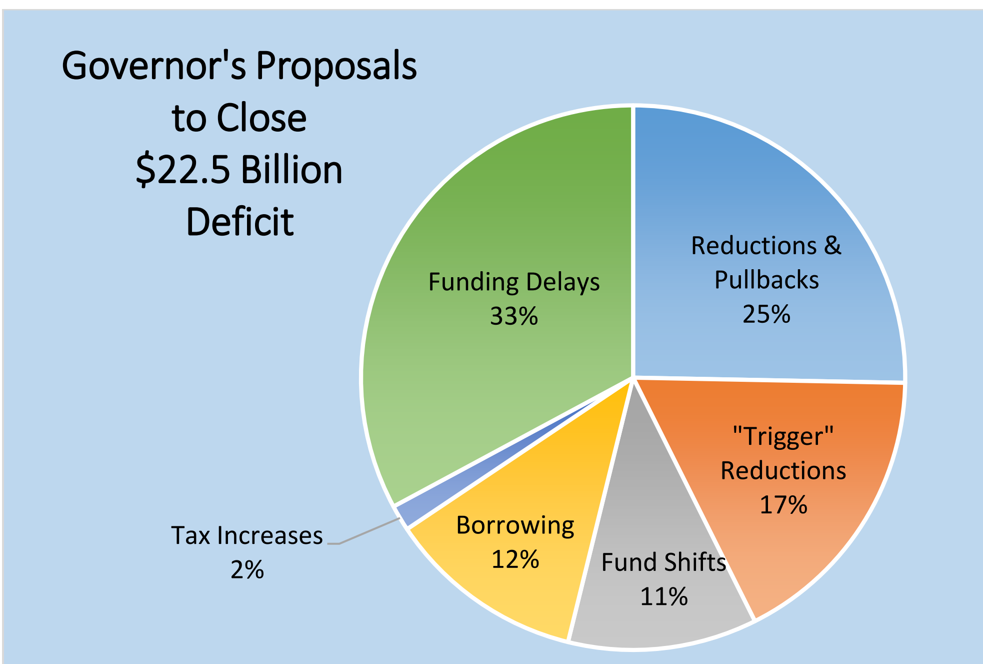
Agency	2022-23 Budget Act June 2022	2022-23 Jan. 2023 Estimate	2022-23 Change June 2022 to Jan. 2023	2023-24 Proposed Jan. 2023	2023-24 Change from 2022 Budget Act
Legislative, Judicial, Executive	$14,501	$19,636	$5,135	$11,852	-$2,649
Business, Consumer Services, Housing	$2,393	$4,062	$1,669	$1,472	-$921
Transportation	$1,275	$1,725	$450	$2,191	$916
Natural Resources	$8,162	$15,437	$7,275	$9,723	$1,561
Environmental Protection	$1,174	$2,133	$959	$1,989	$815
Health and Human Services	$67,925	$64,790	-$3,135	$71,447	$3,522
Corrections and Rehabilitation	$14,747	$15,822	$1,075	$14,775	$28
K-12 Education	$78,205	$78,505	$300	$81,176	$2,971
Higher Education	$23,619	$23,043	-$576	$22,518	-$1,101
Labor and Workforce Development	$1,478	$1,234	-$244	$1,638	$160
Government Operations	$5,865	$6,795	$930	$3,847	-$2,018
Gen Gov't - Non-Agency Depts	$2,065	$2,791	$726	$3,562	$1,497
Gen Gov't - Tax Relief/Local Gov't	$667	$678	$11	$558	-$109
Gen Gov't - Statewide Expenditures	$12,291	$3,425	-$8,866	-$3,134	-$15,425
Total, General Fund Expenditures	**$234,367**	**$240,076**	**$5,709**	**$223,614**	**-$10,753**

This increase, a surprise considering the deficit, results because the enacted budget provided unusual flexibility to the Governor to shift appropriations among years. The Governor chose to shift $20 billion from 2021-22 forward, partially to 2022-23 and partially to future years. For the proposed 2023-24 budget year, expenditures would decline to $224 billion, a drop of $10.8 billion (4.6 percent) compared to the enacted 2022-23 budget. As seen in the table above, some policy areas would see an increase in spending, such as Health and Human Services, while other would see a decrease.

Discretionary Spending Increases Included. Despite the deficit, the Governor's budget includes about $2 billion in discretionary spending increases. Adding new spending during a deficit raises the total solutions needed, and amounts to a transfer in priorities from spending solutions to the new increases. The new spending is spread among the following areas:

- $491 million for capital outlay projects, including $402 million for a Sacramento office complex for the Department of General Services.
- $421 million for health and human services.
- $387 million for resources programs, including $125 million for unspecified drought contingency spending and $136 million for urban flood risk reduction.
- $234 million for public safety facility operations.
- $458 million for various other programs.

Deficit Proposals Largely Kick the Can Down the Road. The rapid rise in spending in recent years is now projected to exceed revenues as the short-term revenue surge wanes. As such, the Governor's budget now projects a deficit of $22.5 billion by the end of 2023-24. In order to address the deficit, the Governor proposes a mix of solutions that emphasize short-term delays and fund shifts rather than reducing the significant ongoing program expansions made in recent years. This approach largely kicks the can down the road, rather than get spending truly under control. The solution categories for 2023-24 are summarized in the chart and descriptions below.



- Funding delays of $7.4 billion spread across multiple programs, including:
  - $900 million for higher education student housing.
  - $550 million for kindergarten facilities grants.
  - $550 million for broadband last-mile grants.

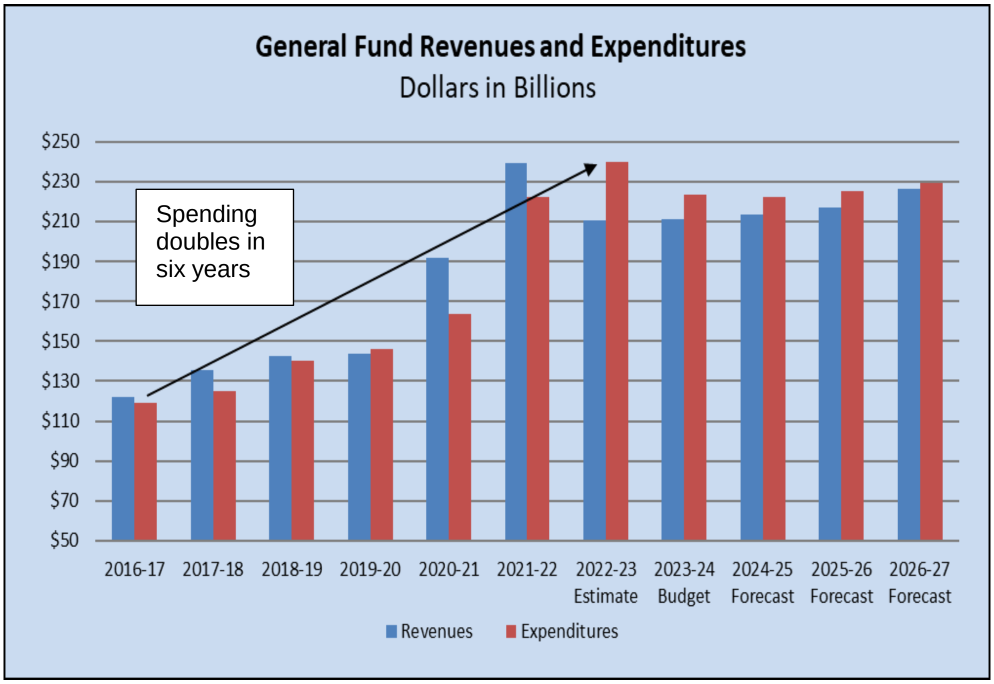
- Reductions and pullbacks totaling $5.7 billion, most notably including $3 billion for inflationary adjustments and eliminating $750 million that had been budgeted to reduce California's Unemployment Insurance debt to the federal government.
- "Trigger" reductions of $3.9 billion that include $3.1 billion for climate and transportation projects. The Governor proposes an automatic trigger to restore these items midway through the year if, based on his determination in January 2024, revenues appear sufficient to cover the costs.
- Borrowing of $2.7 billion, which includes $1.8 billion in shifts from General Fund cash to bond financing, as well as $850 million in loans from various state special funds.
- Fund shifts of $2.5 billion, which mostly consists of $1.5 billion for zero-emission vehicles. The Governor initially claimed that fund shifts total $4.7 billion by including shifts of some capital outlay projects from cash to bond funding. However, this is highly misleading. Bond funds are borrowing by definition, so our accounting more accurately moves this proposal as Borrowing.
- Tax revenues of $317 million in 2022-23 for a renewal of the state's Managed Care Organization (MCO) tax, though this reflects only a partial year effect. The tax increase would grow to $2 billion annually once fully phased in. Though directed at one industry, this tax would free up General Fund for any Democratic spending goal.

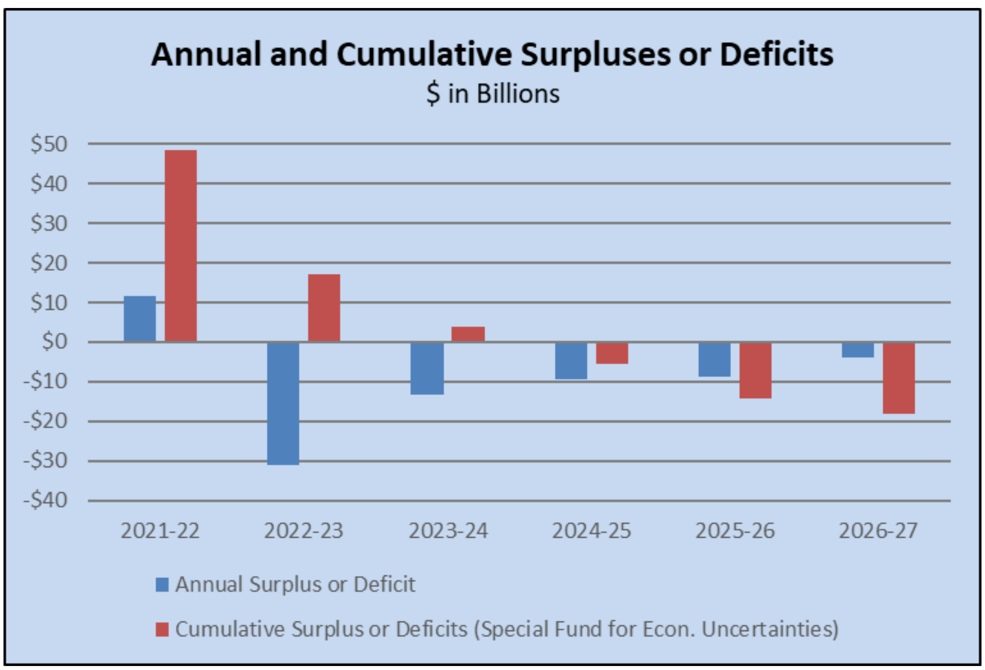
LAO Projected Slightly Higher Deficit. The Governor's deficit estimate is $2.5 billion lower than the $25 billion deficit projected by the nonpartisan Legislative Analyst's Office (LAO) in November. The difference results mostly from the Governor's higher estimate of revenue ($14 billion), which is offset partly by the Governor's higher assumed baseline expenditures, proposed new spending of $2 billion, and his plan for a $4 billion discretionary reserve.

Additional Out-Year Deficit Solutions. In addition to the solutions for 2023-24, the Governor builds some additional reductions into his longer-term plan. Over the three years from 2024-25 through 2026-27, the budget proposes various solutions totaling $20 billion. Most significant among these are $6 billion from avoiding inflationary spending increases and another $6 billion (over three years) from the renewed MCO tax.

Long-Term Deficits with Short-Term Solutions. The Governor's proposal would have the state continue to live off the recent short-term revenue surge while planning for ongoing spending increases. As shown in the *General Fund Revenues and Expenditures* chart on the next page, expenditures roughly doubled in the six years from 2016-17 to 2022-23, and would remain above revenues in each year of the Governor's forecast through 2026-27. Revenues doubled in five years from 2016-17 to 2021-22, including an astonishing 70 percent in just two years from 2019-20 to 2021-22. However, revenues would drop by 12 percent in 2022-23 under the Governor's estimates and remain relatively flat for several years.

The effects of this ongoing imbalance between revenues and expenditures are shown in the *Annual and Cumulative Surpluses or Deficits* chart on the next page. The Governor's multiyear forecast indicates the state will have operating deficits each year at least through 2026-27 (the last year in the forecast), but solutions proposed only address the deficits through 2023-24. That is the last year there is a positive balance in the Special Fund for Economic Uncertainties, which can also be regarded as the cumulative operating surplus or deficit.





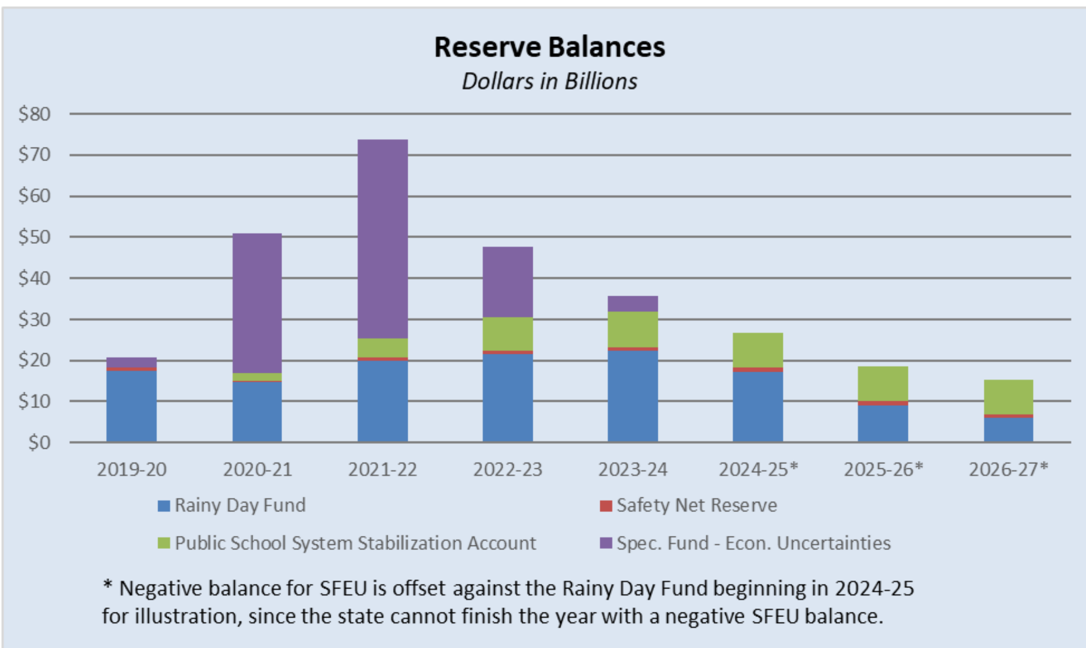
Building deficits into the spending plan is a reckless approach, though the Governor and Democrats did this even in the budget they adopted in 2022, despite the record revenues. The nonpartisan LAO also recommends against the Governor's approach of failing to address these deficits.

Opportunity to Re-Evaluate Spending. The rapid increase in spending over the past several years occurred with little transparency or legislative review of whether programs are actually achieving results with their massive budget infusions. In the case of homelessness, the state has spent or budgeted $20 billion since 2017, yet new federal data show that homelessness increased in California, even while decreasing in other states. The new decline in state revenue should be taken as an opportunity to review where spending is ineffective. Cuts to ineffective spending mean the state can balance the budget without actually harming Californians.

Reserves Left Intact for Now. One commendable budget component is that the Governor's proposal prudently avoids use of reserves, out of recognition that tax revenues could fall further in a recession. The proposed budget would maintain an estimated $35.6 billion in total reserves, including the following categories for 2023-24:

- $22.4 billion in the Rainy Day Fund.
- $8.5 billion in the Proposition 98 Rainy Day Fund
- $3.8 billion in discretionary reserves (Special Fund for Economic Uncertainty, or SFEU)
- $900 million in the Safety Net Reserve Fund

The table below illustrates the various reserve balances through the forecast period. Due to the recurring deficits, the SFEU turns negative in 2024-25. The state cannot have a negative SFEU balance, so for illustration purposes the chart assumes those deficits will be offset with the Rainy Day Fund reserve. Ongoing deficits would reduce the Rainy Day Fund to about $6 billion by 2026-27, the last year forecasted. If an actual recession emerges, these balances could drop much faster and be entirely depleted.



Note that the large balance in the SFEU in 2021-22 results from the administration's decision to shift $20 billion in spending from that year to future years. This reduction in spending in 2021-22 leaves the SFEU larger than it was budgeted to be last June, when the Legislature passed a last-minute revision to the 2021-22 budget.

Imprudent Past Use of Reserves in 2020-21. It doesn't take a Ph.D. in economics to recognize that there is no need to withdraw money from reserves when the budget is in surplus, but that is what the Governor and legislative Democrats did in 2020-21. After initially believing a massive deficit was imminent at the onset of the pandemic, the state realized within several months that the state would actually see a surplus. Nonetheless, the Governor and Democrats failed to reverse a withdrawal and suspended deposit that reduced the Rainy Day Fund balance by $8.9 billion in 2020-21. The LAO advised against this foolish approach of using reserves and borrowing to fuel additional spending during a surplus. Following this withdrawal, the Rainy Day Fund balance declined on net in 2020-21 before growing again, as illustrated by the blue bar in the chart above.

Other States Seeing Surpluses and Cutting Taxes. California's revenue decline and deficit stand in contrast with most other states: 33 other states reported that their revenues are exceeding original budget forecasts (out of 41 states that provided information), according to a recent Wall Street Journal article. Several of those states, including those with Democratic governors, are proposing tax cuts in their budgets. This illustrates that California's deficit results from imprudent budget choices, rather than national trends.

Gann Limit Room Continues Following Rule Changes and Revenue Decline. The constitutional State Appropriations Limit, commonly referred to as the Gann Limit, restricts state spending growth to the rate of inflation and population. Revenues that exceed the limit for two straight years must be returned to taxpayers or spent on education. The Gann limit was a nonfactor for several decades until revenue growth accelerated in recent years, bringing the state close to or over the limit.

Democrats took advantage of ambiguities Gann law during the last two budgets to make dubious, self-serving changes to the Gann limit. These changes freed up tens of billions of dollars in additional "spending room" for Democratic priorities. Now, combined with the new decline in revenues, those changes would leave the state with $12 billion in spending room in 2023-24, according to the Governor's estimates. However, these calculations warrant further review as the budget process moves forward.

Senate Republican Budget Priorities

Senate Republicans Set Out Priorities. The Senate Republican Caucus set out budget priorities through a letter issued in advance of the Governors' January budget proposal. The letter points out major challenges for Californians that were left unaddressed during the recent surpluses, such as reducing the cost of living, addressing drought through expanded water storage, and preparing more swiftly for catastrophic wildfire. The table below summarizes how the Governor's proposals compare to these priorities.

Senate Republican Priority	Governor's Proposed Budget
Lowering the Cost of Transportation. Californians continue to pay far more than the national average for gas.	Fails to suspend the gas tax or make other regulatory changes to reduce the price of gasoline.
Lower the Cost of Living: Renter's Tax Credit. The high cost of rent in California is well-known and ongoing problem.	Fails to include a renter's tax expansion or take any steps to lower the cost of rent on an ongoing basis.
Addressing Wildfires. Accelerate fire prevention and forest management efforts.	Fails to make up for years of neglect. It does not maintain all the investments in forest and public lands stewardship, including wildfire and forest resilience programs benefiting rural communities.
Providing Water to Families and Farms. Take steps to build Sites Reservoir and other water conveyance in the Central Valley.	Proposes an inadequate $202 million for flood risk reduction efforts and continues to omit meaningful investments in water infrastructure such as Sites Reservoir.
Avoiding Cuts to Education. Schools are facing dramatic challenges already to recover from learning losses stemming from pandemic closures.	Proposes a net reduction to Arts & Music instruction, despite the newly passed Proposition 28. Revised K-12 Proposition 98 spending would grow year-over-year.
Fighting Crime and Improving Public Safety. Too many cities are seeing crime trends move in the wrong direction.	Proposes $132 million to continue current level of funding for the crime reduction package introduced in the 2022 Budget Act, but fails to provide any new funding for fentanyl enforcement. No direct support for local fentanyl enforcement efforts is proposed.
Empowering Job Creators. A bipartisan group of legislators called for paying down the Unemployment Insurance debt during 2022.	Falls far short by not only failing to propose a solution, but also would cut the previously planned $750 million payment toward the remaining $18 billion Unemployment Insurance debt to the federal government.
Improving the Effectiveness of Mental Health and Homelessness Spending.	Maintains $1 billion in flexible funding for local jurisdictions but would tie the allocation of funding to compliance with state housing laws. Also, shortchanges funding for mental health treatment bed expansion.

Tax Policy

Key Points

- **Another Tax on Health Plans.** Proposes 3-year managed care organization (MCO) tax that seeks to free up $6.5 billion in General Fund resources for Democratic spending priorities.
- **Student Loan Debt Relief Income Tax Treatment.** Conforms to federal tax treatment for forgiven student loan debt, exempting the forgiven debt from state income tax, pending outcome of federal litigation.
- **Increased Taxation on Trusts.** Revises tax law that currently allows California residents to transfer assets into out-of-state incomplete non-grantor trusts in order to avoid state taxation.
- **Expands Eligibility for New Employment Tax Credit.** Expands the New Employment Tax Credit by eliminating current geographic restrictions for semiconductor firms.
- **Continues Film and TV Tax Credit.** Proposes to extend the Film and Television Tax Credit through 2029-30, make the credit refundable, and provide $330 million annually.

Another Managed Care Tax to Maintain Misguided Democrat Spending. The Governor proposes a three-year managed care organization (MCO) provider tax -- from January 1, 2024 until December 31, 2026 -- to be assessed on all commercial full-service health plans and on all Medi-Cal managed care plans. The previous MCO tax was approved in 2019 and expired on December 31, 2022. The tax and the associated federal revenue is contingent on federal approval.

Although this mechanism's purpose is to provide a source of revenue to "draw down" matching federal funding, the result of this tax is to free up more than $6.5 billion in General Fund over three years through 2026-27 ($317 million in 2022-23). The Democrats could use these funds on their misguided priorities, such as $200 million in abortion facilities grants and $5 billion annually to provide Medi-Cal for 1.2 million undocumented individuals. The industry has supported some cases of similar taxes in the past, but with the Governor proposing a large slice of funds for general use, the potential for industry support is diminished. At this point, industry support for this proposal is unknown.

Student Loan Forgiveness Tax Exemption. The proposed budget would exempt federal student loan debt forgiveness from state income tax. The proposal is contingent upon the resolution of litigation related to the federal program. The federal American Rescue Plan Act exempts the forgiveness of student loan debt from 2021-2025 federal income taxes. The Franchise Tax Board does not have an estimate of lost revenue at this time.

Incomplete Non-Grantor Trusts. An incomplete non-grantor trust is one set up out-of-state, usually in a state with no income tax, where the grantor retains some control over the trust. The Governor's budget proposes to require net income derived from these trusts to be subject to state income tax if the grantor of the trust is a California resident. The administration argues that this change would eliminate a tax loophole that currently allows California residents to transfer assets into out-of-state incomplete non-grantor trusts in order to avoid state taxation. The change would take effect for the 2023 tax year, and would generate $30 million in General Fund revenue in 2023-24 and $17 million annually thereafter.

New Employment Tax Credit. The January budget proposes eliminating the eligibility requirement that semiconductor manufacturing, research, and development firms must be located in an area designated as high unemployment/high poverty to be eligible for the New Employment Tax Credit program. The New Employment Credit was created in 2014 to incentivize businesses that operate in high-poverty areas to provide full-time employment to the long-term unemployed, veterans discharged from service in the last 12 months, Earned Income Tax Credit recipients, ex-offenders convicted of a felony, and current recipients of CalWORKS or county general assistance. Expanding access to the credit will provide more flexibility for these firms to use this financial incentive to create full-time jobs, but the Legislature should consider whether all businesses should benefit from the proposed eligibility expansion, rather than just semiconductor firms.

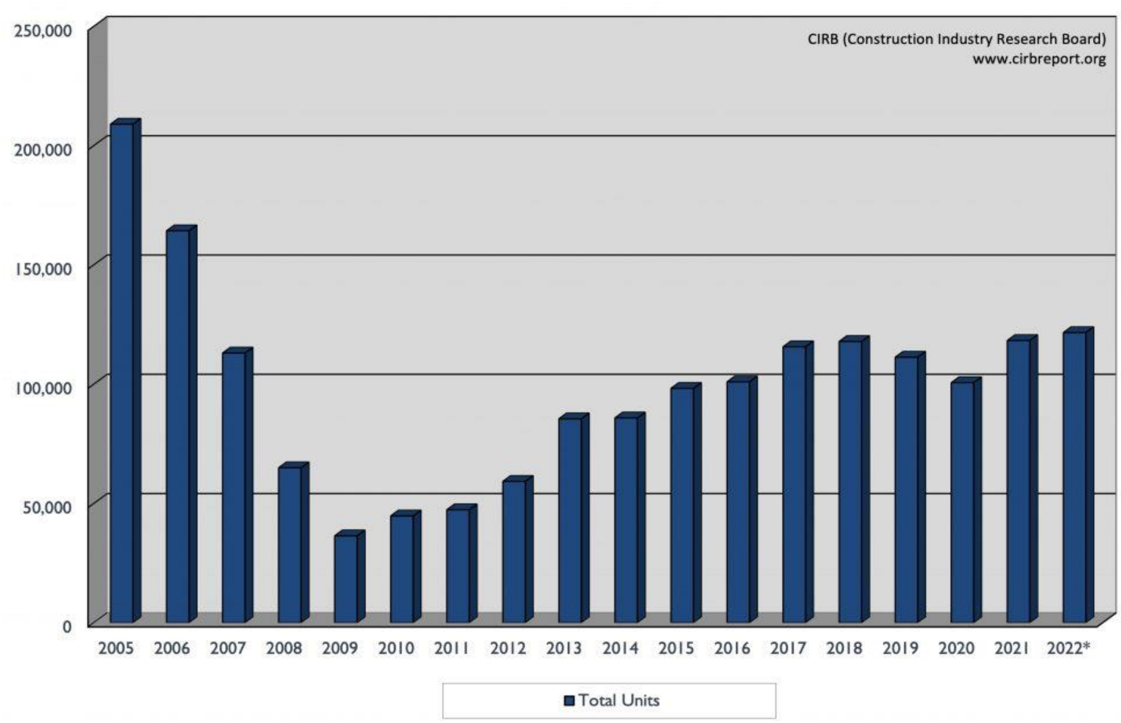
Film and Television Tax Credit. The January budget proposes $330 million per year beginning in 2025-26 to extend the existing program through 2029-30, and make the tax credit refundable. It is not clear why a tax credit that already will be in place through 2024-25 is proposed for extension a year early.

Housing

Key Points

- **Housing Budget Continues to Reflect Policy Failures.** Budget fails to include regulatory and statutory reforms that could reduce the cost of housing and increase production.
- **Includes $1.6 billion in New Spending for Housing Programs.** Proposes $1.6 billion in new spending for various housing programs, including Infill Infrastructure and Multi-Family Housing.
- **Housing Programs Spending Reductions Tied to Trigger Language.** Includes $350 million in reductions but proposes a "trigger" to restore spending in 2024-25.

Governor Talks Reform and Accountability But Fails To Provide Action. Upon taking office, Governor Newsom's campaign promise was to "lead the effort to build 3.5 million new homes by 2025." Since 2018, the state has built or permitted just under 570,000 units (see chart below for historical production since 2005), far from the estimated 2.1 million homes he promised to build over the past five years.



In the January budget, the Governor proposes to adopt a "legally binding" goal (which is not defined) that local jurisdictions must plan to build 2.5 million new units by 2030, and proposes one million of those units be affordable housing. This sounds like an admission of failure on the Governor's part. The Governor decreases the number of housing units to be built, and then extends the timeframe to achieve the reduced goal. Hardly the definition of success.

The Governor states that he intends to work with the Legislature on eliminating barriers that delay housing, but actions fail to match the rhetoric since the Governor does not identify or include critical housing reforms, such as reducing exorbitant fees imposed by local governments, minimizing lengthy bureaucratic approval delays, or eliminating abusive legal challenges that force home construction to stall, sometimes indefinitely. Instead, the Governor is focused on pursuing additional federal funds for rental assistance, and exploring more opportunities to increase housing voucher utilization rates, neither of which will make a dent in the state's lack of housing units.

And while the Governor proposes to work with the Legislature to eliminate barriers that increase the cost to build, he ironically remains silent on the fact that, according to the California Building Industry Association, recent rules and regulations, especially those imposed as part of his climate change package, will add a minimum of $50,000 per housing unit. In addition to the $50,000 increase in cost, the changes also add complexity, confusion, and an opportunity for housing opponents to force delays of needed home construction.

As each new law and regulation are imposed upon home builders by the Administration, costs for new homes will continue to remain out of reach of most Californians. According to the California Building Industry Association, California's median home price was $777,500 as of November 2022, a price less than 20 percent of California households can actually afford. As a result, many middle-to-low income Californians are priced out of owning a home. Given the lack of serious housing reforms proposed in the Governor's budget, this looks unlikely to change anytime soon.

Includes $1.6 billion for Housing Programs. The Governor proposes $1.6 billion for various housing programs, including the following noted below. These funds were described in the 2022 budget as being a part of the multiyear housing plan, but the 2023-24 budget would be the first actual appropriation for these funds.

- **Infill Infrastructure Grant Program.** $225 million General Fund in 2023-24 for the Infill Infrastructure Grant program (IIG), which prioritizes infill parcels in downtown-oriented areas.
- **Adaptive Reuse Developments Prioritized.** $250 million General Fund in 2023-24 for a recently established program within the Department of Housing and Community Development (HCD) that provides grants to local jurisdictions. Adaptive reuse is the process of changing the use of an existing building for any purpose other than its original design.
- **Multi-Family Housing.** $225 million for the Multi-Family Housing Program. which provides low-interest loans for new construction, rehabilitation, and preservation of rental housing for lower-income households.
- **Portfolio Reinvestment Program.** $100 million General Fund 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**.**
- **Veteran's Housing and Homelessness Prevention Program.** $50 million General Fund in 2023-24 for long-term loans for the acquisition, construction, rehabilitation, and preservation of affordable multifamily housing to allow veterans to maintain housing stability.
- **Mobilehome Park Rehabilitation and Resident Ownership Program (MPRROP).** $75 million for the renamed MPRROP program, now called the Manufactured Housing Opportunity and Revitalization (MORE) program, which provides funding to finance preservation and conversion of affordable mobile home parks.

- **State Excess Site Development.** $75 million General Fund for a matching grant program that provides selected developers with one-time grants for activities that enable development on excess state-owned property.

Housing Funding Tied to Trigger Language. The proposed budget includes $350 million in reductions to housing programs that were part of the 2022 budget agreement. The Governor proposes a statutory trigger mechanism to restore the reductions if a determination is made in January 2024 that there is sufficient General Fund. However, the Governor fails to identify what level of General Fund revenues would be considered "sufficient." The reductions include the following programs:

- **California Dream For All.** The 2022 Budget Act included $500 million General Fund for the California Dream For All program, a shared mortgage assistance program in which the state will pay up to 20 percent in down payment or closing cost assistance for first-time homebuyers. The budget proposes to revert $200 million of the $500 million General Fund in 2023-24. Given the economic uncertainties and the unknowns with a new complicated state program with long-term ramifications, the Legislature should consider pausing implementation and reverting the entire $500 million.
- **CalHome.** The 2022 Budget Act included $350 million General Fund ($250 million in the 2022 Budget Act and $100 million committed for 2023-24) for HCD's CalHome program to give local agencies and nonprofits grants to assist low-income first-time homebuyers with housing assistance, counseling and technical assistance. The budget does not include the $100 million General Fund in 2023-24.
- **Accessory Dwelling Unit Program.** The budget proposes to revert $50 million General Fund included in the 2022 Budget Act for the California Housing Finance Agency's Accessory Dwelling Unit program.

Ongoing Funding for Affordable Housing and Emergency Shelter Construction. The Governor's 2023-24 budget includes $680 million from 2018 housing legislation that provides an ongoing source of funding for affordable housing and emergency shelter construction, as follows:

- $390 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.
- $290 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.

Homelessness

Key Points

- **Strings Attached to Aid for Local Governments.** Provides $1 billion in funding to local governments for homeless efforts but would tie funds to housing law compliance.
- **Expansion of Encampment Resolution Grant Program.** Provides $400 million for local efforts to remove individuals from squalid environments and rehouse them in interim housing.
- **Medi-Cal Managed Care Plans to Cover Rent.** The administration seeks federal approval to allow Medi-Cal managed care plans to pay for up to six months of rent for the homeless or those at risk of homelessness.
- **Delays Funding for Behavioral-Health Shelters for the Mentally Ill Homeless**. Delays $250 million General Fund for behavioral-health focused shorter-term shelters for seriously mentally ill homeless individuals.

Democrats' Homelessness Strategy Failing So Far. Democrats' massive recent spending increases to combat homelessness are failing. The state has committed more than $20 billion to address homelessness since 2018-19, yet new federal data show that California saw the largest increase in homelessness of any state from 2020 to 2022 (6.2 percent) and from 2007 to 2022 (23.4 percent). Democrats' insistence on only using the "Housing First" approach, combined with a lack of accountability for homeless individuals engaged in substance abuse, are likely key factors in this failure. Rather than continue to throw good money after bad, the state should halt ineffective programs and re-evaluate its approach to addressing homelessness. Otherwise, no amount of budget increase will have any significant lasting effect.

Funding for Local Governments' Homeless Services Tied to State Housing Law. The Governor's budget includes $1 billion for the Homeless Housing, Assistance, and Prevention (HHAP) program, but proposes to tie the funding (and future funding) to local compliance with state housing law. The Governor, however, fails to include statutory language that identifies the program criteria and legal restrictions necessary to achieve this goal. Additionally, the budget states the Governor's intent to work with the Legislature to advance homeless accountability legislation, but fails to include details on the accountability measures or how those measures would be evaluated. The 2022-23 budget also provided $1 billion General Fund for the program.

Encampment Resolution Grant Program. The Governor's budget provides $400 million in 2023-24 for the Encampment Resolution Grant program within the California Interagency Council on Homelessness (Cal-ICH). The program was established in 2021-22 and received $50 million in the first year, followed by $300 million in 2022-23. The program partners with local governments and provides grant funding to assist them with resolving critical encampment concerns and transitioning individuals into safe and stable housing.

Medi-Cal Managed Care Plans to Cover Rent. The administration intends to seek a federal Medi-Cal waiver to authorize managed care plans to cover up to six months of rent or temporary housing to eligible individuals experiencing homelessness or at risk of homelessness. Also eligible would be those who are transitioning out of institutional levels of care, a correctional facility, or the foster care system and who are at risk of incurring other Medi-Cal services such as inpatient hospitalizations or emergency department visits. While this proposal has potential to reduce hospital-related costs, the details are still unknown. The likelihood of this being a cost-neutral plan is slim since our "housing first" law doesn't require sobriety or substance use treatment to achieve real recovery, employment, and permanent housing.

Delays Short-Term Behavioral-Health Shelters for Mentally Ill Homeless. The Governor proposes to delay $250 million General Fund for behavioral-health shorter-term shelters for seriously mentally ill homeless individuals. This funding provides grants to counties to cover the rehabilitation and/or construction of tiny homes or small multi-bed facilities in locations where wrap-around behavioral health treatment can be administered. The Governor's plan delays that funding until 2024-25. This delay will impede any ongoing local efforts to move individuals in need away from unhealthy, dangerous encampments.

Health

Key Points

- **Another Tax on Health Plans.** Imposes a 3-year managed care organization (MCO) tax that seeks to free up $6.5 billion in General Fund resources for Democratic spending priorities.
- **Plan to Use Federal Funds for Abortion "Sanctuary."** Proposes a new federally funded program to provide $200 million in grants to abortion providers, using a loophole to get around federal abortion funding restrictions.
- **Delayed Funding for Healthcare Workforce Incentives.** Delays $397 million for health care workforce scholarships, training programs, fellowships, residency slots, and retention stipends.
- **Opioid and Fentanyl Response Efforts.** Uses recent opioid lawsuit settlement funds for naloxone distribution, fentanyl test strips, and other measures to reduce overdose deaths.

Another Managed Care Tax to Maintain Misguided Democrat Spending. The Governor proposes a three-year managed care organization (MCO) provider tax -- from January 1, 2024 until December 31, 2026 -- to be assessed on all commercial full-service health plans and on all Medi-Cal managed care plans. The previous MCO tax was approved in 2019 and expired on December 31, 2022. The tax and the associated federal revenue is contingent on federal approval.

Although this mechanism's purpose is to provide a source of revenue to "draw down" matching federal funding, the result of this tax is to free up more than $6.5 billion in General Fund over three years through 2026-27 ($317 million in 2022-23). The Democrats could use these funds on their misguided priorities, such as $200 million in abortion facilities grants and $5 billion annually to provide Medi-Cal for 1.2 million undocumented individuals. The industry has supported some cases of similar taxes in the past, but with the Governor proposing a large slice of funds for general use, the potential for industry support is diminished. At this point, industry support for this proposal is unknown.

Nearly Four Out of Ten Californians Enrolled in Medi-Cal. The Governor's budget projects that 39 percent of Californians (16 million individuals) will be enrolled in Medi-Cal, at a cost of $138 billion ($32 billion General Fund) in the 2022-23 fiscal year. In fiscal year 2023-24, the administration projects a decline in Medi-Cal caseload to 14.4 million individuals, but projects the costs to increase to $139 billion ($39 billion General Fund).

The projected caseload decline is largely attributable to the end of the federal COVID emergency requirement to keep all enrollees on Medi-Cal through the length of the pandemic. It is estimated that 2 million current Medi-Cal enrollees will eventually be disenrolled once the federal emergency has ended (scheduled for mid-2023). The increase in costs is attributable to both the growing enrollment of undocumented individuals of all age cohorts, which are almost exclusively a state financial responsibility, and the implementation of CalAIM, the Medi-Cal delivery system reform initiative. In 2023-24, the General Fund cost for both these initiatives is nearly $5 billion, and will grow to nearly $10 billion by the end of the decade.

More Abortion Industry Support. Building off the $200 million General Fund for abortion industry support in the 2022 Budget Act, the Governor proposes to create another subsidy program starting in 2024-25. The program would provide $200 million in grants to abortion providers in order to offset service costs for the uninsured, update infrastructure, and provide the abortion clinic workforce with scholarships and loan repayments. The administration estimates that all but $15 million of this amount would be borne by the federal government as the state will pursue a federal waiver from U.S. Health and Human Services Secretary Xavier Becerra to permit federal dollars to be used. To get around the current federal law preventing federal funds to directly pay for abortions, the administration states that the grants will cover costs for all services provided at an abortion clinics other than abortions. Although the Governor proudly claims that California is an abortion “sanctuary,” he doesn’t seem to mind using taxpayer dollars from all Americans to fund his sanctuary.

Delays in Healthcare Workforce Development Incentives. The 2022 Budget Act included a plan for roughly $1.5 billion General Fund over five years for new healthcare workforce incentives such as scholarships, training programs, fellowships, residency slots, and retention stipends. Due to the projected budget deficit, $397.4 million of that amount will be delayed until fiscal years 2024-25 and 2025-26. This funding was appropriated to address the sizable healthcare workforce shortages in California, such as the estimated shortage of 2,200 psychiatrists, 4,100 primary care clinicians, 44,000 nurse practitioners, and 600,000 home care workers, as outlined by the California Future Healthcare Workforce Commission’s report. The delay in this funding is unfortunate if we are to make progress in closing these workforce gaps.

Cuts to the State Department of Public Health, Not the Counties. The Governor’s budget permanently cuts $26 million General Fund in 2023-24 for various public health workforce training and development incentives. The budget also cuts $25 million in research on health effects of climate change, but proposes to resume this funding in January 2024 if General Fund revenues improve. The counties are pleased that the proposed budget maintains the $300 million annual General Fund commitment to local public health agencies to expand their workforce and prepare for future health emergencies.

Reduced Spending on COVID-19 Response. With the reality that the battle against COVID-19 is now largely a responsibility of the overall health care system and not the public health emergency of 2020, the Governor’s 2023-24 budget reduces the direct COVID-19 response expenditures by $614 million (federal funds). Still though, the budget proposes $101 million in General Fund for the Department of Public Health to cover costs related to COVID-19 testing, vaccinations, and operations.

Increased Fentanyl Response Efforts. According to recent public health data, there were 6,843 opioid-related deaths in California in 2021, of which 5,722 were related to fentanyl usage. As a response, the Governor’s budget includes $32 million in opioid settlement funds to support an increase in naloxone distribution to first responders, law enforcement, community agencies, and county public health departments, in order to reverse opioid overdoses. The budget also includes $3.5 million in Proposition 98 General Fund to provide each middle and high school in the state with at least two doses of naloxone.

Further, the budget includes $7.5 million in opioid settlement funds to support eight one-time competitive grants for innovative approaches to make fentanyl test strips and naloxone more widely available. Grant activities will include education programs in schools, increasing testing abilities for fentanyl, aiding overdose prevention and recovery programs, and increasing social services and substance use recovery services to those addicted to fentanyl or other opioids.

Taps Covered California Slush Fund to Help Deficit. In the 2021 Budget Act, the Democrats hid $333 million in General Fund generated by the healthcare insurance mandate tax in a newly created special fund at Covered California in order to keep that sum "ready" for health care insurance subsidy supports in future budgets. In the 2022 Budget Act, this money went untapped, much to the chagrin of health advocates. Now with budget deficits on the horizon, the Governor is breaking his promise to use the funding for healthcare insurance subsidies, and would instead swipe the money for other budget priorities.

Mental Health

Key Points

- **Not Meeting the Demand for Mental Health Beds.** Despite our mentally ill homeless crisis, the Governor removes $480 million for mental health bed capacity expansion.
- **Delays Funding for Behavioral Health Shelters for Mentally Ill Homeless**. Delays $250 million General Fund for behavioral-health focused shorter-term shelters for seriously mentally ill homeless individuals.
- **Insufficient Funding for CARE Court Treatment**. Ignores the real cost of soon-to-be operational CARE Court treatment plans.
- **California to Finally Seek Federal Funding for Locked Psychiatric Facilities.** For the first time, the state will seek federal funding for short-term inpatient psychiatric and residential mental health treatment in facilities.

Governor Shortchanges County Mental Health Bed Need. The Governor's budget delays $480 million in General Fund originally scheduled in the 2022 Budget Act for county behavioral health departments and non-profit community partners to construct, acquire, or rehabilitate properties in order to increase mental health treatment bed capacity. The new timeline would now allocate $240 million of those funds in 2024-25 and another $240 million in 2025-26. Given the recent federal data showing an increase in California's seriously mentally ill homeless population, this funding should be a priority for protection.

An increase in mental health treatment capacity was the key component of a budget request letter that legislative Republicans sent to Governor Newsom in early 2022. The request called for the use of $10 billion of the then-projected surplus to permanently end the psychiatric treatment bed deficit in California. According to a 2022 study conducted by the RAND Corporation, California has a deficit of 4,767 acute and subacute inpatient psychiatric treatment beds. If lower acuity treatment beds in community residential facilities are counted, the estimated deficit is 7,730.

The 2022 Budget Act included just $1.7 billion for county mental health facility construction and expansion. Even that amount was insufficient to meet the demand by the counties. Now $480 million of that will be put on hold at a time when the situation on California's streets has become untenable and when numerous new state behavioral health initiatives such as CARE Court and juvenile justice realignment are required of the counties.

Also Delays Short-Term Shelter for Mentally Ill Homeless. In another odd move, the Governor proposes to delay $250 million General Fund for behavioral-health focused short-term shelters for seriously mentally ill homeless individuals. This funding provides grants to counties to cover the rehabilitation and/or construction of tiny homes or small multi-bed facilities in locations where wrap-around behavioral health treatment can be administered. The Governor's plan delays that funding until 2024-25. This delay will impede any ongoing local efforts to move individuals away from unhealthy, dangerous encampments.

Insufficient Funding for Community Assistance and Recovery Empowerment (CARE Court) Treatment. Also showcasing the Governor's misplaced priorities, the budget proposes just $17 million General Fund in 2023-24 for county behavioral health departments to implement CARE Court, with annual funding in future fiscal years limited to only $109 million. CARE Court, proposed by the Governor and approved overwhelmingly by the Legislature in 2022, provides the public with another legal mechanism to get those dealing with untreated mental health issues into care. Seven counties will begin the program in the fall of 2023 with the remaining counties beginning in 2024. For CARE court to be successful, counties must have the resources from the state to actually provide treatment. The dollar amounts in the Governor's budget barely cover any start-up costs. The counties are fully aware of this slight and issued this statement upon release of the budget, "California's counties also look forward to rightsizing the funding for county responsibilities under the CARE Act."

California to Finally Seek Federal Funding for Locked Psychiatric Facilities. After the Trump administration opened this opportunity up to states five years ago, the Department of Health Care Services (DHCS) will finally seek approval of a federal waiver to expand crisis recovery, inpatient, and residential services for the seriously mentally ill, including those who are homeless or are at risk of homelessness. If approved by the federal government, the state would secure federal funding for short-term inpatient psychiatric and residential mental health treatment in facilities that meet the federal criteria for an institution for mental disease (IMD). Prior to 2018, the federal government would not pay for care in an IMD, but the Trump administration changed that rule, allowing states to expand care for seriously mentally ill individuals in locked psychiatric facilities. If successful, this waiver could result in a dramatic decrease of seriously mentally ill homeless on our streets.

Department of State Hospitals' Caseload Increases, but Still Not Enough Beds. The Department of State Hospitals (DSH) is responsible for the daily care and mental health treatment of nearly 8,000 patients in five main hospital campuses and in dozens of contracted facilities throughout the state. Over the last decade, the population demographic has shifted from primarily civil court commitments to a forensic population committed through the criminal court system. While the proposed 2023-24 budget estimates that caseload will increase to 9,289 patients at a cost of $3.2 billion ($3 billion General Fund), the department estimates that 1,877 individuals are currently on a waitlist for a DSH treatment bed. The department is actively pursuing contracts for more bed space, a consequence of years of inadequate Democrat attention to this growing problem.

Continued Phase-In of Incompetent to Stand Trial Waitlist Solutions. The Governor's budget maintains the planned $482 million General Fund in 2023-24 to reduce the competency restoration services waitlist of mentally ill individuals charged with a felony but deemed incompetent to stand trial. The state is currently under a court order to reduce the wait time for restoration of competency services to just 28 days. Without restoration of competency these individuals do not have the wherewithal to stand in defense in a court of law. The administration claims that funding will establish 5,000 new beds over the next four years and will completely erase the current waitlist of 1,473 individuals over that period.

Human Services and Child Care

Key Points

- **IHSS Undocumented Immigrant Expansion.** Provides $857 million General Fund for the In-Home Supportive Services (IHSS) portion of the expansion of full-scope Medi-Cal to undocumented immigrants aged 50 and over.
- **Child Care Slot Expansion Delay.** Delays the implementation of 20,000 child care slots from 2023-24 to 2024-25.
- **Additional CalWORKs Grant Increase.** Provides $87 million for an additional 2.9 percent increase to CalWORKs Maximum Aid Payment levels.
- **EBT Theft Prevention.** Includes $50 million ($17 million General Fund) to improve electronic benefit transfer (EBT) card security and reduce benefit theft.
- **Increased Benefits for Needy Californians.** Provides funding for an increase of 8.6 percent or $146 million General Fund for State Supplementary Payment (SSP) recipient cash assistance payments beginning in 2023-24.
- **End of Major Supplemental Federal Food Benefits.** As the pandemic comes to an end, the budget assumes a decrease in federal food benefits of $10 billion.
- **Delayed Expansion of Food Assistance for Undocumented Persons.** The budget delays the expansion of food assistance for undocumented immigrants age 55 and older from January 2025 to January 2027.

Department of Social Services

The total 2023-24 budget for the Department of Social Services (DSS) is projected to be $44 billion ($18 billion General Fund). While the total DSS budget is projected to decrease by about $2.7 billion compared to the 2022-23 budget, the General Fund costs are projected to be about $800 million more in 2023-24.

Child Care and Development

The 2023-24 budget provides $6.6 billion ($2.7 billion General Fund) for child care programs administered by DSS, including CalWORKs Stages One, Two, and Three, Alternative Payment Programs, Migrant Child Care, General Child Care, Child Care for Children with Disabilities, the Emergency Child Care Bridge Program, and local supports for the programs.

Child Care Transition, Expansion and Rates History. The Budget Act of 2020-21 transferred Child Care and Development from the California Department of Education (CDE) to the Department of Social Services (DSS) effective July 2021. Consolidating early childhood programs into one department aims to help families more easily enroll in and move across programs, increasing access to the variety of services that support children and families. In addition to the department transition, there have been significant investments in recent budget cycles to increase child care slots and rates:

- The 2021-22 budget included $735 million in state and federal funding sources to add 110,000 new child care slots, with the ultimate goal of 200,000 new slots by 2025-26.

- The 2022-23 budget provided $1.3 billion to annualize the 110,000 slots added in the 2021-22 budget and to increase the slots to 146,000.
- In addition, the 2021-22 budget package provided $604 million across numerous fund sources to increase child care provider rates.
- The 2022-23 budget included $413 million to annualize child care funding rates from the 2021-22 budget.
- The 2022-23 budget also included $354 million ($34 million General Fund) for DSS to provide one-time flat rate stipends for each child enrolled in a subsidized child care program.

Child Care Slot Expansion Timing Delay. The 2021 Budget Act initiated adding an additional 200,000 child care slots by 2025-26, which was continued in the 2022 budget act. While the 2023-24 budget continues to support this goal, thousands of the newly available slots have yet to be filled. To allow more time to fully utilize these previous slot expansions, the 2023-24 budget delays the implementation of 20,000 new slots to 2024-25.

Child Care Cost-of-Living Adjustment (COLA). The 2023-24 budget includes $302 million General Fund for Child Care and Development programs and $1.5 million for the Child and Adult Care Food Program. This increase reflects an estimated 8.13 percent statutory COLA.

Child Care Providers United (CCPU). Recommendations for a single rate reimbursement structure were submitted to the Department of Finance on November 14, 2022 by a Joint Labor Management Committee (JLMC) consisting of the State and CCPU. The JLMC's recommendations are based on input from a stakeholder workgroup convened in the summer and fall of 2022 by DSS, in consultation with the California Department of Education. The JLMC was convened per the requirements of the AB 131 (2021), and the current memorandum of understanding between the state and CCPU, a union for child care providers authorized by the state in the 2021 budget package. The intent to develop a single rate structure is expressed in the budget and the state continues to negotiate a new agreement with CCPU, as the current agreement is set to expire June 30, 2023.

California Work Opportunity and Responsibility for Kids (CalWORKs)

CalWORKs Budget and Caseload. The budget proposes $7.4 billion overall in 2023-24 for CalWORKs program expenditures, and estimates an average monthly caseload of 360,000 families in 2023-24. This represents a 3.6 percent increase over the adjusted 2022-23 caseload of about 348,000.

CalWORKs Grant Increase. The 2023-24 budget includes a 2.9 percent increase to CalWORKs Maximum Aid Payment levels, estimated to cost $87 million in 2023-24, and is based on the projected available funding in the Child Poverty and Family Supplemental Support Subaccount. This subaccount consists of redirected 1991 Realignment general growth funds and was created by the Health and Human Services trailer bill, AB 85 (2013). To the extent that growth funds are insufficient in future years to support the additional grant costs, the General Fund would provide funds necessary to cover the shortfall.

This new increase is in addition to $296 million included in the 2022-23 budget, an 11 percent statutory increase in CalWORKs maximum aid payment levels, and $816 million in one-time spending provided over the next three fiscal years, which temporarily increases CalWORKs grants by an additional 10 percent through September 2024. The combined funding in the 2022-23 budget provided a total increase of 21 percent in CalWORKs grants that began in October 2022. The proposed increase in the 2023-24 budget will be funded entirely by the Child Poverty and Family Supplemental Support

Subaccount and will bring the non-exempt Maximum Aid Payment (MAP) to $1,163 per month for an assistance unit of three living in a high-cost county or 61 percent of the 2022 Federal Poverty Level.

In-Home Supportive Services (IHSS)

Enrollment and Cost Growth in IHSS. The budget includes $21 billion ($7.8 billion General Fund) in 2023-24 for the IHSS program, and reflects a $2 billion ($1.9 billion General Fund) increase compared to the 2022-23 revised budget. A few major reasons for the substantial increase in costs are the expansion of full-scope Medi-Cal to undocumented immigrants 50 and over, caseload growth, and minimum wage/cost per hour increases. Estimates put the average monthly caseload at 642,000 in 2023-24, representing a 4.3 percent increase over 2022-23. The 2022-23 projected provider cost per hour is $18.62, increasing to $19.12 per hour in 2023-24.

Phase-In of Undocumented Immigrants. The budget provides $103 million General Fund in 2022-23 and $857 million General Fund in 2023-24 for the full-scope Medi-Cal expansion to undocumented immigrants 50 and over. While the expansion became effective in May 2022, DSS assumed no costs to IHSS until the 2022-23 fiscal year due to the average time it takes Medi-Cal recipients to enroll in IHSS. The department assumes a significant increase in costs in 2023-24 as these enrollment increases materialize.

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

Caseload Decrease. The budget includes $3.5 billion General Fund in 2023-24 for the SSI/SSP program. The estimated caseload for the SSI/SSP program is 1.1 million recipients, which is a 1.9 percent decrease from the revised 2022-23 estimates. Effective January 2023, an 8.7 percent federal SSI COLA and 10.3 percent SSP increase took effect, increasing the maximum SSI/SSP grant levels to $1,134 per month for individuals and $1,928 per month for couples.

SSP Increase. The budget assumes an additional SSP increase of 8.6 percent, totaling approximately $146 million General Fund in 2023-24 and $292 million ongoing. This increase continues the trajectory towards restoring SSP monthly grant payments to amounts not seen since before the Great Recession.

Child Welfare Services (CWS)

The budget includes $885 million General Fund in 2023-24 for CWS programs to provide services to children and families. Including federal and realignment funds, the total funding for CWS programs is more than $9.2 billion. Child Welfare Services encompass child protective services, foster care services, adoptions, and maltreatment prevention services.

CalBH-CBC Demonstration Waiver. The budget includes $15 million ($11 million General Fund) in 2023-24 and ongoing through the duration of the California Behavioral Health Community-Based Continuum (CalBH-CBC) Demonstration Waiver. This funding is to support the additional workload for county child welfare agencies implementing the waiver. Included in the proposal is funding for Child and Family Teams for family maintenance cases, joint home visits with mental health providers, and new activity stipends for extracurricular activities. The CalBH-CBC is an effort led by DSS and the Department of Health Care Services to create a long-term plan for how children and youth involved in the CWS and Foster Care systems receive health care services.

Food Assistance Programs

End of Additional Federal COVID Funds. It should be noted that Federal benefits are expected to be approximately $19 billion in 2022-23 and $9 billion in 2023-24. This decrease of $10 billion in federal funds is primarily due to the end of emergency allotments, Pandemic Electronic Benefit Transfer (P-EBT), and CalFresh Temporary Student Eligibility Expansion (college students). The P-EBT program was created to ensure that families received benefits to replace meals lost due to school and child care closures.

Delay in California Food Assistance Program (CFAP) Expansion. The budget adjusts the timing of the CFAP expansion to undocumented immigrants 55 and older from January 2025 to January 2027. This is due to the necessary completion of the migration of the California Statewide Automated Welfare System (CalSAWS), which is estimated to be complete in July of 2024 instead of late 2022-23.

EBT Benefit Theft Reimbursement and Prevention. The budget includes $50 million ($17 million General Fund) in 2023-24, $23 million ($7.9 million General Fund) in 2024-25, and $3.5 million ($1.2 million General Fund) in 2025-26 to improve EBT card security and reduce benefit theft by upgrading EBT cards to include Chip/Tap technologies. Benefit theft began growing in October of 2021 and has risen to a projected 1.7 percent of EBT benefits distributed in 2022-23, up from less than one percent in 2019-20. The budget also provides $122 million General Fund for the reimbursement of benefit theft. In addition to the EBT card upgrades, DSS has been collaborating with federal, state, and local law enforcement to investigate benefits theft and has implemented mitigation strategies. The full implementation of the mitigation strategies and EBT card upgrades are anticipated to be completed in 2025-26.

Department of Child Support Services

The budget includes $1.2 billion ($379 million General Fund) for the Department of Child Support Services (DCSS), which seeks to enhance the well-being of children by promoting parental responsibility through collection of child support and establishing parentage. The 2023-24 budget estimates total distributed child support collections and revenues to be $2.6 billion ($75 million General Fund).

Child Support Pass-Through Implementation. DCSS estimates, beginning in July 2023, that annual child support recoupment revenues will decrease by $187 million ($104 million General Fund) due to the implementation of the pass-through of arrears collections to former recipients of CalWORKs aid. The full pass-through of child support payments to formerly assisted cases was implemented by trailer bill AB 207 (2022). Federal law requires that a family receiving assistance through the Temporary Assistance for Needy Families (TANF) Program, which funds CalWORKs, must assign their rights to child support payments to the state. These child support payments are used to reimburse the state for any CalWORKs funds expended. States are permitted to waive their recoupment for both currently assisted and formerly assisted cases, but the federal government will only waive their share for formerly assisted cases. The 2023-24 budget notes that full pass-through to currently assisted cases is subject to a determination in the spring of 2024 that the multi-year revenue impact forecast can be supported by the General Fund.

Department of Aging

Delayed Funding for Older Californians Act Modernization Pilot Program. The Governor's budget delays $71.8 million General Fund that is to be used at the Department of Aging for pilot programs supporting community-based service programs, senior nutritional support, family and caregiver supports, senior volunteer development, and aging in place programs. This funding is to be delayed until 2025-26 and 2026-27.

Developmental Services

Key Points

- **Continues Rollout of Rate Increases for Disabled Service Providers.** The budget continues the much needed service provider rate reform, which will be fully implemented by 2024-25.
- **Creation of an Autism Services Branch.** With the caseload of children with autism spectrum disorder on the rise, the budget adds research resources to improve services tailored to this population.
- **Preschool Inclusion Grants Delay.** The budget delays, for two years, support funding for preschools to adapt their facilities for toddlers with intellectual or developmental disabilities.

Services for More Consumers. The Governor's budget proposes that the overall 2023-24 budget of the Department of Developmental Services (DDS) will be $14billion total funds, of which $8.6 billion is General Fund. The number of individuals served by regional centers is expected to reach 400,485 in 2022-23 and then increase to 420,927 in 2023-24. In addition, 312 individuals are projected to be served in state-operated facilities as of July 1, 2023.

Continues Necessary Provider Rate Increase. The Governor's budget includes $1.2 billion in 2023-24 to continue implementing service provider rate reforms and increases. This is the third year of a multi-year roll-out that the administration projects to be fully implemented by 2024-25. Senate Republicans have long advocated for improving rates for community services, but Democrats delayed the inclusion these funds for years, choosing to create new programs in other areas of the budget instead. Senate Republicans agree that these crucial provider rate increases should remain on schedule in order to improve service to families with developmentally disabled individuals.

Complex Needs Services Expansion. The proposed budget includes $29 million ($22 million General Fund) to add more safety net services to support individuals with complex needs. This includes the development of a residential program for adolescents and adults with high-intensity, co-occurring developmental disabilities and mental health diagnoses. The annual cost of this proposal would be $11 million General Fund.

Trauma-Informed Services for Foster Youth. The Governor's budget includes $1.6 million ($1.1 million General Fund) to expand supports for foster youth who are eligible for regional center services. The funding would also add 15 positions to coordinate trauma-informed care for dually-served youth in foster care.

Creation of an Autism Services Branch. With DDS currently serving roughly 120,000 children and young adults with diagnosed autism spectrum disorder, and with caseload of this population projected to grow by thousands more in the next ten years, the budget proposes the creation of an Autism Services Branch within DDS. The new branch would monitor trends in diagnoses and conduct research on addressing particular needs throughout the autism spectrum. The branch would employ six staff at an annual cost of $1 million ($826,000 General Fund).

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

Minimum Wage Adjustment. The budget includes $78 million ($46 million General Fund) to cover the costs of the projected minimum wage increase scheduled for January 1, 2024. This increase is the result of SB 3 (Leno, 2016) that required all employers, including public employers, to raise the minimum wage annually.

Extension of Beds at Porterville Developmental Center. The Governor's budget adds $4.9 million in one-time General Fund to support a one-year extension of funding for 10 beds for individuals deemed incompetent to stand trial (IST) in need of evaluation for underlying developmental disabilities. The state is under a court order to reduce the wait time for IST services to just 28 days and is in need of bed space wherever it is available. Currently 1,473 individuals are on the waitlist.

Continues Warm Shutdown of Fairview Developmental Center. The budget proposes an extension of the warm shutdown funding for Fairview Developmental Center in Costa Mesa at a cost of $12 million General Fund to maintain 52 staff. The last resident moved out of Fairview in January 2020, but the administration is choosing to maintain the warm shutdown status for potential needs like homeless shelter if necessary. The use of this much money in a deficit year to maintain empty facilities, especially when tens of thousands currently live on the streets, should be a concern to the public.

K-12 Education

Key Points

- **Proposition 98.** Proposition 98 funding would reach nearly $109 billion for K-14, a $1.8 billion increase over the revised 2022-23 budget.
- **Local Control Funding Formula.** The budget provides a $4.2 billion increase in the Local Control Funding Formula (LCFF), reflecting an 8.13 percent a cost-of-living-adjustment (COLA).
- **Net Reduction for Arts and Music.** Provides $941 million to implement Proposition 28's new arts and music education program, but then cuts $1.2 billion Proposition 98 General Fund from the Arts, Music, and Instructional Materials Discretionary Block Grant, for a net decrease in arts and music funding
- **Universal Transitional Kindergarten.** Proposes $690 million General Fund to expand eligibility for transitional kindergarten (TK). These funds will increase the Proposition 98 Guarantee through the process of rebenching.
- **Literacy Investments.** Provides an additional $250 million one-time Proposition 98 General Fund to build upon the existing Literacy Coaches and Reading Specialists Grant Program.
- **Delayed FDK Program Investment.** Delays a $550 million General Fund expenditure for the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program (FDK Program).
- **Overdose Drugs On Campus.** Proposes an increase of $3.5 million ongoing Proposition 98 General Fund for all middle and high schools to have at least two doses of opioid overdose medication for emergency aid on campus.

Proposition 98. The Governor's budget estimates the Proposition 98 minimum guarantee at $96 billion for K-12 programs. This includes a year-to-year increase of $2.3 billion in Proposition 98 funding for K-12 education, compared to the revised Proposition 98 K-12 funding level for 2022-23. Under this proposal, ongoing K-12 Proposition 98 per pupil expenditures increase to $17,519 in 2023-24, an estimated 3.3 percent increase from 2022-23, and $23,723 per pupil when accounting for all funds. Proposition 98 funding for K-12 schools and community colleges combined is nearly $109 billion, an increase of about $1.8 billion or 1.7 percent relative to the 2022-23 revised budget of $107 billion. Also, when compared to the 2021-22 revised budget of approximately $110 billion, there is a decrease of over 1 billion or 1.4 percent. See figure on next page.

Proposition 98 Rainy Day Fund. The budget estimates an $8.5 billion balance in the Public School System Stabilization Account (PSSSA). This reflects deposits of $3.7 billion, $1.1 billion, and $365 million in 2021-22, 2022-23, and 2023-24 respectively.

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 $8.1 billion in 2022-23 triggers school district reserve caps beginning in 2023-24. Senate Republicans have raised concerns about these district-level caps ever since unions in Sacramento proposed them. The caps reduce local control and force schools to spend more, irrespective of local conditions or concerns

Proposition 98 Funding by Segment and Source *(Dollars in Millions Except Funding Per Student)*					
	2021-22 Revised	2022-23 Revised	2023-24 Proposed	Change From 2022-23	
				Amount	Percent
K-12 Education					
General Fund[a]	$71,130	$69,294	$70,489 [b]	$1,195	1.7%
Local property tax	23,273	24,241	25,393	1,151	4.7%
Subtotals	**$94,403**	**$93,535**	**$95,881**	**$2,346**	**2.5%**
California Community Colleges					
General Fund	$8,790	$8,713	$8,758	$45	0.5%
Local property tax	3,512	3,648	3,811	164	4.5%
Subtotals	**$12,301**	**$12,360**	**$12,569**	**$209**	**1.7%**
Reserve Deposit/Withdrawal (+/-)[c]	$3,710	$1,096	$365	-$730	-66.7%
Totals	**$110,415**	**$106,991**	**$108,816**	**$1,825**	**1.7%**
Enrollment					
K-12 attendance	5,348,132	5,512,717	5,468,175	-44,542	-0.8%
Community college FTE students	1,107,128	1,106,951	1,106,451	-500	0.0%
Funding Per Student					
K-12 Education	$17,652	$16,967	$17,534	$567	3.3%
California Community Colleges	11,111	11,166	11,360	194	1.7%

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

[b] Excludes $941 million supplemental payment associated w ith Proposition 28 (2022).

[c] 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 8.13 percent for the LCFF that, when combined with growth adjustments, will result in $4.2 billion in additional discretionary funds for schools. This is an increase of almost 1.6 percent from the COLA adjustment in the 2022 Budget Act, which was already the largest COLA adjustment in the history of LCFF. In order to fully fund this increase and maintain current apportionments, the budget provides $613 million in one-time resources in 2022-23 and $1.4 billion in 2023-24. This brings the total LCFF funding to approximately $80 billion.

The budget also provides $300 million ongoing Proposition 98 General Fund to establish an "equity multiplier" as an add-on to the LCFF. The funds are intended to help close opportunity gaps and accelerate learning gains by targeting the most high-need schools in the state using a more targeted methodology. An example of an achievement gap these funds will target is standards in mathematics. While 33.4 percent of students in 2021-22 met or exceeded mathematics standards, only 10.3 percent of youth in foster care met or exceeded the standard.

Universal Transitional Kindergarten. The budget provides $690 million to support the second year of the Universal Transitional Kindergarten (TK) expansion. This expansion will provide access to all children turning five-years-old between September 2 and April 2, approximately an additional 46,000 TK students in the budget year. The budget also proposes $165 million General Fund to support an additional certificated or classified staff person in each TK classroom. The additional spending on TK continues the 2021 Budget Act's intent to expand TK over four years, with the goal of having all four-year olds eligible for the program beginning in 2025-26. It should be noted that California is already facing a teacher shortage, and schools may experience more difficulty in staffing these expanded requirements.

California State Preschool Program. The budget includes $65 million Proposition 98 General Fund and $52 million non-98 General Fund to continue the multi-year plan to increase inclusivity adjustments for the State Preschool Program. The 2022-23 budget included $313 Proposition 98 General Fund and $172 million non-98 General Fund to pay for new requirements that California State Preschool Programs serve at least 10 percent students with disabilities, as well as provide additional supportive services for dual language learners by July 1, 2024. The expenditures in the 2023-24 budget will be the second year of the three-year ramp-up process, and students with disabilities will be required to make up at least 7.5 percent of the State Preschool Program providers' enrollment.

The budget also includes $153 million General Fund to support reimbursement rate increases previously covered by one-time federal stimulus funding. This is in addition to $63 million General Fund and $112 million Proposition 98 General Fund to support a 8.13 percent statutory COLA.

FDK Program Delay. The 2022-23 budget included $100 million one-time General Fund and proposed an additional $550 million in 2023-24 to support the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program (FDK Program). This budget delays the 2023-24 investment to 2024-25. The FDK program provides funding to retrofit existing school facilities or construct new facilities for transitional kindergarten, preschool classrooms, and full-day kindergarten.

Literacy Investments. The budget provides an additional $250 million one-time Proposition 98 General Fund to build upon the existing Literacy Coaches and Reading Specialists Grant Program, which funds high-poverty schools to train and hire literacy coaches and reading specialists for one-on-one and small group intervention for struggling readers. The budget also includes $1 million one-time General Fund to create a Literacy Roadmap to help educators better utilize available literacy resources.

Arts Education and Proposition 28 Implementation. The budget includes $941 million to implement the newly approved Proposition 28, which creates an ongoing program to fund arts and music education beginning in 2023-24. The proposition allocates one percent of the Proposition 98 Guarantee to schools for these education programs. However, the Governor's budget simultaneously would cut $1.2 billion in Proposition 98 General Fund spending from the Arts, Music, and Instructional Materials Discretionary Block Grant included in the 2022 Budget Act. This decreases the one-time block grant allocation from $3.5 billion to $2.3 billion Proposition 98 General Fund. These two actions combined leave schools with a net reduction in arts and music education funding.

Proposition 28 requires at least 80 percent of the funding to be used to hire staff unless the school district or charter school has fewer than 500 students. The remaining 20 percent can be used for training, supplies and materials, and for arts educational partnership programs. The measure allows the California Department of Education to approve requests from schools to spend less on staff, and schools have three years to spend the funds they receive each year. Any unspent funds would be reallocated to all schools in the following year.

The budget also includes $100 million one-time Proposition 98 General Fund for local education agencies to provide high school seniors with cultural enrichment experiences such as access to theatrical performances, museum visits, and other extracurricular art enrichment activities. The funding works out to roughly $200 per 12th grade student enrolled at a California public school.

Special Education. The budget does not provide any new fiscal investments in special education, but proposes a number of programmatic changes to further recent reform efforts. These proposals include:

- Changes the amount of additional funding Special Education Local Plan Areas (SELPAs) are allowed to retain for non-direct student services before allocating special education base funding to their member local educational agencies.
- Extends the moratorium on the creation of new single-district SELPAs by two years from June 30, 2024 to June 30, 2026.
- Requires CDE to post each SELPA's annual local plan, including their governance, budget, and services plans on the department's website to increase fiscal transparency.

Educator Workforce. The budget does not include any new investments in educator workforce development but reiterates the commitment to the multi-year investments included in the 2021 and 2022 budget acts. Some of the key multi-year investments, that total almost $3 billion, include:

- $1.5 billion "one-time" Proposition 98 General Fund over five years to provide local educational agencies with training resources for classified, certificated, paraprofessional, and administrative school staff in specified high-need topics, such as accelerated learning, re-engaging students, restorative practices, and implicit bias training through the Educator Effectiveness Block Grant. These funds were fully allocated in the 2021-22 school year and are available for expenditure until June 30, 2026.
- $600 million "one-time" Proposition 98 General Fund over five years to establish new school counselor residency programs or to add them to existing teacher residency programs. These funds are available for expenditure until the 2025-26 fiscal year.
- $500 million "one-time" General Fund over five years for the Golden State Teacher Grant Program. This program supports teacher credential candidates who have committed to teach at priority schools in a high-need subject matter area for four years. These funds are available for expenditure until 2025-26.

Additional K-12 Budget Adjustments:

- **Cost-of-Living Adjustments.** The budget provides a number of COLA adjustments including $669 million ongoing Proposition 98 General Fund to reflect a 8.13 percent COLA for programs that remain outside of the LCFF such as Special Education, State Preschool, Youth in Foster Care, Child Nutrition, Charter School Facilities Grant Program, and others. Also included is $52 million ongoing Proposition 98 General Fund to reflect the 8.13 percent COLA and average daily attendance changes applicable to the LCFF for county offices of education.

- **Opioid Overdose Drugs in the Classroom.** The budget proposes an increase of $3.5 million ongoing Proposition 98 General Fund for all middle and high schools to have at least two doses of naloxone hydrochloride or other opioid overdose medication for emergency aid on campus. While potentially lifesaving, this proposal illustrates the state's failure to properly get ahead of an alarming epidemic that is now impacting students.

- **Local Property Tax Adjustments.** The budget includes a decrease of $153 million Proposition 98 General Fund for school districts and county offices of education in 2022-23 and a $1.3 billion decrease of ongoing Proposition 98 General Fund in 2023-24 as a result of increased offsetting property taxes.

- **High Speed Network.** Provides an increase of $3.8 million ongoing Proposition 98 General Fund to support the K-12 High Speed Network program. This program seeks to provide high-speed, high-bandwidth internet connectivity for the California public school system.

- **Facilities.** Decreases $100 million General Fund in the planned support for the School Facility Program, bumping the allocation to $2.0 billion from $2.1 billion. Maintains a one-time investment of $30 million Proposition 98 General Fund for the Charter School Facility Grant Program.

- **Commercial Dishwasher Grants.** The budget also sets aside $15 million of the $600 million one-time Proposition 98 General Fund appropriated for school kitchen infrastructure related investments in the 2022 budget act for local education agencies to purchase and install commercial dishwashers.

Higher Education

Key Points

- **Total Higher Education Funding Decreases.** Proposes total funding of $39 billion for universities, community colleges, and financial aid, a drop of $856 million.
- **Multiyear Compacts Maintained.** Includes the second year of the multi-year compacts with the University of California (UC) and the California State University (CSU) and a multi-year roadmap with the California Community Colleges (CCCs).
- **Continues Financial Aid but Delays Some Facilities Projects.** Maintains $9.4 billion in financial aid, but delays hundreds of millions in capital outlay spending.
- **Transitioning Back from Cash to Issuing Bonds.** Shifts $405 million appropriated for cash support of various capital projects on CSU campuses back to CSU-issued bonds, thus increasing borrowing.

Funding for Higher Education. Overall funding for higher education decreased by $856 million from prior year levels, primarily due to the expiration of one-time funds from 2022-23, as shown in the figure below.

Higher Education Expenditures
(Dollars in Millions)

	2021-22[3]	2022-23	2023-24	Change from 2022-23 Dollars	Change from 2022-23 Percent
University of California					
Total Funds [1/]	$10,418.6	$10,455.7	$10,352.9	-$102.7	-1.0%
Ongoing General Fund	4,010.8	4,373.6	4,629.7	$256.0	5.9%
One-Time General Fund	1,131.0	653.9	100.9	-	-
California State University					
Total Funds [1/]	$9,186.9	$8,523.4	$8,476.8	-$46.6	-0.5%
Ongoing General Fund	4,606.1	5,049.8	5,341.0	$291.2	5.8%
One-Time General Fund	1,267.5	347.7	10.0	-	-
California Community Colleges					
Total Funds	$17,481.9	$17,962.7	$17,431.6	-$531.1	-3.0%
General Fund & Property Taxes	12,927.6	13,554.8	13,668.7	$113.9	0.8%
California Student Aid Commission					
Total Funds	$2,750.3	$3,411.5	$3,235.8	-$175.7	-5.2%
General Fund [2/]	2,328.1	2,990.9	2,815.2	-$175.7	-5.9%
Total Funds	**$39,837.7**	**$40,353.3**	**$39,497.2**	**-$856.2**	**-2.1%**
General Fund	**$26,271.1**	**$26,970.7**	**$26,565.5**	**-$405.2**	**-1.5%**

[1/] These totals include tuition and fee revenues and other funds the universities report as discretionary.

[2/] 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.

[3/] 2021-22 Total Funds may include federal American Rescue Plan Act of 2021 funding provided directly to colleges and universities.

Source: Department of Finance

Multiyear Compacts Tied to Base Growth and Expectations. The Governor's budget maintains the multi-year compacts with the UC, CSU, and the CCC. The compacts include 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.

College Affordability. The 2023-24 budget proposal most previously planned spending related to college affordability, including supporting student housing, middle-class scholarships, additional funding toward child savings accounts, funds to develop "zero textbook costs" degrees, and additional funds supporting basic student needs and emergency financial aid.

The Governor's budget proposes $9.4 billion to assist with the skyrocketing cost of higher education. Specific proposals include:

- $4 billion in student housing
- $2.3 billion ongoing financial aid (CalGrants)
- $1.9 billion child college savings accounts
- $859 million in middle-class scholarships
- $293 million in college corps
- $115 million in zero-cost textbooks

California Community Colleges. The community college budget reflects the Governor’s attempts to funnel community college students into either the workforce or the CSUs and UCs:

- An increase of $653 million ongoing Proposition 98 General Fund to provide an 8.13 percent cost-of-living adjustment (COLA) for Student-Centered Funding Formula apportionments and $298 million ongoing Proposition 98 General Fund for 0.5 percent enrollment growth.
- An increase of $93 million ongoing Proposition 98 General Fund to provide an 8.13 percent COLA for select categorical programs and the Adult Education Program.
- An increase of $200 million one-time Proposition 98 General Fund for efforts to increase student retention rates and enrollment. Notably, enrollment in community colleges has decreased by 16 percent since the start of the pandemic.
- An increase of $14 million one-time Proposition 98 General Fund to support the administration of workforce training grants in collaboration with the California Department of Forestry and Fire Protection.
- A decrease of approximately $213 million one-time Proposition 98 General Fund for deferred maintenance needs.

The University of California. The Governor's Budget proposes an increase of $216 million in ongoing General Fund for operating costs, representing a five percent base increase in General Fund resources. This will also support one percent growth in undergraduate enrollment. However, the budget would delay some capital outlay projects. Notable adjustments include:

- $30 million ongoing General Fund to offset revenue reductions associated with replacing 902 nonresident undergraduate students enrolled at three campuses with an equivalent number of California resident undergraduate students in 2023-24.

- An increase of $4 million in ongoing General Funds to offset declining Proposition 56 revenue (tobacco taxes) for a statewide grant program and maintain $40 million in total ongoing for graduate medical residency slots.
- An increase of $6.5 million in ongoing General Funds to support the Medical School Project at UC Riverside.
- Delays a combined $200 million over two years for a UCLA immunology institute until 2024-25.
- Delays $83 million to support the UC Berkeley Clean Energy Campus project currently planned for the fiscal year 2023-24 to 2024-25.
- Delays $83 million to support campus expansion projects at UC Riverside and UC Merced presently scheduled for the fiscal year 2023-24 to 2024-25.

California State University. The Governor's budget includes an increase of $227 million in ongoing General Funds to support a five percent base increase as part of the second year of the multi-year compact agreement for CSUs. The budget proposes shifting the $405 million previously appropriated to pay cash for various capital projects on CSU campuses to funding through CSU-issued bonds. The budget includes a $27 million ongoing General Fund to support the underlying debt service on those bonds. It is important to note that the Governor described this as a “fund shift,” but more accurately, a shift to bonds is a form of borrowing.

California Student Aid Commission. The Governor's budget proposes total financial aid expenditures of $3.3 billion, of which $2.3 billion supports the Cal Grant Program and $859 million supports the Middle-Class Scholarship program. The state’s Cal Grant entitlement program is estimated to provide over 377,000 financial aid awards to students who meet specified eligibility criteria in 2023-24. Funding for Middle-Class Scholarships includes an increase of $277 million, as previously planned, that is intended to reduce overall costs of attendance. However, the budget also reflects delays in spending $100 million in Golden State Education and Training grant funds.

While improving college affordability is widely shared goal, more effort is needed by universities to actually reduce the costs of providing a college degree. Adding ever more financial aid, with no accountability for cost control, helps enable excessive inflation in tuition and other college costs.

Student Housing Grants and Loans Delayed. The budget would maintain $750 million for 2023-24 from a previous plan to provide grants for the CCCs, CSU, and UC to construct student housing or to acquire and renovate commercial properties into student housing for low-income students. However, the budget would delay $250 million of the anticipated 2023-24 support for affordable student housing projects to the 2024-25 fiscal year.

In addition, previous plans called for $1.8 billion over 2023-24 and 2024-25 for a student housing loan fund. The Governor’s budget would delay the entire $900 million planned for 2023-24 for two years and would delay $250 million from 2024-25 for one year.

College of the Law, San Francisco (Formerly UC Hastings). The Governor’s budget includes an increase of $2.2 million in ongoing General Funds to support operating costs, representing a 3 percent increase in base augmentation. In addition, $3 million would be made available over three years to continue supporting a campus safety program that employs formerly incarcerated individuals and/or those who have experienced homelessness.

California State Library. The Governor's budget includes multiple investments that support the California State Library, including $100 million to help local library infrastructure projects.

California Kids Investment and Development Savings Program (CALKIDS). An increase of $1 million one-time General Fund to support marketing efforts to increase participation in the CalKIDS child savings accounts program. The budget would also increase incentive payments from $25 to $100, apparently using savings from the program.

Business, Labor, and Workforce Development

Key Points

- **Pulls Back Promised Relief for Job Creators and Small Businesses**. Proposes deletion of $750 million, promised in last year's budget, to help pay down the Unemployment Insurance (UI) debt, and withdraws the commitment of $500 million in 2024-25 for small businesses to offset rising federal UI tax rates.
- **Reductions to Apprenticeship, Workforce Development, and Training Program.** Proposes decreases to various programs totaling $130 million. Also delays $397 million for various healthcare and workforce development initiatives within Department of Health Care Access and Information.
- **Employment Development Department (EDD) Modernization.** Includes $198 million in funding for EDD IT systems, improved service for claimants, and fraud prevention. This funding continues a five-year modernization plan initially funded in 2022-23.

Pulls Back Promised Relief for Job Creators and Small Businesses. The 2022-23 budget appropriated a measly $250 million for payments towards the Unemployment Insurance (UI) Fund Loan, which has an astonishing balance of roughly $18 billion. The Governor also promised a modest principal payment of $750 million in 2023-24 to further pay down this debt, but the proposed budget now deletes the promised $750 million. Since employer taxes pay the principal on the debt, and state taxpayers pay the interest, elimination of this additional $750 million payment increases the principal paid by employers and increases the interest paid by all taxpayers.

Additionally, because of the outstanding UI loan from the federal government, UI taxes for all businesses increase in January 2023 by $21 per employee, and will continue to increase annually until the principal debt is paid. Last year's budget stated intent of the Legislature to appropriate $500 million in 2024-25 to provide relief for small businesses paying this increased tax. The Governor's proposal withdraws this commitment of funding as well.

While the promised funding was insufficient compared to the $18 billion debt, the deletion of this funding shifts even more of the burden back to employers, further decreasing money available to employers for investments and wages. Note that the January 2022 Governor's budget proposed paying down the UI debt by $3 billion over a two-year period, and a bipartisan group of legislators sought $7 billion from last year's surplus for the debt. The removal of even the modest amounts promised last year is very much a slap in the face to businesses who have struggled for years just to stay afloat during mandated COVID-19 shutdowns.

Continues Funding to Modernize the EDD. The budget proposes $198 million ($99 million General Fund) for the second year of EDDNext, a five-year plan to modernize the EDD. This includes efforts to modernize EDD's benefit systems, improve customer service delivery, simplify forms and notices, and develop data analysis tools to help curb fraud, and reform training and tools to speed up application processing.

Reductions to Apprenticeship, Workforce Development, and Training Program. The budget proposes decreases to various programs totaling $130 million, and would also delay $397 million for various healthcare and workforce development initiatives within Department of Health Care Access and Information. See table on next page for detailed reductions and delays. For additional information on health-related workforce development changes, please see the Health section.

Workforce Development Reductions and Delays ($ in millions)					
Department	**Program**	**2022 Budget Package**	**General Fund**	**Delayed Funding**	**Amount Remaining**
Department of Health Care Access and Information	Nursing Initiative	$220		$70	$220
	Community Health Workers	$281.4		$130	$281
	Social Work Initiative	$126		$51.9	$126
	Addiction Psych/Medicine Fellowships	$50		$48.5	$50
	University and College Grants for Behavioral Health Professionals	$52		$52	$52
	Expand MSW Slots at Public Universities and Colleges	$60		$30	$60
	Song-Brown Nurses	$50		$15	$50
Department of Public Health	Various Public Health Workforce Incentives	$65.6	$49.8		$15.8
Department of Industrial Relations	Apprenticeship Innovation Fund	$175	$40		$135
Employment Development Department	Emergency Medical Technician Training	$60	$20		$40
California Workforce Development Board	Community College Career Pathway Programs	$60	$20		$40
Total		**$1,200**	**$130**	**$397**	**$1,070**

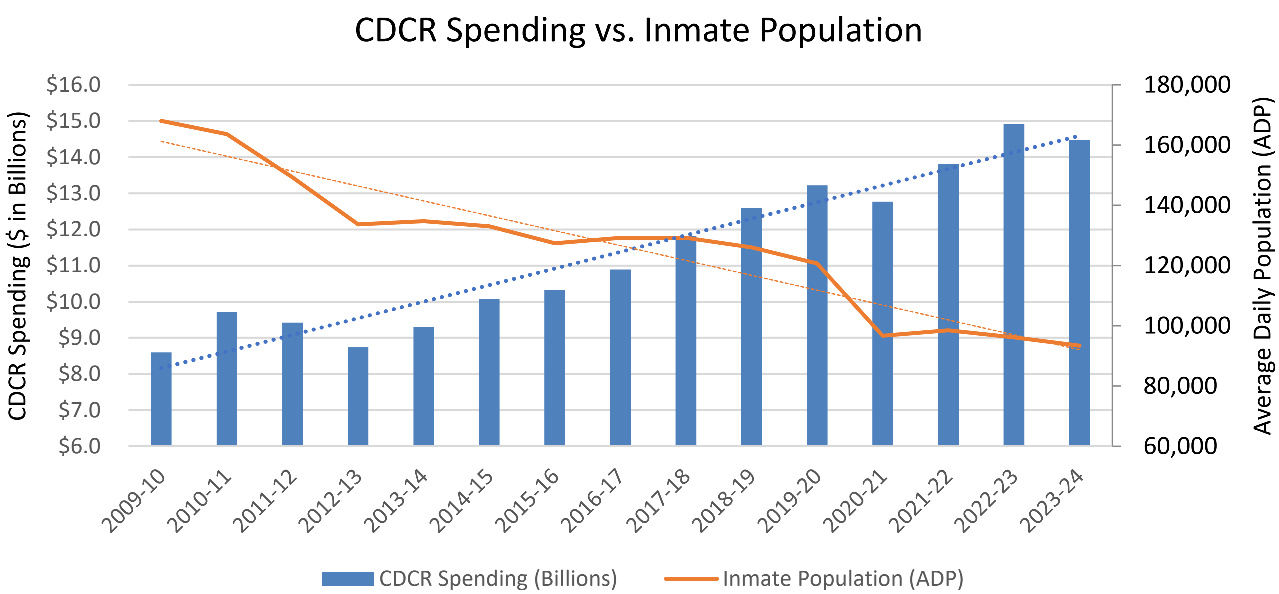
Public Safety and Judiciary

Key Points

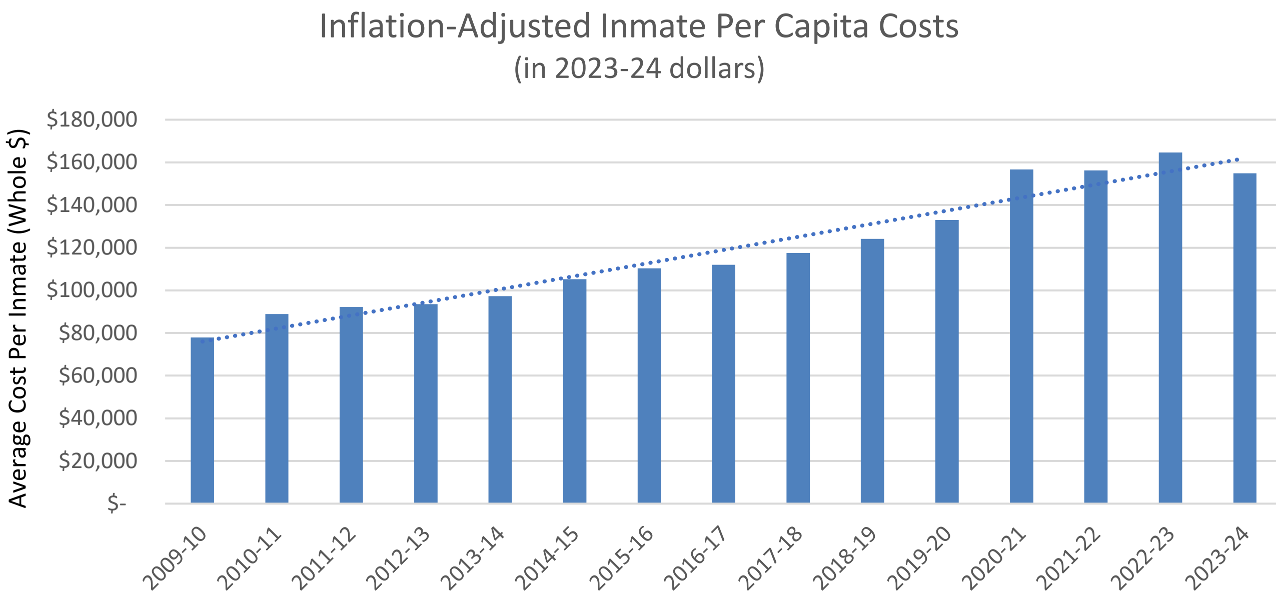
- **Additional Prison Closures May be Premature.** Prison population cap plus unknown long-term impacts of recent criminal justice policy changes signal need for discretion.
- **No Changes Proposed for Controversial Drug Treatment Program.** Amid rumors of rampant program abuse, funding for medication-assisted treatment of opioid addiction is at all-time high.
- **No New Enforcement Funding for Fentanyl Trafficking.** Despite bluster about combatting fentanyl crisis, Governor fails to propose new resources for state or local enforcement efforts.

Department of Corrections and Rehabilitation (CDCR)

The Governor's proposed 2023-24 budget includes total funding of $15 billion ($14 billion General Fund) for CDCR. This is an increase of $486 million over the 2022-23 budget at enactment, which can be accounted for almost entirely by increased employee compensation and benefit costs. Both the current administration and the prior one made repeated promises to reduce the amount the state spends on corrections, yet despite major reductions in the inmate population, those costs have grown virtually unabated since the last recession, as reflected in the chart below.



Even after adjusting for inflation, the average annual cost per inmate has doubled over the same time period, as shown in the next chart. Such an increase might be justified if the additional spending reduced recidivism commensurately. However, CDCR has made only moderate progress on that front. The three-year reconviction rate for the cohort of inmates released in 2008-09 was 49 percent, compared to 45 percent for the cohort released in 2015-16 (the most recent year for which data is available). Similarly, the three-year re-arrest rate only decreased from 75 percent to 68 percent. Recidivism rates for inmates released early due to the pandemic are not yet available, leaving a giant unknown with respect to future prison sentences. One thing is sure, though. As felons leave our prisons having served ever-smaller portions of their sentences, crime – especially violent crime – is increasing after decades of declines. It is clear that the expensive soft-on-crime policies of the ruling party are not working.



Prison Closures and Yard Deactivations Could be Premature. On December 6, 2022, CDCR announced its intent to close two more prisons: the California City Correctional Facility (CAC) in California City and Chuckawalla Valley State Prison (CVSP) in Blythe. These closures would be in addition to Deuel Vocational Institution (DVI), which closed in September 2021, and California Correctional Center (CCC), now scheduled to close in June 2023. The additional closures would save around $250 million upon full implementation, although only $33 million in new savings is reflected in 2023-24.

The CDCR plan would also deactivate six individual yards at facilities throughout the state in the near term. The budget assumes savings of $114 million in 2023-34 and $150 million annually thereafter associated with the deactivations. The individual yards to be deactivated are at the following prisons:

- Folsom State Prison (Represa)
- California Men's Colony (San Luis Obispo)
- Pelican Bay State Prison (Crescent City)
- California Rehabilitation Center (Norco)
- California Institution for Men (Chino)
- California Correctional Institution (Tehachapi)

For more than a decade, the state has been under a prison population cap imposed by a federal three-judge court, which found that California's overcrowded prisons violated the U.S. Constitution's prohibition against cruel and unusual punishment. The maximum number of inmates allowed to be housed in CDCR facilities is 138 percent of the design capacity of those prisons. If CDCR exceeds the cap, the court has indicated that it will order the immediate early release of enough inmates to bring the population within the cap. Given that virtually all low-level, non-violent offenders have already been released, it is highly likely that such an action would result in the release of violent offenders with high propensities to reoffend into communities across the state.

Prior to the closure of DVI, the court-imposed population cap was about 117,000. Due to the loss of beds from the DVI closure and other recent deactivations, the cap is now about 112,700. The only way CDCR can legally house more inmates is by placing them in contract facilities, conservation (fire) camps, or community reentry facilities. Closing California City would eliminate the last remaining contract facility, thereby limiting options to camps and reentry facilities, which are both prone to walkaways due to their lower levels of security. If all currently identified closures are implemented, the cap will be reduced to around 100,000. The current institutional population, excluding inmates housed in camps, was 96,324 as of January 11. CDCR projects the population to continue its downward trend, but that projection is based on assumptions that all of the recent policy changes and early releases of felons will not lead to greater re-offense rates and increased prison terms. Furthermore, we have yet to see the full impact on recidivism of the massive early release of inmates in response to the pandemic.

In light of the ongoing prison population cap, the pandemic release of thousands of inmates, and the recent increases in violent crime, there is significant uncertainty with respect to prison population projections. As such, plans to close more prison facilities are premature until more data on recent results is available.

Drug Treatment Strategy Vulnerable to Abuse. The 2019 Budget Act provided annual baseline funding of $165 million for CDCR to implement the Integrated Substance Use Disorder Treatment Program (ISUDTP), which combines medication-assisted treatment (MAT), cognitive behavioral therapy, and pre-release transition planning in an effort to break the cycle of drug addiction before returning inmates to their communities. Early results indicated that, although there was almost no data to show whether the program was successfully keeping inmates sober upon release, it was reducing both in-prison overdoses and referrals to outside hospitals for drug-related emergencies. However, some reports now suggest that CDCR's management of the MAT component of the ISUDTP may be less than competent.

The MAT program administers Suboxone to opioid addicts to curb cravings and prevent overdose. However, Suboxone is itself a narcotic that gives the patient an opioid-like high. According to a May 24, 2021 article in the Sacramento Bee, more than a third of the doctors employed by CDCR objected to the Department's policy requiring them to begin prescribing Suboxone to opioid-addicted inmates.[1] Among the concerns expressed were that inmates would traffic their prescriptions and that the illicit Suboxone trade could lead to inmates with no prior history of opioid abuse taking Suboxone in custody and leaving addicted. In a November 13, 2022 article written by a California prison inmate and published by the self-proclaimed social justice watchdog group, the Davis Vanguard, the author claims to have observed firsthand that a profitable Suboxone trafficking market had indeed emerged within prison walls and that Suboxone abuse was rampant.[2]

The 2022 Budget Act increased annual baseline program funding for the ISUDTP to $260 million. The 2023-24 Governor's Budget Summary cites the recent augmentation as an investment in "creating a safer and more rehabilitative-focused prison system". Yet despite program costs being roughly equivalent to the savings that would be achieved by closing two entire prisons, and regardless of the fact that the MAT component appears highly susceptible to abuse and mismanagement, the Governor's budget does not propose any changes. Perhaps the time has come to audit the program.

Final Phase of High-Res Prison Surveillance System Proposed. The 2021 and 2022 Budget Acts provided combined funding of $135 million General Fund to expand CDCR's modern video surveillance system infrastructure to 18 of the state's 34 prisons. Prison surveillance systems employing high-

[1] https://www.sacbee.com/news/politics-government/the-state-worker/article251600583.html
[2] https://www.davisvanguard.org/2022/11/suboxone-an-up-close-look-at-the-biggest-legal-narcotic-in-californias-prisons/#

quality video recording capabilities have been proven to deter criminal activity, reduce the incidence of false reports against both staff and inmates, and generally make prisons safer. The Governor's proposed budget for 2023-24 includes $88 million one-time General Fund to complete the expansion of high resolution video surveillance systems to all remaining facilities.

Last Juvenile Offenders in State Custody Transfer to Counties. With the permanent closure of the Division of Juvenile Justice (DJJ) looming, CDCR estimates that 360 wards will remain in DJJ's custody on June 30, the final date of operations. Those juvenile offenders will be transferred to the jurisdiction of the probation department in the county of commitment, pursuant to SB 92 (Ch. 18, Stats. 2021).

Local Public Safety

No New Fentanyl Enforcement in Second Installment of Crime Reduction Funding. The 2022 Budget Act provided $140 million General Fund for efforts to reduce certain crimes in 2022-23 and expressed the intent to continue most of that funding for three years. The Governor's budget reflects the second installment of $132 million, including:

- $107 million to combat organized retail theft (ORT), as follows:
  - $85 million for competitive grants to local law enforcement agencies.
  - $12 million ($6 million each) for the Department of Justice (DOJ) and the California Highway Patrol (CHP) to provide ORT task force leadership in the five regions.
  - $10 million for grants to district attorneys for vertical prosecution of ORT.
- $22 million for ongoing fentanyl enforcement efforts, including:
  - $15 million for the California Military Department to continue its support role in federal, state, local, and tribal efforts to reduce illicit fentanyl trafficking in the state.
  - $7 million to continue DOJ's Fentanyl Enforcement Program to prosecute organized criminal enterprises engaged in the illegal manufacture and trafficking of fentanyl.
- $3.3 million to continue CHP's Highway Violence Task Force.

While this funding will certainly be helpful in maintaining efforts to address retail theft and fentanyl trafficking, it does not address other categories of theft that have skyrocketed, like catalytic converter theft, nor does it address the state's soft-on-crime policies that contribute to recent crime increases. Furthermore, while the Governor does propose making good on his promise to continue funding ongoing fentanyl enforcement, it is surprising that additional funding is not proposed. Particularly egregious is the fact that no direct support is proposed for local law enforcement. In a December 23, 2022, press statement that boasted of the state's recent seizure of "enough fentanyl to potentially kill the entire population of North America, twice", the Governor stressed the need to ensure "communities have what they need to combat the immeasurable harm opioids have caused our society, our communities, and our loved ones."[3] Yet his proposed budget does not provide any new funding for fentanyl enforcement.

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[3] https://www.gov.ca.gov/2022/12/23/california-seized-enough-fentanyl-to-potentially-kill-the-entire-population-of-north-america-twice/

Judicial Branch

The Governor's budget proposes total funding of $5.1 billion ($3.2 billion General Fund) in 2023-24 for the Judicial Branch, including $4 billion to support the trial courts. Relative to the 2022 Budget Act, proposed 2023-24 Judicial Branch spending levels are about $182 million lower. The difference is mostly attributable to an increase in the estimated annual offset from local property taxes ($120 million) and budget year reductions to the Court Appointed Special Advocate program ($20 million) and the Community Assistance, Recovery, and Empowerment (CARE) Act ($14 million) as part of the package of solutions to address the projected budget shortfall for 2023-24.

Maintaining Court Operations. The proposed budget reflects ongoing funding for the 23 new judgeships that were initially funded in the 2022 Budget Act and includes an additional $94 million General Fund augmentation for trial court operations. This augmentation would help to cover increased court operating costs due to inflation ($74 million) plus cost increases associated with employee health and retirement benefits ($20 million).

The budget also proposes $200 million General Fund to backfill declining revenues to the Trial Court Trust Fund and the State Court Facilities Trust Fund (SCFCF). The primary revenue sources for these funds are court user fees and penalties assessed on criminal convictions, both of which have been declining steadily over the past decade.

While there is a $19 million augmentation for the courts to implement a pilot study on the effects of increasing juror pay pursuant to AB 1981 (Ch. 326, Stats. 2021), the budget does not propose any other significant discretionary spending increases for the Judicial Branch. Overall, it appears the Governor's intent is to maintain existing levels of service in the courts.

Resources & Environmental Protection

Key Points

- **Enhances Funding to Reduce Floods and Secure Water Supply.** Includes $202 million for projects that reduce urban flood risk and nearly $183 million for water reserve projects, but the extra funding is too modest to provide measurable benefits.
- **Adjusts Drought Response and Water Resilience Spending.** The budget reduces General Fund spending by $194 million to address the $23 billion deficit.
- **Maintains Multiyear Spending Commitments to Reduce Wildfires.** The budget would keep 97 percent of the funding earmarked to reduce wildfires over the past two years—maintaining nearly $2.7 billion for wildfire mitigation and forest management.
- **Reduces Climate Budget.** The proposed budget would reduce multiyear climate spending by $6 billion through deferrals, reductions, and trigger cuts.

Flood Risk Reduction and Water Supply

For millions of Californians, the hazards associated with the state's failure to invest in water infrastructure became a reality during the recent wave of atmospheric rivers that drenched the drought-stricken region. While the state is still experiencing the barrage of severe weather events, the death toll continues to climb along with the billions of dollars of damage to communities struggling to survive the devastating impacts of government failure. Unfortunately, this budget again misses the mark, providing a meager $202 million for flood risk reduction efforts and continuing to omit meaningful investments in water infrastructure. The below list provides details on the new funding proposals.

- $136 million General Fund over two years to support local agencies to reduce urban flood risk.
- $41 million General Fund for ongoing Delta projects that reduce the risk of levee failure and flooding, habitat benefits, and reduce the risk of saltwater intrusion.
- $25 million General Fund to support projects that will reduce the risk of flooding in Central Valley communities and contribute to agricultural sustainability and ecosystem restoration.
- $125 million General Fund one-time as a drought contingency set aside for allocation during the spring budget process. There is no detail yet on what these funds will do.
- $4.7 million Waste Discharge Permit Fund in 2023-24, $5.7 million Waste Discharge Permit Fund, and $408,000 in Safe Drinking Water Account ongoing to support new water supplies.
- $32 million General Fund one-time in 2023-24 to continue to develop the Updating Water Rights Data for California project.
- $7 million General Fund over four years to implement SB 1157 (2022).
- $4.9 million General Fund over five years to continue to provide local water districts tools to conduct water availability analysis.
- $4.7 million General Fund over two years to begin reactivation of stream gages.

Drought and Water Resilience Budget Solutions

The Governor's budget maintains $8.6 billion (98 percent) from earlier budget allocation to minimize the impacts of the deficit on the current drought. In total, the 2023-24 budget proposes $194 million General Fund in reductions, which would be restored in January 2024 if there is sufficient General Fund as part of the trigger cuts. The below program areas include reductions to address current budget conditions.

- Watershed Resilience Programs – $24 million General Fund reduction in 2023-24 and a delay of $270 million General Fund in 2024-25; maintaining $470 million (95 percent) across various watershed resilience programs.
- Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS) Cleanup –$70 million reduction General Fund in 2023-24 and a delay of $30 million General Fund in 2024-25; maintaining $130 million (65 percent) of PFAS cleanup resources.
- Water Recycling – $40 million General Fund reduction in 2023-24; maintaining $760 million (95 percent) to support water recycling and groundwater cleanup.
- State Water Efficiency and Enhancement Program – $40 million General Fund reduction in 2023-24; maintaining $120 million (75 percent) to support water use efficiency projects on farms.
- Aqueduct Solar Panels – $15 million General Fund reduction in 2021-22; maintaining $20 million (57 percent) to support pilot studies.
- Water Refilling Stations at Schools – $5 million General Fund reduction in 2022-23, eliminating funding for this program.

Wildfire and Forest Resilience

The Budget Act of 2022-23 contained more than $1.2 billion for wildfire and forest resilience programs to be allocated over two years to help reduce the risk of catastrophic wildfires across California. While the budget continues to provide much-needed funding, it fails to make up for years of neglect. The Governor's budget also does not maintain all the investments needed in forest and public lands stewardship, including wildfire and forest resilience programs benefiting rural communities. Instead, the budget reduces funding earmarked for programs that would provide multiple benefits ranging from reducing greenhouse gas emissions to land conservation to protecting the lives and property of the individuals. Significant reductions to prior budget commitments and other adjustments are detailed below.

- $10 million General Fund reduction in the current 2022-23 budget year and $15 million in 2023-24 for the stewardship of state-owned lands, maintaining $280 million for resilient forests and landscapes on state-owned lands.
- $5 million General Fund reduction for defensible space inspections in the 2023-24 budget year, which would maintain $20 million for the program.
- $15 million General Fund reduction for workforce training programs in 2023-24, which would be offset in part by a shift of $14 million to Proposition 98 education programs. Including the change, the Governor's 2023-24 proposed budget maintains $53 million to support forest resilience workforce training.
- $5 million General Fund reduction in 2023-24 for monitoring and research, which maintains $33 million to support the program.

- $20 million General Fund reduction in 2022-23 and $10 million in 2023-24 for urban forestry, which maintains $80 million for the program.

Climate Budget

The Budget Acts of 2021-22 and 2022-23 provided $54 billion to support a myriad of climate-related programs. The 2023-24 budget proposes reducing the multiyear spending plans by $6 billion for a new total of $48 billion in climate-related spending. While reducing spending in this area is prudent given the multibillion-dollar deficit, it would be more beneficial to eliminate program funding for projects like Zero-Emission Vehicle Infrastructure and others that do not generate immediate benefits. For example, funding for those programs could instead finance water infrastructure projects or forest management activities to put a dent in areas where state investments are deficient and pose threats to human life and property. Details on significant programmatic reductions and other budget solutions are below.

Zero-Emission Vehicles (ZEV) Acceleration

- Equitable Zero-Emission Vehicles and Infrastructure – $745 million reduction, partially offset with $535 million from GGRF. The plan maintains a prior spending commitment of $2.1 billion.
- Heavy-Duty Zero-Emission Vehicles and Supporting Infrastructure – $1.5 billion reduction for heavy-duty ZEVS and supporting infrastructure, partially offset by $839 million from GGRF. The plan maintains a prior spending commitment of $5.3 billion.
- Community-Based Zero-Emission Mobility – $184 million reduction, partially offset by $25 million from GGRF. The plan maintains a prior spending commitment of $180 million.
- Aviation, Off-Road, Maritime, Rail, and Hydrogen – $133 million reduction, partially offset by a $40 million from GGRF. The plan maintains a prior spending commitment of $1.3 billion.

Extreme Heat and Community Resilience

- Urban Greening Program – $100 million reduction in 2023-24. The plan maintains a prior spending commitment of $150 million.
- Extreme Heat and Community Resilience Program –$25 million reduction in 2022-23 and $50 million in 2023-24. The plan maintains a prior spending commitment of $100 million.
- Urban Forestry Program – $20 million General Fund reduction in 2022-23 and $10 million in 2023-24. The plan maintains a prior spending commitment of $80 million.
- Community Resilience Centers – Delays spending $85 million General Fund to 2024-25.
- Regional Climate Resilience – $5 million General Fund reduction in 2022-23 and $100 million in 2023-24. The plan maintains a prior spending commitment of $125 million.
- Transformative Climate Communities Program – $65 million General Fund reduction in 2022-23 and $40 million in 2023-24. The plan maintains a prior spending commitment of $315 million.
- Community Air Protection Program – $50 million reduction in 2023-24 and a shift of $250 million to the GGRF. The plan maintains a prior spending commitment of $560 million.

Nature-Based Solutions

- Protecting Fish and Wildlife from Changing Climate – $35 million General Fund reduction in 2023-24, maintaining $318 million (90 percent) for this purpose.
- State Conservancy Nature-Based Solutions – $100 million General Fund reduction in 2023-24, maintaining $130 million (57 percent) of state conservancy nature-based solutions funding and $662 million (87 percent) of all state conservancy funding within other areas of the budget.
- Natural Community Conservation Program Planning and Land Acquisition – $6 million General Fund reduction in 2022-23, maintaining $30 million (83 percent) of program funding.
- Climate Smart Land Management Program – $4 million General Fund reduction in 2022- 23, maintaining $16 million (80 percent) of program funding.
- Local and Tribal Nature-Based Solutions Corps – $12.5 million General Fund reduction in 2022-23 and $11 million in 2023-24, maintaining $25.5 million (52 percent) of program funding.
- San Joaquin Valley Flood Plain Restoration – $40 million General Fund reduction in 2023- 24, which eliminates funding for this program.
- San Francisco Bay Wetlands Support – $10 million General Fund reduction in 2022-23, which eliminates funding for this purpose.
- Ocean Protection – $69 million reduction in 2023-24 and a $10 million reduction in 2024-25 across various ocean protection programs, maintaining $139 million (64 percent) for this purpose.
- Coastal Protection and Adaptation – $175 million reduction in 2022-23, $297 million in 2023-24, and $9 million in 2024-25 across various coastal protection and adaptation programs, maintaining $582 million (55 percent) for this purpose.

Climate Smart Agriculture

- Healthy, Resilient, and Equitable Food Systems Investment – Reductions of $21 million General Fund in 2021-22 and $8.9 million in 2022-23 across the Urban Agriculture Program, Healthy Refrigeration Grant Program, and Farm to Community Food Hubs Program, maintaining $98 million (77 percent) for healthy, resilient, and equitable food system programs.
- Climate Smart Agriculture Programs – $8.5 million General Fund in 2021-22 and $86 million in 2022-23 across various programs, including the Healthy Soils Program, Sustainable Cannabis Pilot Program, Pollinator Habitat Program, Conservation Agriculture Planning Grant Program, greenhouse gas reduction research, Invasive Species Council, and Climate Catalyst Fund, maintaining $867 million (90 percent) for climate-smart agriculture programs.
- Economic Recovery and High-Road Job Growth – $4.7 million General Fund in 2022-23 for the New and Beginning Farmer Training and Farm Manager Apprenticeships Program, maintaining $5 million (50 percent) for this program.

Circular Economy

- Composting Opportunities – $4.8 million General Fund in 2021-22, maintaining $7.8 million (62 percent) for composting programs.
- Recycling Feasibility Grant – $2 million General Fund in 2021-22 and $13 million in 2022-23, eliminating funding for this program.
- Recycling Market Development Zone Loan Program – $4.5 million General Fund in 2022-23, maintaining $45.5 million (91 percent) for this program

Energy and Utilities

Key Points

- **Strategic Energy Reliability Reserve.** Retains $1 billion of future year funding promised last year, including $845 million for 2023-24. The Solar + Storage program has a proposed reduction of $270 million.
- **California Arrearage Payment Program.** Reflects savings of $400 million based on approved applications for assistance with utility debt.
- **Clean Energy Incentive Programs Modestly Reduced.** Maintains most of the previously promised $1.4 billion for clean energy programs, with reductions of about $200 million across various programs.
- **Defers Some Broadband Investments.** Proposes to defer $550 million for last-mile broadband infrastructure and $575 million for the Loan Loss Reserve Fund, used to finance local broadband infrastructure development, to future years.

Strategic Energy Reliability Reserve. The 2022-23 budget included $2.95 billion General Fund for a Strategic Reliability Reserve (Reserve), with $1.3 billion promised in future years. The Governor's budget retains $1 billion of the future funding, including $845 million for 2023-24. The Residential Solar + Storage program is the only program within the Reserve proposed for a reduction, in the amount of $270 million.

This Reserve's goal is to find more power because the grid is unreliable and is at risk of rolling blackouts. Under the program, the Department of Water Resources will extend operation of existing power plants scheduled for retirement, purchase additional temporary natural gas generators, and enter additional power purchase agreements.

The Reserve also includes incentivizing the installation of air emission reduction technologies on fossil-fueled backup power generators, adding storage to existing solar systems, adding new solar systems with storage, the deployment of new zero- or low-emission backup generation, upgrades at existing generation facilities that yield additional generation capacity, and load reduction during extreme events.

Most of the additional electricity in the Reserve comes into play for the summer of 2024, when existing natural gas power plants scheduled for retirement could remain in operation, adding about 2,800 megawatts (MW) of capacity. These reliability investments are needed because California leapt in headfirst to transition the electricity sector to renewable power sources, like wind and solar, but failed to ensure the energy sources are sufficiently diverse to keep the power flowing when the sun isn't shining and the wind stops blowing. While these measures increase reliability during the transition to clean energy, it is unknown if they are sufficient. Rolling blackouts were only narrowly avoided in summer of 2022, and the state's policies continue to place more demand on the grid.

California Arrearage Payment Program. The proposed budget reflects savings of $400 million in California Emergency Relief Funds for 2022-23, based on approved applications for assistance with utility debt. This program provided funds to utilities carrying debt from nonpayment of utility bills by residential customers during the COVID-19 pandemic, when utilities were prohibited from turning off service for nonpayment of bills. The emergency funds helped decrease those debts, providing relief to utility customers who ultimately remained responsible for paying those unpaid bills. This savings will revert back to the General Fund.

Clean Energy Incentive Programs Modestly Reduced. The 2022-23 budget included $647 million to incentivize various types of clean energy projects. The Governor's budget retains $1.2 billion of the previously promised $1.4 billion for these programs, including $836 million in 2023-24. Various programs are proposed for modest cuts or delayed funding, as follows:

- **Incentives for Long-Duration Storage ($50 million reduction):** Incentivizes energy storage projects, such as compressed or liquid air technologies, flow batteries, thermal storage, or hydrogen demonstrations. Specifically excludes pump storage and lithium-ion based storage technologies.

- **Industrial Grid Support and Decarbonization Program ($10 million reduction):** Incentivizes projects that enable participation in utility load reduction programs, electrify existing fossil fuel processes, incorporate energy storage or renewable resources, increase energy efficiency, or develop and deploy new decarbonization technologies. Specifically prohibits geologic storage of captured carbon.

- **Food Production Investment Program ($10 million reduction):** Incentivizes projects that enable participation in utility load reduction programs, electrify existing fossil fuel processes, incorporate solar, energy storage, or other renewable resources, increase energy efficiency, or develop and deploy new decarbonization technologies at food production and processing facilities. Specifically prohibits carbon capture projects.

- **Equitable Building Decarbonization Program-Rebates ($20 million reduction, $370 million delayed, $87 million deleted in 2025-26):** Incentivizes installation of low-carbon building technologies, such as heat pumps, space and water heaters, and other efficient electric technologies. This program also includes funds for accelerating the adoption of lower polluting refrigerants in supermarkets and convenience stores.

- **Carbon Removal Innovation Program ($25 million reduction):** Incentivizes research, development, and deployment of direct air carbon capture technologies. Specifically excludes projects that would benefit petroleum or gas production, processing, or refining, through enhanced oil or gas recovery.

While some of the state's energy programs aim to diversify and stabilize the grid during the energy transition away from fossil fuel resources, some programs are more focused on the actual transition, regardless of the readiness, or lack thereof, of the electric grid. For instance, the Equitable Building Decarbonization Programs, the Industrial Grid Support and Decarbonization Program, and the Food Production Investment Program seek to replace existing fossil fuel industrial processes, industrial equipment and machinery, and residential appliances with electricity. In many instances, this replacement can occur immediately, yet it may take a decade or more for additional clean energy resources to come on line. Increasing grid demand prior to stabilization will decrease grid reliability. For this reason, it may be more practical to reduce or delay funding for these programs, rather than programs that have the potential to increase grid diversity, like long-duration storage incentives.

Financing for Energy Transmission Infrastructure. The 2022-23 budget provided $200 million for the financing of electricity transmission projects through the IBank's Climate Catalyst Revolving Loan Program. An additional $50 million was promised for 2023-24, but the Governor proposes to reduce this amount to $25 million. This infrastructure is needed to help new clean energy resources connect to the grid, yet this reduction will lessen the amount available to finance such investments.

Summary of Energy Investments. As described above, the proposed budget includes various reductions and delays in energy programs. These are as summarized in the table on the next page.

Energy Package Reductions and Delays ($ in millions)					
Department	**Program**	**Adopted in 2021 and 2022 Packages**	**General Fund Reduction**	**Delayed Funding**	**Amount Remaining**
Energy Commission	Incentives for Long Duration Storage	$380	$50		$330
	Hydrogen Grants	$100			$100
	Industrial Grid Support and Decarbonization	$100	$10		$90
	Food Production Investment Program	$75	$10		$65
	Equitable Building Decarbonization	$922	$87	$283	$835
	Offshore Wind Infrastructure	$45			$45
	DOE Grid Resilience Match	$5			$5
	Energy Modelling Support	$7			$7
	Distributed Electricity Backup Assets	$700			$700
	Demand Side Grid Support	$295			$295
	Carbon Removal Innovation	$100	$25		$75
	Climate Innovation	$525		$150	$525
	Energy Data Infrastructure & Analysis	$5			$5
California Air Resources Board	Ultra Low Global Warming Potential Refrigerants	$40	$20		$20
Department of Water Resources	Oroville Pump Storage	$240			$240
	Support Resources for Reliability	$3			$3
	Investments in Strategic Reliability Assets	$2,370			$2,370
California Public Utilities Commission	Residential Solar + Storage	$900	$270		$630
	Capacity Building	$30			$30
	Distributed Energy Workload	$5			$5
	Equitable Building Decarbonization	$145			$145
IBank/GO Biz	Transmission Financing	$250	$25		$225
	Hydrogen Hub	$5			$5
Department of Community Services & Development	California Arrearage Payment Program	$1,200	$400		$800
Various	AB 525 Implementation	$4			$4
Total		**$8,451**	**$897**	**$433**	**$7,554**

Broadband

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

Defers Some Broadband Investments. The Governor proposes to defer $550 million for last-mile broadband infrastructure grants from 2023-24 to future years. Additionally, the Governor proposes to defer $575 million for the Loan Loss Reserve Fund, used to finance local broadband infrastructure development, to future years.

Specifically, for last-mile investments, $200 million is shifted to 2024-25 and 2025-26 each, and $150 million is shifted to 2026-27. For the Loan Loss Reserve Fund, $175 million is shifted from

2022-23 to 2023-24, and $575 million is shifted from 2023-24 to 2024-25 ($300 million) and 2025-26 ($275 million).

While these deferrals do not reduce funding now, they may slow the progress to close the digital divide. Additionally, it may be the case that delaying this funding is a reflection of slow progress on the state's middle-mile network, with construction only breaking ground last October. Senate Republicans will seek additional information and oversight on the state's progress to close the digital divide.

Transportation

Key Points

- **Continues to Propose Gas Price Gouging "Penalty."** Fails to propose any tax or regulatory reforms to reduce the price of gasoline, instead relying on previous blame-shifting "penalty" proposal.
- **Gasoline and Diesel Taxes to Increase Again.** Annual gas and diesel tax adjustments would increase the price of gas by 4.3 cents per gallon and the price of diesel by 3.3 cents per gallon.
- **Transportation Infrastructure.** Proposes decreasing last year's $9.5 billion General Fund investment in transportation by $2.2 billion.
- **Zero-Emission Vehicle Subsidies and Infrastructure Investments Decreased.** Proposes reducing zero-emission vehicle (ZEV) subsidy, infrastructure, and equity projects by $1.1 billion.
- **High-Speed Rail Office of the Inspector General**. Includes $1 million for the implementation of the High-Speed Rail Office of the Inspector General.
- **High-Speed Rail.** In addition to spending previously appropriated bond funds, proposes expenditures of $526 million in 2023-24 from Cap and Trade funds.

Continues to Propose Gas Price Gouging "Penalty." The Governor fails again to propose any tax or regulatory changes that could actually reduce the price of gasoline. Instead, he continues to rely on a proposed gas price gouging "penalty" under consideration in a special session of the Legislature. Such a penalty does nothing to address underlying causes of price surges, such as supply constraints, and may actually cause prices to increase.

Though gas prices have declined from the prices spikes experienced last year, California's prices remain the second highest (behind Hawaii) in the nation averaging $4.42 per gallon as of January 11, 2023, a 35 percent premium over the national average of $3.27 per gallon.

In addition to California's high gas taxes, California's environmental programs drive up the cost to produce gasoline. Compliance with California's carbon programs increase gas prices by about 47 cents per gallon, and California's cleaner-burning gasoline adds another 10-15 cents per gallon. This special cleaner-burning fuel is nearly exclusively produced by California refineries, limiting the ability to import additional supply when California refineries are down. Price jumps could be addressed more efficiently and effectively with tax and regulatory changes. Tax reductions, even if only temporary, can quickly decrease the price of gasoline. In contrast to Governor Newsom, even President Biden proposed lowering the federal gas tax in 2022, and Democratic-led New York enacted a gas tax reduction. Additionally, loosening regulations, particularly those related to California's special gasoline blend, can increase supply, even if only done when supplies are more constrained than usual. These types of measures would help mitigate price jumps.

Gasoline and Diesel Taxes Will Rise Again. Pursuant to SB 1, the 2017 gas and car tax bill, gas and diesel taxes are adjusted for inflation each year on July 1st. On July 1, 2023, the tax on gasoline will increase by an estimated 4.3 cents per gallon, and the diesel excise tax will increase by an estimated 3.3 cents per gallon. These increases will generate about $721 million in tax revenues, bringing total gas and diesel tax revenue to an estimated $9.75 billion for 2023-24. In January 2022, Governor Newsom proposed suspending the annual increase, but he eventually agreed with legislative Democrats to forego that small step toward relief. He has not repeated that proposal this year.

Transportation Infrastructure. The 2022-23 budget promised a $9.5 billion General Fund investment in various transportation infrastructure programs. The Governor's budget now proposes to decrease this investment by reducing intercity rail funding by $2 billion and reducing funding for projects promoting walking or biking by $200 million. The proposal also includes shifting $300 million for walking and biking projects and $200 million for transportation climate adaptation programs from the General Fund to the State Highway Account, which is primarily funded by gasoline tax revenues. These General Fund reductions are part of the "trigger" package that may be restored if revenues improve. Lastly, the Governor proposes to delay $350 million General Fund for grade separations from 2021-22 to 2025-26. As made clear by reductions proposed this year, any promised funding in future years is not guaranteed.

Zero-Emission Vehicle Subsidies and Infrastructure Investments Decreased. The Governor proposes to reduce zero-emission vehicle (ZEV) subsidy, infrastructure, and equity projects by $1.1 billion. This includes reducing General Fund spending by $2.5 billion but increasing Cap and Trade funding for ZEV programs by $1.4 billion. The budget also proposed to direct any additional discretionary Cap and Trade revenues toward ZEV programs. In prior budgets, the Governor committed $10 billion over five years to help transition Californians to ZEVs, aligning with state regulations to ban the sale of gasoline cars by 2035. After the proposed cuts and fund shifts, $8.9 billion of ZEV investments would continue. Despite the reductions, this remains a hefty price tag for California taxpayers, who pay for their own cars or trucks while shelling out tax dollars that give a better deal for higher-income earners' ZEV purchases. Specific program reductions are summarized in the table below.

Zero Emission Vehicle Programs (in millions)			
	General Fund Reduction	**Increased Cap and Trade Funds**	**Net Reduction**
Low-income zero emission vehicles and infrastructure	$745	$535	$210
Heavy-duty Zero-Emission Vehicles and Supporting Infrastructure	$1,468	$839	$629
Consumer Awareness, ZEV manufacturing, other federal programs	$317	$65	$252
Total:	**$2,530**	**$1,439**	**$1,091**

California High-Speed Rail

High-Speed Rail Office of the Inspector General. The Governor's budget includes $1 million (Public Transportation Account) for the implementation of the High-Speed Rail Office of the Inspector General (HSR OIG) to oversee the high-speed rail project. The HSR OIG, established by SB 198 (Committee on Budget and Fiscal Review, 2022), has broad authority to initiate audits and reviews, conduct independent fiscal analysis, identify best practices, recommend efficiencies, evaluate contracts, and is required to report regularly to the Legislature. It is likely the $1 million proposed is a placeholder, as the cost for this office may be higher.

High-Speed Rail Authority. The 2022-23 budget included $4.2 billion in remaining Proposition 1A (2008) bond funds for the High-Speed Rail Authority to continue the construction of the Merced to Bakersfield high-speed rail line. While previously appropriated, these funds will be spent over several years. In addition to previously appropriated bond funds, the Governor's budget estimates $526 million in Cap and Trade revenues will be spent on the project in 2023-24. The 2022 Business Plan indicated the total costs of completing HSR is up to $113 billion, with no estimated completion date, though much of the data remains based on operations from San Francisco to Los Angeles beginning in 2033. Despite this outlook and years of criticism, Democrats have yet to offer any plausible plan for how to obtain funds to complete the project. Instead, they continue to throw good money after bad in their HSR fantasyland and call on California taxpayers to foot the bill.

General Government

Key Points

- **Reduces Grant Relief For Businesses.** Reduction of $92 million from the Small Business Relief Grant program, funds needed to provide grants to all eligible businesses lower than projected.
- **Reduces Funding for Small Business Support.** Reduction of $50 million in funding from two programs that provide support for small businesses across the state.
- **Continues Unproven Cal Competes Grant Program.** Includes $120 million for the California Competes grant program, which lacks a performance evaluation to determine effectiveness.
- **Relaunch of the "Made in California" Program**. Includes $1.5 million to relaunch the Made in California Program and conduct outreach and engagement.
- **Governor's Office of Policy and Research (OPR) Continues to Grow.** Following nearly $800 million in new spending since 2021-22, the budget includes more than $150 million to add and expand programs within OPR.
- **Expanded California Climate Action Corps.** Proposes $9 million to establish the program permanently, doubling the number of Climate Corps members, from 115 to 230.
- **Deferred Maintenance Funding Rescinded.** Proposes to revert $216 million back to the General Fund from several projects within the Judicial Council and Parks and Recreation, among others.

California Small Business COVID-19 Relief Grant Program. The budget proposes a reversion of $92 million from the California Small Business COVID-19 Relief Grant Program. According to the Governor, of the $150 million included in 2022-23 for the remaining eligible businesses, only $58 million is needed to fully fund all eligible businesses. As of December 2022, over 320,000 small businesses received grants at an average grant amount of approximately $11,000. Given this administration's poor treatment of businesses generally, that $92 million could at least be redirected toward helping businesses pay the costs of the Unemployment Insurance tax increase, if there is truly no more demand for the grants.

Reduced Funding For Small Business Finance Center and the California Rebuilding Fund. The 2023-24 budget includes a $50 million reduction in funding for the state's Infrastructure and Economic Development Bank's (IBank) Small Business Finance Center and the California Rebuilding Fund, leaving approximately $38 million available for financial assistance to small businesses through these programs.

CalCompetes Grant Program Continues Without Performance Review. The January budget includes $120 million General Fund for the California Competes grant program. The program is in the early stages of implementation and outcome data is not available yet, leaving the Legislature unable to determine whether the program is actually achieving results. The grant program was created to extend the California Competes Tax Credit program to businesses that cannot fully benefit from a nonrefundable tax credit, but still present vital economic development opportunities that are at risk of taking place outside of California. The Legislature would be prudent to require a performance review before the state continues to provide scarce General Fund resources to a program that could be wholly ineffective and a waste of resources.

Budget Would Relaunch the "Made in California" Program. The Governor's budget includes $1.5 million General Fund to relaunch the Made in California Program and conduct outreach and engagement to increase participation. The Made in California Program aims to support California manufacturers by increasing consumer awareness of in-state production. It is irresponsible to establish a new spending commitment given the likelihood of a recession in the near future. Considering the high operating costs that California heaps on businesses, prompting many of them to leave California, a $1.5 million branding proposal hardly amounts to a fig leaf.

Significant Expenditure Growth for OPR. Traditionally, OPR has been a research arm of the Governor's office, rather than a department that administers programs. Since 2021-22, OPR has received nearly $800 million for both new and expanded programs (the 2023-24 budget again proposes new funding). Given this absurd level of programmatic funding for a department tasked as the "research arm" of the administration, it is surprising to see the Governor's budget continue to provide nearly all of the $800 million added in 2022-23, but for a few reductions, as noted below:

- **Office of Community Partnerships and Strategic Communications.** The January budget includes a reduction of $80 million for the COVID-19 vaccine-related public education and outreach campaign within OPR. A balance of $150 million General Fund would remain. The 2022 Budget Act included $65 million General Fund annually through 2025-26 to establish the Office of Community Partnerships and Strategic Communications within OPR and provided $230 million from the California Emergency Relief Fund to continue an outreach campaign.

- **Summer Youth Jobs Corps Program.** The budget proposes to eliminate $25 million General Fund included in the 2022 Budget Act to support the existing Youth Jobs Corps program and offer additional summer employment opportunities.

Expanded California Climate Action Corps Within OPR. The budget proposes $4.7 million General Fund in 2023-24 through 2025-26, and $9.4 million ongoing to permanently establish the program, doubling the number of Climate Corps members, from 115 to 230. The program was established in 2021-22 within Cal Volunteers. Now, two short years later the Governor wants to permanently establish the program and double the budget, giving credence to the statement that there is no such thing as a temporary state program. It is unclear what, if anything, this program has accomplished.

Expanded Youth Jobs Corps Program Within OPR. The budget proposes $78 million annually in General Fund for the Californians For All Youth Jobs Corp program, committing the state to ongoing expenditures at a time of significant fiscal uncertainty. The program focuses on providing jobs and job skills to underserved youth, with a focus on undocumented immigrants with work authorization.

New Office of Data and Innovation. The Governor's 2023-24 budget includes $17 million General Fund and 65 positions to merge the Office of Digital Innovation, the Government Excellence and Transformation Center, and the CalData Program into the new Office of Data and Innovation (ODI), reporting to the GovOps Agency. ODI partners with state agencies to improve the efficiency and effectiveness of services delivered to Californians by providing process improvement and data solutions that are easy to use across government. It is unclear if yet another new state IT bureaucracy will be effective in mitigating ongoing failures of the state to provide timely and consistent services and support to Californians.

Reduction in Funding for Technology Modernization and Stabilization. The 2021 and 2022 Budget Acts provided $80 million General Fund to the California Department of Technology (CDT) to modernize and stabilize state IT solutions, but due to declining General Fund revenues, the proposed 2023-24 budget reduces this funding by $39 million. The reductions are likely appropriate given recent revenue trends, but questions remain on how the balance of funding is spent, and what benefits would be achieved by the state as a result.

California Cybersecurity Integration Center (Cal-CSIC). The January budget includes $29 million to continue operations within the California Cybersecurity Integration Center (Cal-CSIC). Cal-CSIC was established as a partnership between Cal OES, the California Military Department, the California Department of Technology, and the California Highway Patrol. The Center serves as the central organizing hub of the state's cybersecurity preparedness and response activities.

Seismic Retrofitting Program for Soft Story Multifamily Housing. In 2022, SB 189 (Committee on Budget and Fiscal Review), Chapter 48, Statutes of 2022, established the Seismic Retrofitting Program for Soft Story Multifamily Housing and included legislative intent language to appropriate $250 million in the 2023-24 budget. The proposed budget does not include the intended appropriation, citing the state's fiscal outlook and projected decline in General Fund revenues.

Arts Council. The January budget includes a $20 million reduction within the Arts Council, originally approved as part of the 2022 Budget Act for expansion of cultural districts.

Deferred Maintenance Funding Rescinded. For the past three years, the state had made some progress on meeting outstanding deferred maintenance needs. However, the Governor's budget proposes to revert $216 million back to the General Fund, affecting deferred maintenance needs within the Judicial Branch ($50 million), the Department of Forestry and Fire Protection ($13 million), the Department of Parks and Recreation ($31 million), the Department of Corrections and Rehabilitation ($30 million), and the Department of General Services ($92 million). These reductions to necessary but perhaps unglamorous one-time maintenance stand in contrast to the Governor's proposals to maintain recent increases in other areas of the budget that are unsustainable and could result in pressure on the General Fund in subsequent years.

State Employee Compensation and Retirement

Key Points

- **State Employee Growth Outpaces Population Dramatically.** The number of state employees grew roughly five times faster than the state population over the past decade.
- **State Pension Costs Continue to Increase.** Costs are expected to increase by 23 percent from \$8.4 billion in 2023-24 to roughly \$11 billion in fiscal year 2027-28.
- **Teacher Pension Contribution Slightly Increases.** State retirement contribution for teachers increases slightly following high investment returns that may address liabilities soon depending on projected investment returns.

State Employee Growth Outpaces Population. Over the past decade, the state population has grown by only 3 percent in total, to about 39 million people, and has been flat for the past seven years. In contrast, the number of state employees began growing steadily following the Great Recession, showing growth of 23 percent in the past ten years. The number of state employees per 1,000 residents would be 11 in 2023-24, the second 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. Total state employee costs would increase to more than \$43 billion, which is an increase of about 6 percent from the most recent budget year (\$41 billion), and a 30 percent increase from fiscal year 2021-22 (\$33 billion). The most significant increases for the current year are seen in Natural Resources (\$440 million increase) and Transportation (\$329 million increase).

Employee Compensation and Collective Bargaining Costs. The budget includes \$488 million (\$131 million General Fund) for previously agreed-upon collective bargaining pay increases, other increased employee compensation, health care costs for active state employees, and retiree health care prefunding contributions for active employees.

The state will negotiate this year with 14 bargaining units whose contracts expire in summer 2023. Notable among these are correctional officers, law enforcement, and registered nurses. The budget includes an unknown dollar amount for compensation increases for these upcoming contracts, notwithstanding the budget deficit. The administration is keeping the amount confidential for purposes of negotiation.

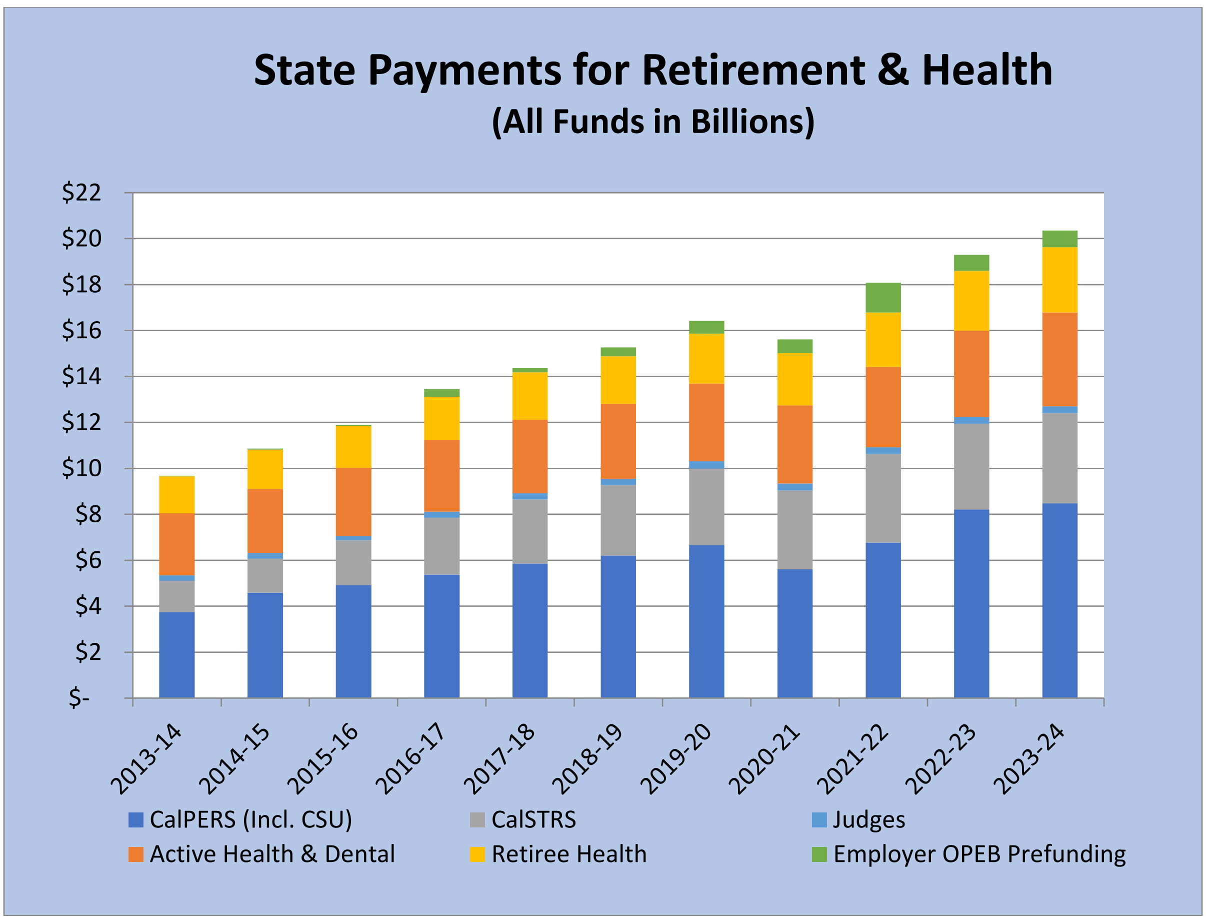
State Employee Pension Costs. The budget proposes \$8.5 billion (\$4.7 billion General Fund) in employer contributions to Public Employee Retirement System (PERS) for state employees' retirement costs, including \$747 million for California State University employees. This is \$255 million more (\$151 million General Fund) than budgeted towards these pensions in 2022-23, and is expected to increase by 23 percent to roughly \$11 billion by fiscal year 2027-28 (including CSUs). Additionally, the budget proposes \$1.2 billion in one-time Proposition 2 funding for the state plan's unfunded liability payments.

Teacher Pension Costs. The budget proposes \$3.9 billion General Fund to pay for the state's share of State Teacher Retirement System (STRS) costs. The Governor's Office states that the roughly \$218 million increase from the 2022 Budget Act is due to higher-than-anticipated growth in creditable compensation from 2020-21 to 2021-22. According to the Department of Finance, actuaries for STRS are currently projecting that, if current assumptions regarding growth in creditable compensation and annual investment returns are accurate, the state will eliminate its share of CalSTRS' unfunded liability by 2028. Again, this is entirely contingent upon accurate investment and compensation projections, and is subject to change depending on future responses from the market.

Retiree Health Care Benefits. The budget assumes premium increases of 7.5 percent for the 2024 calendar year. The budget also includes $390 million in Proposition 2 payments 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. Pre funding contributions from the state will provide $711 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 2023-24, 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.



Cannabis

Key Points

- **Cannabis Tax Allocation.** The proposed budget includes $670 million in baseline cannabis tax funding to be allocated in 2023-24, as required by a specified formula.
- **General Fund Backfill of Cannabis Tax Revenues Required.** Due to recent cannabis tax reforms that established baseline funding for Proposition 64 programs, the General Fund must provide $95 million to backfill projected cannabis tax shortfall.

Funding for Proposition 64 Programs. Pursuant to the Adult Use of Marijuana Act (Proposition 64, 2016), after funding specified priority activities that include regulatory administration, local equity programs, and research, the remaining cannabis tax funds are allocated between youth education, prevention, and treatment programs (60 percent), environmental remediation of illegal grows (20 percent), and public safety (20 percent). Collectively, these last three categories are known as Allocation 3 programs. AB 195 (2022) established a baseline of $670 million for Allocation 3 funding and appropriated up to $150 million General Fund in 2023-24 to backfill any shortfall in cannabis tax revenues. Accordingly, the Governor's budget reflects a General Fund backfill of $95 million to meet the $670 million baseline funding requirement and includes the following Allocation 3 funding levels:

1) ***Education, prevention, and treatment of youth substance use disorders and school retention ($402 million):***
   - $292 million to the Department of Social Services to subsidize child care for school-aged children of income-eligible families, though child care subsidies may not be an intended use of cannabis tax revenues under Proposition 64.
   - $78 million to the Department of Health Care Services for youth substance abuse prevention and treatment program competitive grants.
   - $19 million to the California Natural Resources Agency for grants to fund youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities.
   - $12 million to the Department of Public Health for cannabis surveillance and education.
2) ***Cleanup, remediation, and enforcement of environmental impacts of illegal cannabis grows ($134 million):***
   - $80 million to the Department of Fish and Wildlife for cleanup, remediation, and restoration of watersheds and enforcement activities on public lands.
   - $54 million to the Department of Parks and Recreation to identify illegal cannabis grows, remediate and restore illegal grow sites on state park land, and make roads and trails accessible for peace officer patrol.
3) ***Public safety-related activities ($134 million):***
   - $84 million to the Board of State and Community Corrections to fund a grant program for local health and safety programs in localities that have not imposed cannabis bans.
   - $50 million to the California Highway Patrol's impaired driving and traffic safety grant program and for training, research, and policy development related to impaired driving.

Statewide Debts and Liabilities

Key Points

- **Local Governments to Receive Minor Mandate Relief.** Provides $154 million General Fund to repay local agencies for state mandate costs.
- **Special Fund Borrowing Utilized to Close Budget Gap.** Budget continues borrowing from special funds to pay for budget year spending.
- **Unemployment Insurance (UI) Debt Promise Broken.** Deletes a promised $750 million General Fund to help pay down principal owed to the federal government for UI Debt.
- **Increases Borrowing with Capital Outlay Shift to Bonds.** Shifts $1.4 billion in capital projects from General Fund cash to lease revenue bond authority, increasing borrowing and long-term debt obligations.

State Debt Estimate Declines to $237 Billion. The state continues to face voluminous debts from various sources, which are estimated to reach $237 billion. However, due to strong investment performance by pension funds in 2020 and 2021, revised actuarial estimates show declines in state worker and teacher pension liabilities compared to this time last year. These declines account for an overall reduction of $39 billion (14 percent) in estimated state liabilities from $276 billion last year to $237 billion. These totals do not count pension and other retiree debts faced by the University of California ($40 billion) or teacher pension debts held by local school districts ($47 billion). The table on the following page summarizes these debts.

Local Governments Get Minor Relief for Mandates. The budget includes $154 million General Fund to repay local agencies for costs related to mandates. It is encouraging to see the Governor's budget take a step in the right direction and include these funds for local agencies, as outstanding mandate costs are in the hundreds of millions of dollars, with no significant fiscal relief in sight from the state in recent years, despite budget surpluses in the tens of billions of dollars.

Continued Special Fund Borrowing. Now that the state's fiscal situation has shifted from surplus to deficit, the Governor falls back on borrowing once again to close the budget gap. The budget proposes $850 million in loans from special funds to the General Fund. The state's failure to pay back previous deficit loans means that the 2023-24 budget continues yet again to borrow in order to pay for current spending.

Unemployment Insurance (UI) Debt. As described more fully in the *Labor and Workforce Development* section of this report, the Governor proposes deletion of $750 million, promised in last year's budget, to help pay down principal owed to the federal government for UI debt. The default course of action under federal law is for this debt to be repaid by a surcharge on employers beginning in 2023. The state General Fund is responsible for the interest on the UI debt, but various other states used federal stimulus funds to pay off their debts. California is now one of only four states that still have a UI debt balance, and California's $18 billion balance is far higher than the next highest state, New York, at $8 billion.

State and Other Public Debts and Liabilities						
(Dollars in Millions)	At Start of 2023-24	Estimated Payments or Borrowing (-)				Remaining Liabilities
		2023-24	2024-25	2025-26	2026-27	
Special Fund Loans	$1,360	-$850			-	$2,210
State Retirement Liabilities						
State Retiree Health	$95,191	$390	$400	$410	$420	$93,571
State Employee Pensions	$43,639	$1,182	$447	$734	$874	$40,402
Teachers' Pensions (state portion)	$13,065					$13,065
Judges' Pensions	$2,365	-	-	-	-	$2,365
SB 84 Loan from Surplus Money Invst. Fd.	$3,100	$290	$836	$590	$556	$828
Deferred payments to CalPERS	-	-	-	-	-	-
Subtotal	$157,360	$1,862	$1,683	$1,734	$1,850	$150,231
Other State Debts						
Long-Term Bonds - General Obligation & Lease-Revenue	$76,400	$7,876				$68,524
Suspended Local Mandates	486	154	-	-	-	$332
Education Mandates	1,100					$1,100
Subtotal	$77,986	$8,030	-	-	-	69,956
State - Total Debt	**$236,706**	**$9,042**	**$1,683**	**$1,734**	**$1,850**	**$222,397**
<u>Other Related Public Debts</u>						
Unemployment Insurance*	$17,750	-	-	-	-	$17,750
Teachers' Pensions (Local Districts)	$47,071	-	-	-	-	N/A
University of California Liabilities**						
UC Employee Pensions	16,400	-	-	-	-	N/A
UC Retiree Health	23,300	-	-	-	-	N/A
UC Total	$39,700	-	-	-	-	
Total, State and Other Public	**$341,227**	**$9,042**	**$1,683**	**$1,734**	**$1,850**	

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

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

Governor Would Increase Borrowing To Pay Current Expenses. The Governor's budget proposes to increase borrowing and shift funds for capital outlay projects from General Fund cash back to bond financing. Approximately $1.4 billion of the $3.2 billion of capital projects proposed to be shifted to General Fund will instead retain the existing lease revenue bond authority. In addition, the budget proposes a shift from General Fund to lease revenue bond financing for additional capital projects totaling approximately $680 million in subsequent years.

To strengthen budget resiliency, the 2022 Budget included several multi-year proposals intended to contribute to a reduction in the state's long-term debt obligations. The Governor unwinds that short-lived nod toward fiscal responsibility, diminishing the state's purchasing power by increasing the state's reliance on borrowing and increasing long-term debt obligations.

The 2022 Budget also included a proposal to redeem approximately $1.7 billion in callable GO bonds in the 2024-25 fiscal year. This proposal used one-time funding to structure a multi-year approach to reducing the state's long-term bond debt obligations, and to provide budget resiliency in the event of an unexpected change in the state's fiscal condition, but the Governor again backtracks on progress and proposes to withdraw scheduled redemption of callable GO bonds**.**

Bond and Proposition 2 Debt Payments. The Budget Act includes nearly $10 billion to pay down the state's current debts and liabilities. Debt payments include the following components:

- ***Normal Bond Debt Service.*** $7.8 billion to pay debt service costs for the state's outstanding and planned general obligation and lease-revenue bonds in 2023-24, as required by the constitution and debt covenants. Included as part of the GO bond debt payment is $951 million that is required to be spent on infrastructure in 2023-24, part of the state' Proposition 2 requirement. According to the State Treasurer, the state currently has outstanding general obligation bonds totaling $69.5 billion and has authorization to issue nearly $28 billion more. Outstanding lease-revenue bonds total $8.1 billion, and the state has authorization to issue more than $7 billion more.
- ***$1.9 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 $1.2 billion for CalPERS debt, $390 million for retiree health debt, and $290 million to pay a state pension loan previously authorized by SB 84 in 2017.

Senate Republican Fiscal Staff Assignments

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Public Safety, Judiciary, Corrections	Matt Osterli
Natural Resources & Environment	Emilye Reeb
Health & Veterans Affairs	Anthony Archie
Revenue, General Government & Housing	Chantele Denny
Transportation, Energy, and Labor	Heather Wood
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