



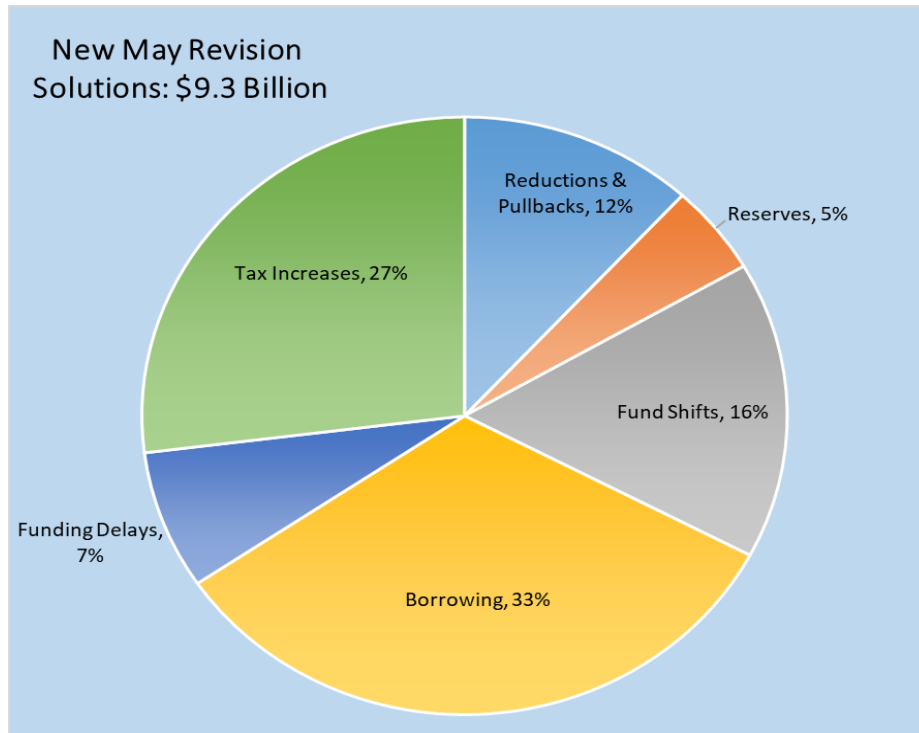
CALIFORNIA SENATE REPUBLICANS

Governor's 2023 May Revision: Quick Summary

Overall Budget

Deficit Grows to \$31.5 Billion. The May Revision now estimates the budget deficit will reach \$31.5 billion by June 2024. This is an increase of 40 percent compared to the \$22.5 billion deficit announced in the Governor's January budget. The increase is largely due to a decline in projected tax revenues of \$8.3 billion compared to January, combined with an increase in expenditures of roughly half a billion dollars.

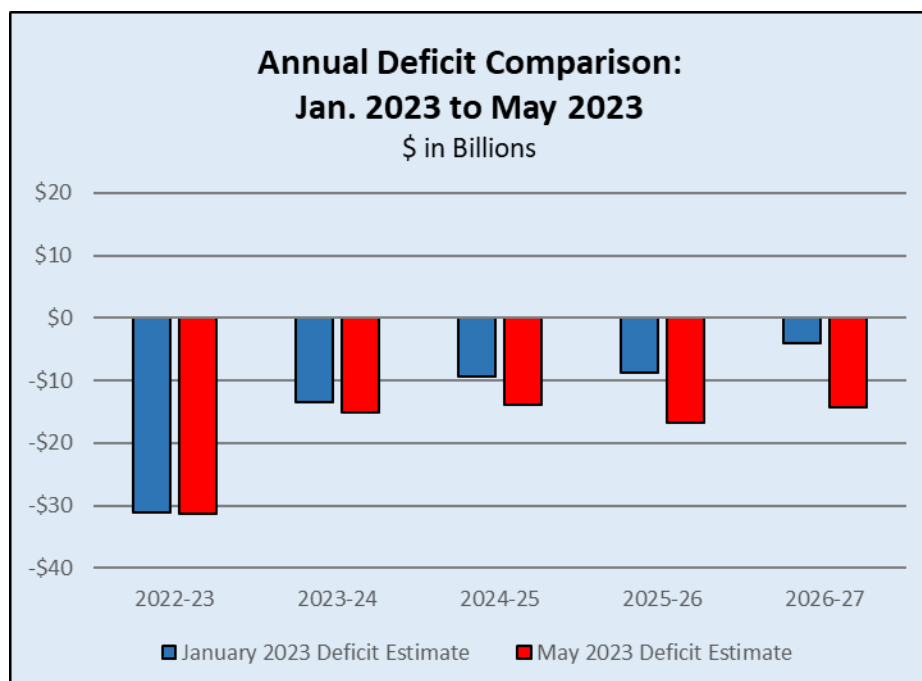
Solutions Rely Mostly on Taxes and Borrowing. The Governor proposes \$9.3 billion in additional "solutions" to address the increase in the deficit, relying primarily on borrowing and tax increases, which together account for 60 percent of the solutions. The only spending "reductions" are recoveries of previously approved funds that went unspent for various reasons, which would have been recovered anyway. The \$9.3 billion solutions package includes the components summarized in the chart below and described on the next page.



- Borrowing of \$3.0 billion, including \$1.2 billion from state special funds and \$1.8 billion in new bonds. Note that the Governor classified the new bonds as a “fund shift” rather than borrowing, even though bonds, by definition, are loans.
- A General Fund benefit increase of \$2.5 billion from the managed care tax, bringing the total General Fund share to \$3.4 billion when combined with the January proposal.
- Shifting \$1.5 billion in costs from the General Fund to other state funds, including \$500 million to greenhouse gas funds (Cap and Trade revenues) for zero-emission vehicles.
- Recapturing \$1.1 billion in unspent funds from previously authorized spending, including \$200 million from the Middle Class Tax Refund.
- Funding delays of \$695 million.
- Withdrawal of \$450 million from the Safety Net Reserve.

Expenditures Slightly Higher than January. Despite the deficit, General Fund spending would increase slightly to \$224 billion in 2023-24, \$487 million higher than the January proposal. The Governor attributed the increase to higher spending in Medi-Cal and the In-Home Supportive Services program. Spending from all state funds would be \$306 billion in 2023-24, an increase of \$9 billion from the January level. The lack of reductions to ongoing General Fund spending indicates an unwillingness to truly bring the budget back to a sustainable level.

Long-Term Deficits with Short-Term Solutions. The Governor’s lack of true spending reductions mean the state would continue to live off the recent short-term revenue surge while refusing to pause or reverse many recent program expansions. The worsening revenue outlook, combined with the lack of spending restraint, means that projected deficits are now larger than presented in January, and the May Revision only solves the deficit for 2023-24. The Governor’s multiyear forecast indicates that spending will exceed revenues every year through 2026-27, thus creating operating deficits in each of those years. The chart below compares the new May deficit estimates with the January estimates.



Tax Deadline Delay Increases Uncertainty. The federal government delayed the tax filing deadline from April to October due to storm damage, and California conformed its state deadline. The May Revision estimates that \$42 billion in tax revenues will now be received in October that would normally already be in hand. These revenues will still count in the years originally scheduled, but the delay in cash receipts means the May Revision is relying much more heavily on projections, thus increasing the risk that actual revenues will be significantly different than budgeted.

Reserves Mostly Held Intact. Citing the heightened uncertainty in the forecast, the May Revision would withdraw only \$450 million from the Safety Net Reserve. The state's remaining reserve balances would total \$37 billion and include:

- Rainy Day Fund balance of \$22 billion
- Discretionary reserve of \$3.8 billion (Special Fund for Economic Uncertainty)
- Safety Net Reserve of \$450 million
- Public school reserve of \$10.7 billion. This balance actually grows by \$748 million from the current year, in keeping with Proposition 2 requirements.

Health

Larger Share of Managed Care Organization (MCO) Tax Swiped for Deficit. The Governor's May Revision expands the previously announced MCO tax proposal. The administration estimates the tax would result in \$19.4 billion in new budget resources through 2026. Of this amount, \$11.1 billion will be set aside for enhancements to Medi-Cal providers, to be spent over a period of 8 to 10 years. Unfortunately, the remaining \$8.3 billion will be siphoned off to be used for other General Fund spending, including \$3.4 billion to plug the 2023-24 budget deficit (an increase of \$2.5 billion compared to the January proposal).

Ramps up Funding of CARE Court Treatment Costs. The May Revision includes \$82 million General Fund and additional sums in future years to support county behavioral health departments in their implementation of the Community Assistance and Recovery Empowerment (CARE Court) Act. CARE Court, proposed by the Governor and approved overwhelmingly by the Legislature in 2022, will provide another legal mechanism to urge those with untreated mental health issues into care.

Uses Mental Health Services Act (MHSA) Funds for New Behavioral Health Beds. The May Revision eliminates a proposed delay of \$250 million for the Behavioral Health Bridget Housing (BHBH) program. The BHBH program funds behavioral-health focused short-term shelters for seriously mentally ill homeless individuals. Instead, the May Revision uses \$250 million of state MHSA to fund 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.

State-Run Drug Program Would Expand Pill Business. The May Revision will include a trailer bill proposal to add the procurement of the drugs Mifepristone and Misoprostol into the mission of the CalRx program. Details of the language are not available, but the program was originally created in 2022 for the state to finance and run a factory to produce insulin with additional plans to produce naloxone.

General Government

Agricultural Business Grant Program. The May Revision includes \$25 million General Fund for the California Small Agricultural Business Drought Relief Grant Program to provide direct assistance to eligible agriculture-related businesses that have been affected by recent storms. The 2022-23 budget included \$75 million for this program.

Special Treatment for Fresno. The budget includes \$250 million, to be spent over three years, for the city of Fresno's Public Infrastructure Plan to invest in the downtown area. The remaining \$50 million in the fund would continue to be used to provide grants to support revenue stability in areas of high unemployment and high poverty across the state. The 2022 Budget Act planned \$100 million General Fund each year for three years to establish the Local Government Sustainability program statewide.

Reverts Additional \$50 million from Small Business COVID Relief Grant Program. The Governor proposes to revert a total of \$142 million of unspent grant funds from the California Small Business COVID Relief Grant Program. The January budget proposed to revert \$92 million.

Borrowing to Solve Shortfall. The May Revision proposes to shift \$500 million from the State Project Infrastructure Fund to the General Fund as part of the proposed budget solutions. The Governor indicates the resources, currently earmarked for the Capitol Annex project, are not needed in 2023-24 and would be returned in 2024-25 and 2025-26 as needed to meet the project's design-build requirements as the project progresses.

K-12 Education

Proposition 98. At May Revision, the Proposition 98 guarantee is estimated to be \$106.8 billion for the 2023-24 Budget Year, which reflects a \$2 billion decrease versus the January Governor's Budget. General Fund revenues as a result of capital gains are projected to increase, requiring the Public School System Stabilization Account (PSSSA) deposits to increase from \$8.5 billion to about \$10.7 billion. This represents ten percent of the minimum guarantee, the constitutional cap, and no additional deposits are required if the balance remains at this threshold. Per student Prop 98 funding is estimated to be \$17,460 in 2023-24, a decrease of \$75 compared to the Governor's Budget.

Local Control Funding Formula (LCFF). The Governor's Budget proposed an 8.13 percent cost-of-living adjustment to the Local Control Funding Formula (LCFF), which equated to an additional \$4.2 billion in additional discretionary funds. At May Revision, the cost-of-living adjustment has been updated to 8.22 percent, which, when combined with declining enrollment, provides \$3.4 billion in discretionary funds to schools. This reflects a decrease of about \$800 million from the Governor's Budget. The May Revision also utilizes \$2.7 billion in one-time Proposition 98 funds to support LCFF costs in 2023-24.

The May Revision additionally includes \$80 million in ongoing Proposition 98 General Fund to provide support for County Offices of Education (COEs) serving students in alternative school settings such as Juvenile Court schools.

Further Cuts to the Arts and Music Block Grant. The May Revision cuts \$607 million from the Arts, Music, and Instructional Materials Discretionary Block Grant, in addition to the \$1.2 billion cut proposed in January, bringing the total block grant from \$3.6 billion to \$1.8 billion. The Revision also adjusts the funding provided to implement the new Proposition 28 from \$941 million at the Governor's Budget to \$933 million. Further cuts to the one-time block grant continue to leave schools with a net reduction in arts and music education funding.

Reduces the Learning Recovery Emergency Block Grant. The May Revision proposes to reduce the Learning Recovery Emergency Block Grant by \$2.5 billion one-time Proposition 98 General Fund. This decreases the block grant from \$7.9 billion at the Governor’s budget to about \$5.4 billion.

Early Childcare. The Governor’s Budget provided \$604 million to support the first year of the Universal Transitional Kindergarten (TK) expansion, which would provide access to children turning five between September 2 and February 2. This decreases to \$357 million in the May Revision due to the decline in TK enrollment projections. The funding provided for the first-year costs to add one additional certificated or classified staff person to every TK class also decreases from \$337 million to \$283 million. The second year costs to provide the expansion, covering children turning five between September 2 and April 2, would also decrease from \$690 million to \$597 million, while the costs to add an additional staff person remains unchanged from the Governor’s budget.

Universal Meals. The Governor’s Budget provided \$1.5 billion in ongoing Proposition 98 General Fund to support universal school meals. The May Revision adds an additional \$110 million in one-time Prop 98 General Fund and \$191 million ongoing Proposition 98 general Fund due to an increase in the projected demand in the 2022-23 and 2023-24 fiscal years.

Dyslexia Screening. The May Revision includes a proposal to require schools, by the 2025-26 school year, to screen students in kindergarten through second grade for reading difficulties, including dyslexia. The proposal also includes \$1 million one-time Prop 98 General Fund to support the creation of an approved list of screening instruments.

Higher Education

Maintaining Higher Education Compacts. Despite the deficit, the May Revision maintains the previously announced compacts that would provide the University of California (UC) and the California State University (CSU) with five percent annual base increases over the next five years.

Bonds, Bonds, and More Bonds. The May Revision would shift many UC and CSU projects from planned General Fund support to university-issued bonds to address the increasing budget problem. The shifts would total \$937 million through 2023-24 for student housing at UC and CSU. The state would pay \$75 million per year in interest on these bonds. Additional shifts of \$367 million would include the UC Berkeley Clean Energy Campus Project and Cal Poly Humboldt Infrastructure Projects.

Housing and Homelessness

The Governor’s May Revision proposes the following:

- Revert \$17.5 million General Fund included in a past budget for the Department of Housing and Community Development’s (HCD) Adaptive Reuse program. The program received \$25 million as part of the 2000 budget, but only \$7.5 million has been spent to date.
- Defer \$345 million of the original \$500 million authorized in 2021-22 for HCD’s Foreclosure Intervention Housing Prevention Program over the next four years. Proposed spending in 2023-24 would now be \$50 million, 2024-25 and 2025-26 would include \$100 million, and 2026-27 would include the remaining \$95 million.

- \$1 billion continues to be proposed for the Homeless, Housing Assistance, and Prevention Program in 2023-24.

Natural Resources and Environment

Fund Shifts to Future Climate Resilience Bond. The May Revision includes an additional \$1.1 billion in General Fund shifts across climate resilience programs. These programs will be included as part of the future climate bond proposal, and include the following fund shifts:

- Water Recycling—\$270 million
- Salton Sea Restoration—\$169 million
- Community Resilience Centers—\$160 million
- Transformative Climate Communities—\$100 million
- Regional Resilience Program—\$100 million
- Urban Greening—\$100 million
- Statewide Parks Program—\$86.6 million
- Sustainable Groundwater Management Act Implementation—\$60 million
- Dam Safety and Flood Management—\$50 million
- Multi-Benefit Land Repurposing—\$20 million

Flood. The Administration proposes an additional \$290 million to support flood mitigation and response efforts to combat the severe impacts of historic flooding throughout the state. In January 2023, after three of the driest years on record, a barrage of storms known as "atmospheric rivers" battered California. The Governor's plan uses \$125 million in funding shifted from drought contingency to support flood response efforts instead. The broad categories of funding include but are not limited to:

- \$125 million to support preparedness, response, and recovery related to the 2023 storms
- \$75 million to support local flood control projects
- \$25 million to expand the current California Small Agricultural Business Drought Relief Grant Program to provide direct assistance to eligible agriculture-related businesses that have been affected by the recent storms
- \$25 million for potential additional disaster relief and response costs in this fiscal year to address immediate impacts
- \$40 million for the San Joaquin Floodplain restoration

Beverage Container Recycling Fund Loans. The May Revision proposes budgetary loans totaling \$140 million from the Beverage Container Recycling Fund to the General Fund (\$100 million) and the Hazardous Control Waste Account (\$40 million). The loans would address budgetary shortfalls to the General Fund and a shortfall of fee revenue deposited into the Hazardous Control Waste Account. The May Revision plans to repay the loans over three years or sooner based on programmatic needs.

Exide Cleanup. The May Revision includes \$67.3 million from the Lead-Acid Battery Cleanup Fund over two years, including \$40.4 million in 2023-24 and \$26.9 million in 2024-25, to clean up 6,425 contaminated parkways surrounding the former Exide Technologies facility. The facility is located in the

City of Vernon, about five miles southeast of downtown Los Angeles. The facility was involved in recycling lead-acid batteries starting in the 1920s until it ceased operations in March 2015. Fees on lead-acid batteries were increased in 2022, providing additional revenue that supports the proposal.

Energy

Increases the Surcharge on Electricity. The May Revision proposes to increase the surcharge on all electricity customers to increase operating revenues for the Energy Commission. The proposal would increase the surcharge amount, add an inflationary adjustment, and apply the surcharge to electricity used behind the meter, such as electricity generated by rooftop solar systems. It is unknown how much each customer's electricity bill will grow as a result of the proposed surcharge increase, but with some of the highest electricity rates in the country, the last thing Californians need is an even bigger electric bill. The increase is estimated to bring in an additional \$3 million in 2023-24 and \$6 million annually in subsequent years.

Gasoline Price Gouging. The May Revision provides \$7.2 million to implement the so-called consumer price gouging protections, also known as the gasoline refinery tax, included in SB x1-2 (Skinner, 2023). Of the \$7.2 million, the Energy Commission increases by \$5.9 million to collect new data, analyze and track trends in the petroleum supply chain and pricing, produce required reports, and establish a new oversight division. The Air Resources Board increases by \$1 million to develop the Transportation Fuels Transition Plan. Finally, the Department of Industrial Relations increases by \$286,000 to assist with managing refinery turnaround and maintenance schedules.

Utility Bill Arrearages. The May Revision proposes to revert an additional \$149 million of unused funds from the California Arrearage Payment Program, for a total reversion of \$549 million, including the \$400 million proposed in January. 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.

Transportation

Transportation Infrastructure. The May Revision maintains the proposed January reduction of \$2.2 billion, largely for transit, but also shifts an additional \$150 million of previously promised General Fund for ports and good movement projects to instead be funded by gasoline tax revenues via the State Highway Account.

Zero Emission Vehicles and Infrastructure. The May Revision maintains the \$1.1 billion in program reductions and \$1.4 billion in fund shifts proposed in January. The May Revision proposes to shift an additional \$635 million of promised funding from the General Fund to instead be funded by cap-and-trade revenues via the Greenhouse Gas Reduction Fund (GGRF), for a total shift of \$2.1 billion from the General Fund to the GGRF. This funding supports various programs to subsidize zero emission vehicle purchases and zero emission vehicle infrastructure.

Public Safety and the Judiciary

Reductions to Prison Operational Funding. The May Revision scores approximately \$76 million General Fund in operational savings related to revised assumptions about the costs of COVID-19 on the prison system. Another \$30 million allocated in the 2021 Budget Act for deferred maintenance would revert to the General Fund early. These savings would have occurred on the natural anyway, albeit after the end of the 2023-24 fiscal year.

Transforming San Quentin State Prison. In March 2023, the Governor unveiled a plan to transform San Quentin State Prison into a Rehabilitation Center, modeled after the Norwegian system. The May Revision proposes to demolish a mostly vacant building formerly used as a furniture factory by the Prison Industries Authority and construct a new Educational and Vocational Center in its place. Total costs for the project are estimated at \$361 million, and the Governor would finance the project using lease-revenue bonds. This seems like a very high price tag to replace a single building at a prison campus that includes literally dozens of buildings.

Community Assistance, Recovery, and Empowerment (CARE) Act Court Funding. In March 2022, the Governor announced an initiative to use the civil courts to require care for the state's mentally ill and addicted living in the streets. The Governor's January budget proposed \$24 million General Fund in 2023-24, increasing to \$51 million in 2024-25 and \$69 million annually thereafter, for the courts to implement the CARE Act. The May Revision proposes to increase the 2023-24 and 2024-25 allocations to \$33 million and \$55 million, respectively, to provide for early implementation of the CARE Act in Los Angeles County. County behavioral health departments will bear the brunt of the costs of serving the estimated 7,000 to 12,000 program participants. Those costs are unknown at this time, but likely in the hundreds of millions of dollars annually.

General Fund to Borrow from Attorney General's Slush Fund. The May Revision includes a proposal to loan \$400 million from the Litigation Deposit Fund (LDF) to the General Fund. The LDF is a special fund established to receive proceeds from litigation conducted by the Department of Justice (DOJ). Some of the moneys in the fund are restricted by the terms of judgments or settlement agreements, while other moneys are more fungible. Some have referred to the fund as the Attorney General's slush fund over the years, largely because there is no regularly-published accounting of the money in the fund, which has a balance of over a billion dollars. According to the Department of Finance, the loan would be made from "idle resources not required for currently projected operational or programmatic purposes." If there is at least \$400 million in the LDF that the Attorney General does not need for currently projected operational or programmatic purposes, perhaps the Attorney General's budget should be reduced by a commensurate amount and the DOJ should fund its operations from the LDF in 2023-24.

Ammunition Fee Could Exceed Cost of Ammunition. In accordance with the statutory cap imposed by SB 1235 (De Leon, 2016), the DOJ currently imposes a fee of \$1 on each transaction in the state involving the purchase of ammunition. This fee is intended to pay the costs of DOJ's ammunition regulation duties established by Proposition 63 (2016). However, DOJ has consistently outspent revenues from the fee. The May Revision proposes increasing the fee to repay a \$25 million startup loan from the General Fund made in 2016 and provide sufficient revenues for ongoing operations. In order to do that, the fee would have to be increased to \$6 or \$7 per transaction. For certain calibers and quantities of ammunition, this could mean that the transaction fee would actually exceed the price of the product. Instead of burdening law abiding citizens with excessive fees, DOJ needs to look for ways to drastically reduce its costs and live within its means.

Labor and Employment

Unemployment Insurance (UI) Debt. The May Revision maintains the Governor's January proposal to delete \$750 million, promised in last year's budget, to help pay down the debt owed to the federal government for UI benefits. Additionally, the state General Fund is responsible for the interest on the UI debt, but the May Revision proposes to borrow \$306 million from the state's disability insurance program to make the required payment in September 2023.

Workforce Development Programs. The May Revision proposes to restore previously proposed cuts to two workforce development programs. Various workforce incentive programs within the Department of Public Health would be fully restored to \$65.6 million over four years by restoring the proposed \$49.8 million cut. Additionally, funding for the Women in Construction Unit within the Department of Industrial Relations was previously proposed to be delayed, but the May Revision proposes to fully restore funding by allocating \$15 million annually beginning in 2023-24.

Human Services

CalFresh Administration Rebase for Counties. The May Revision provides \$406 million (\$159 million General Fund) to implement a revised budgeting methodology for county CalFresh administration activities. This reflects requirements included in the Human Services Omnibus Trailer Bill, AB 207 (2022), for the Department of Social Services, representatives of county human services agencies, and the County Welfare Directors Association to update the budgeting methodology.

CalWORKS Grant Increases and General Fund Reversions. The May Revision includes a 3.6 percent increase to the CalWORKS Maximum Aid Payment levels, with a cost of about \$110 million in 2023-24. This increase is entirely funded by the Child Poverty and Family Supplemental Support Subaccount. The May Revision also proposes to revert unexpended funding in the CalWORKS single allocation of about \$280 million General Fund from 2021-22.

Child Care and Development COLA and Savings. The May Revision includes \$183 million General Fund for an 8.22 percent COLA for Child Care and Development programs and \$840,000 General Fund for the Child and Adult Care Food Program. There are also one-time savings of \$588 million General Fund in 2022-23 due to estimated General Child Care expenditures that will go into contract by the end of the fiscal year. This does not change the General Child Care expenditure authority. The May Revision also reflects the family fee waivers and temporary stipends authorized in the early action child care trailer bill, AB 110 (2023).

California Food Assistance Program Expansion Update. The May Revision includes \$40 million General Fund for automation and outreach efforts related to the expansion of the California Food Assistance Program (CFAP) to undocumented immigrants aged 55 and older. The Revision also partially rolls back the delay of the expansion of the CFAP from January 2027 to October 2025. The original implementation date when adopted was January 2025.

Immigrant Arrivals at Southern Border. The May Revision includes \$150 million one-time General Fund for the Rapid Response program efforts to provide additional support for migrant arrivals at the Southern California border and funding for other developing issues. This is a significant amount of funding going towards services that can be assumed to be targeted at undocumented immigrants.