CALIFORNIA SENATE REPUBLICANS

Highlights and Analysis of the 2023-24 Enacted Budget

Updated November 30, 2023

**SENATE REPUBLICAN
FISCAL OFFICE**

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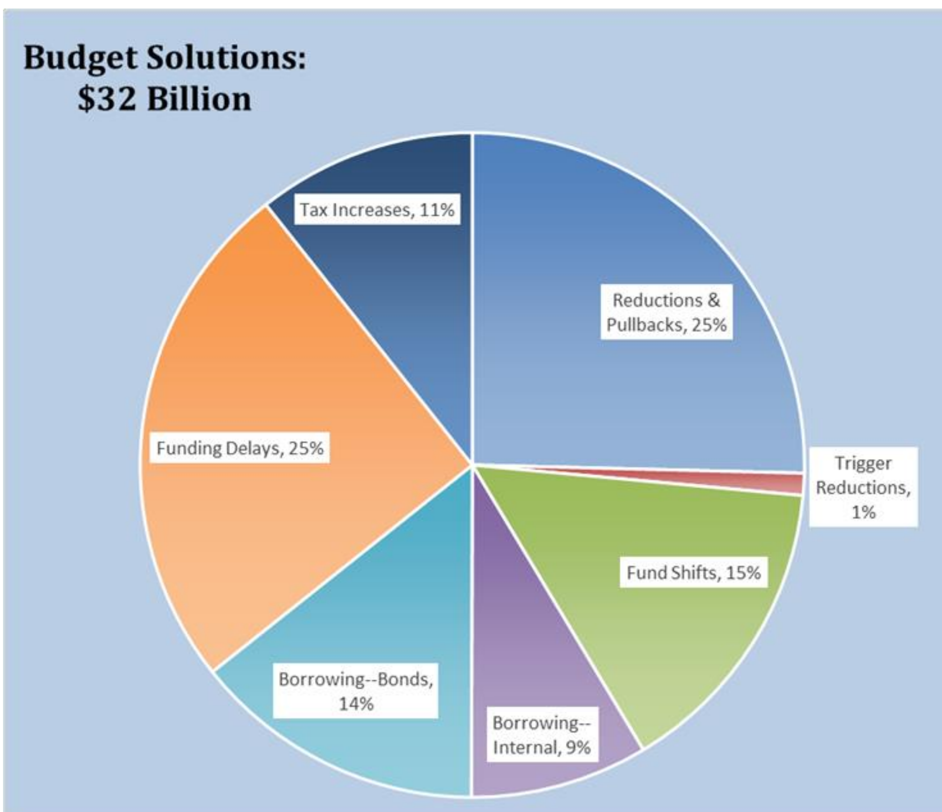
<u>Overall Budget</u>

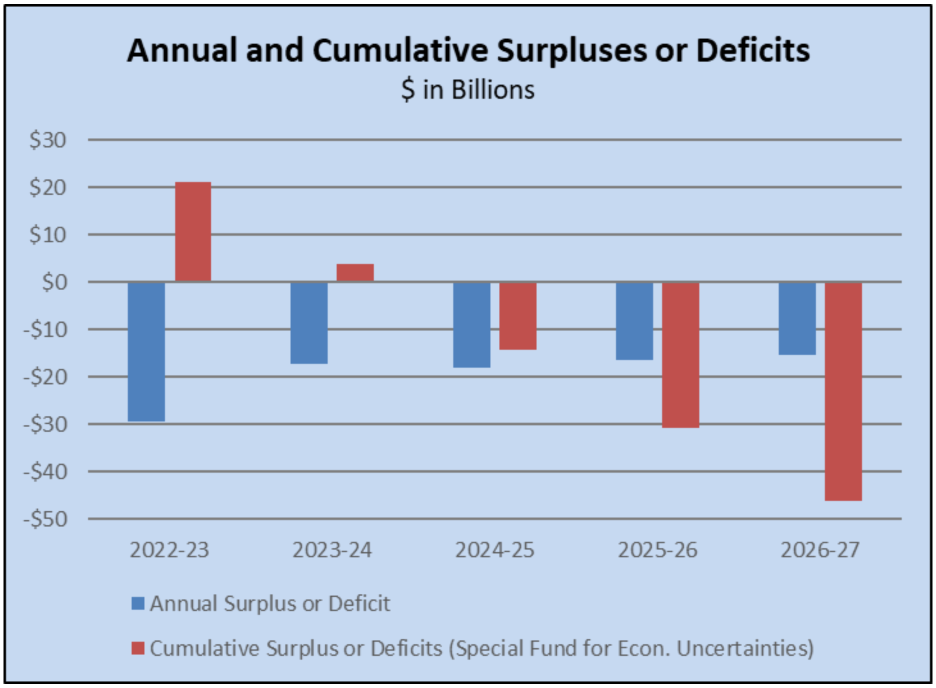
Revenues Return to Reality... After a two-year surge of tax revenue driven by federal pandemic spending and a tech stock boom, California's tax revenues appear to be returning to reality. Tax revenues assumed for the 2023-24 budget would reach nearly $209 billion General Fund, a slight increase of $3 billion (1.5 percent) from the revised 2022-23 level. This is a substantial decrease of $31 billion (13 percent) from the amount received in 2021-22. The budget forecasts that revenues would actually decline slightly through 2025-26 before ticking up marginally in 2026-27.

...But Spending Does Not. The enacted budget authorizes nearly $226 billion in General Fund spending for 2023-24, which is $8 billion (3.4 percent) below the 2022-23 enacted budget of $234 billion. Despite the slight year-over-year decline, General Fund spending for 2023-24 still would be $9 billion (4 percent) *higher* than the revised spending amount for 2021-22. This demonstrates a lack of willingness by the Governor and legislative Democrats to give up their high-spending ways and live within their means.

Deficit Solutions Include Taxes and Borrowing, Few Programmatic Reductions. The enacted budget includes $32 billion in budget "solutions" to address the deficit, as summarized in the following chart. Borrowing and tax increases account for a combined 34 percent of the solutions, while actions counted as reductions make up only 25 percent. However, these "reductions" include previously approved funds that went unspent for non-budget reasons, as well as planned amounts that would have been increases to programs. There are few actual reductions to ongoing programs.



Deficits Appear Every Year in Forecast. The budget's lack of true, ongoing spending reductions means the state would continue to live off the recent short-term revenue surge while refusing to pause or reverse many recent program expansions. The budget only solves the deficit for 2023-24, but the lack of spending restraint means that projected deficits will continue every year through 2026-27. The table below summarizes these annual deficits as well as their cumulative effect. Barring a surprise increase in revenues, these deficits must be addressed eventually through future budget solutions.



Reserves Held Intact for Now. The enacted budget provides nearly $38 billion in total reserves, including $22 billion in the Rainy Day Fund and $11 billion in the public school reserve. Despite the seemingly high reserve balance, the public school reserve can be used only to increase spending on Proposition 98 purposes and is thus not available to cover general deficits. Additionally, the point of reserves is to prepare for unknown budget difficulties, not preplanned overspending.

Housing and Homelessness

Spending Billions on Housing Reflects Failure of State Housing Policies. The 2023-24 budget follows recent tradition by continuing to throw money at the housing crisis in an effort to overcome the state's failed housing policies. California's housing permit numbers were virtually unchanged from 2017 to 2021. In contrast, the competitor states of Florida and Texas build dramatically more housing in raw numbers, despite having populations that are significantly smaller.

Affordable Housing Programs and Funding. The budget includes a total of nearly $15 billion in support of various housing programs, such as the Multi-Family Housing program, the Infill Infrastructure Grant program, the CalHome program, and the California Dream For All program, among others. Clearly, there is no lack of subsidies from the state for housing, even during years marred by multi-billion dollar deficits.

Budget Borrowing to Close Deficit. As part of the solutions to close the budget deficit, the budget borrows $400 million from the Department of Housing and Community Development's (HCD's) Housing Rehabilitation Loan Fund.

Billions Spent for Poor Results on Homelessness. California has spent astronomical amounts of General Fund resources on homelessness, including more than $20 billion between 2018 and 2022-23, and the new budget adds another $3.5 billion in 2023-24. Despite this, there is little evidence of success or improvement in this crisis. Over that same period, California's homeless population increased nearly 32 percent, from 129,972 homeless in 2018 to 171,500 homeless in 2022.

Flexible Funding for Local Governments to Combat Homelessness. The 2023-24 budget provides $1.1 billion General Fund for the Homeless Housing, Assistance, and Prevention program (HHAP), requires 10 percent of the funds to be spent on homeless youth, and begins to transition the grant program to the Department of Housing and Community Development.

Behavioral Health Bridge Housing Program. The budget appropriates a total of $265 million in Proposition 63 Mental Health Service Act funding to support the Behavioral Health Bridge Housing program.

Accountability and Performance Metrics Needed For Homeless Programs. The budget includes statutory changes through the trailer bill AB 129 to establish coordinated planning, accountability and performance metrics within the state's HHAP program, but fails to define how future funding would be tied to defined outcomes.

Encampment Resolution Grant Program. The budget provides $400 million for the Encampment Resolution Grant program within the California Interagency Council on Homelessness.

<u>Health</u>

A New Managed Care Organization Tax on Health Plans. The budget authorizes a 3.75-year managed care organization (MCO) tax that is scheduled to provide $19.4 billion in new budget resources for both General Fund relief and for Medi-Cal provider rate increases.

Relief for Vulnerable Hospitals. The budget sets aside $200 million to aid hospitals at risk of closure or in need of relief from seismic safety retrofitting requirements.

Resumes Covered California Health Insurance Premium Subsidies. The budget ends the practice of siphoning off the individual mandate penalty tax revenue for other General Fund needs and uses the revenue to restart health insurance subsidies for Covered California insurance purchases.

<u>Mental Health</u>

Delay in Behavioral Health Infrastructure Funding. The budget delays by up to two years $480 million for direct funding of the current mental health bed capacity expansion program.

Planning for the Governor's Behavioral Health Housing Bond. The budget allocates $20 million to prepare for the Governor's proposed allocation of bond funding for treatment beds, if the bond is approved by the voters in March 2024.

Funds Short-Term Housing for Severely Mentally Ill. The budget appropriates $265 million to counties to purchase and install tiny homes with time-limited behavioral health supports, or purchase bed space at assisted living facilities.

Short-Changes Counties in CARE Court Funding. The budget allocates $129 million to the counties to implement the Governor's CARE Court program to treat severely mentally ill individuals, an amount the counties deem "inadequate."

Public Safety

Rising Violent Crime Ignored. Violent crime peaked in California in 1992, then declined for more than two decades thanks to tough-on-crime policies. It reached its lowest point in 2014 before soft-on-crime policies championed by the ruling party began to change the trajectory. Violent crimes have increased by 27 percent between 2014 and 2022, erasing more than one fifth of the two-decade decrease. The budget provides no significant additional funding to address this concerning trend.

San Quentin Makeover Is a Boondoggle. Prison costs are increasing while the prison population continues to decrease. This budget makes things worse by borrowing $360 million to demolish a single building at San Quentin State Prison and build a new one in its place. The exorbitantly expensive project is intended to provide a better environment for inmates to be rehabilitated. In order to try to meet an arbitrarily short project completion timeline, the budget authorizes the Department of Corrections and Rehabilitation to use the progressive design-build delivery method. In addition, rather than reforming the problematic California Environmental Quality Act, the budget continues the ruling party's history of hypocrisy by simply exempting the San Quentin project.

Attorney General's Litigation Fund Bails Out General Fund. The budget authorizes a $400 million loan from the Department of Justice's (DOJ) Litigation Deposit Fund to the General Fund to help address the state's budget deficit. The administration claims the loan will be made from "idle resources not required for…operational or programmatic purposes", which begs the question of why there is $400 million in idle resource in an off-the-books DOJ special fund.

Ammunition Fee May Exceed Cost of Actual Ammunition. The DOJ currently charges a $1 fee on each ammunition transaction in the state. The fee was established in 2016, following enactment of Proposition 63, to pay the costs of DOJ's ammunition regulation duties, although DOJ has consistently outspent fee revenues. The budget provides a $4.3 million General Fund loan to cover DOJ's costs in the short term. The Administration plans to work with the Legislature over the summer to align the fee with the costs of regulating ammunition transactions. However, just to pay back outstanding loans and keep up with operational costs, DOJ estimates the $1 fee would have to be increased to $6 or $7 per transaction. For some calibers and quantities, this fee level would exceed the cost of the ammunition.

K-12 Education

Overall Education Spending. Includes $129 billion in total K-12 education programs and reflects a Proposition 98 minimum guarantee of $108 billion for K-14, of which $95 billion is for K-12 programs. Ongoing K-12 Proposition 98 per pupil expenditures is at $17,678 in 2023-24, and $24,054 per pupil when accounting for all K-12 funds. A cost-of-living-adjustment of 8.22 percent is provided for the Local Control Funding Formula (LCFF) LCFF, which when combined with enrollment adjustments, will result in $3.4 billion in additional discretionary funds for schools. This brings the total LCFF funding to approximately $79 billion.

Major Block Grant Cuts. Cuts the Learning Recovery Emergency Block Grant by about $1.6 billion in Proposition 98 General Fund and also cuts the Arts, Music, and Instructional Materials Discretionary Block Grant by $200 million Proposition 98 General Fund.

Arts and Music Funding. Includes $938 million to implement the Arts and Music in Schools – Funding Guarantee and Accountability Act, approved by the voters as Proposition 28.

Charter School Renewals. The budget provides a one-year extension for all charter schools whose term expires on or between January 1, 2024 and June 30, 2027.

Additional Support for County Offices of Education. The budget includes $80 million ongoing Proposition 98 General Fund for additional support for County Offices of Education (COEs) operating juvenile court and community schools.

Additional Funding to Target Struggling Students. Includes $300 million ongoing Proposition 98 General Fund to establish an "equity multiplier". The funds are intended to help close opportunity gaps and accelerate learning gains by targeting high-need students.

Dyslexia Screening. Provides $1 million one-time Proposition 98 General Fund for the State Board of Education to appoint an independent panel of experts to create an approved list of screening instruments for assessing pupils in kindergarten through second grade for the risk of reading difficulties, including dyslexia.

Child Care and Early Education

Reimbursement Rate Increases. Provides $2.83 billion one-time ($1.67 billion from General Fund and various federal funds, and $1.16 billion Proposition 98 General Fund) for reimbursement rate increases for child care and preschool providers through 2024-25.

Family Fee Changes. Permanently waives family fees for child care and preschool families that make below 75 percent of the state's median income and caps fees at one percent of their monthly income for families making at or above 75 percent.

Alternative Methodology. Directs the Department of Social Services, in collaboration with the State Department of Education, to develop and conduct an alternative methodology for setting reimbursement rates for state-subsidized childcare and preschool services. The estimated cost to adopt the alternative methodology is $12 billion.

Extends Hold Harmless Policies. Provides $22 million General Fund to extend the COVID-19 era "hold harmless" policy until September 30, 2023 for child care and preschool reimbursements.

Higher Education

Student Housing and Campus Infrastructure Shift to Bond Funding. The previous two budgets approved billions of dollars in General Fund grants and loans to universities and community colleges for student housing projects and other campus facilities. This includes $1.4 billion for various student housing projects and over $1.0 billion for other facilities. The 2023-24 budget would instead claw back the funds and shift those projects from cash to lease-revenue bonds. The University of California and California State University systems are accustomed to issuing such bonds, but the clawback is a challenge for community colleges, some of whom had begun to spend funds on their projects. The budget package declares an intention to explore a statewide bond to pay for community college housing projects and keep those colleges whole for the funds they must repay.

Baseline Operating Budget Increase for All Public Systems. The budget maintains the previously agreed-upon compacts between the Governor and the University of California and California State University systems, who would each receive another five percent increase in their base operating budgets. The community college system would receive a cost-of-living increase of 8.22 percent, matching the increase for K-12 education under Proposition 98.

Transportation

Implements Gas Price Gouging "Penalty." Fails to enact any tax or regulatory reforms to reduce the price of gasoline, but instead implements the price gouging "penalty." The budget provides $7 million to implement SB 1x-2 (Skinner, 2023) to establish a penalty for gasoline refiners exceeding a yet-to-be-established maximum gasoline refining margin.

Gasoline and Diesel Taxes Increase Again. Annual gas and diesel tax adjustments increase the price of gas by 4 cents per gallon and the price of diesel by 3.1 cents per gallon. These increases will generate about $642 million in tax revenues, bringing total gas and diesel tax revenue to an estimated $9.4 billion for 2023-24.

Transit Bail Out. Provides $2 billion to bail out struggling transit operators, contingent upon compliance with new accountability and oversight requirements. A budget trailer bill requires additional accountability measures and short- and long-term financial plans for transit operators, allowing the state to have additional oversight of these entities and the funds spent. The bailout funds are contingent upon compliance with these new measures.

Zero-Emission Vehicle Subsidies and Infrastructure. Includes $847 million for zero-emission vehicle (ZEV) subsidies, infrastructure, and equity projects. 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. This budget largely maintains that commitment by providing $10 billion over six years.

High-Speed Rail. In addition to continuing to spend previously appropriated bond funds, the budget includes $889 million in 2023-24 from Cap and Trade funds. The 2023 Project Update Report indicated the total costs of completing HSR is up to $128 billion, with no estimated completion date.

High-Speed Rail Office of the Inspector General. Includes $1 million for the implementation of the High-Speed Rail Office of the Inspector General to oversee the high-speed rail project. However, the $1 million budget is far from sufficient to provide any meaningful oversight.

Energy

Strategic Energy Reliability Reserve. Provides $215 million for the Strategic Energy Reliability Reserve in an effort to keep the lights on. Despite the budget deficit, reserve programs were not significantly reduced, and an additional $200 million is still planned for future years.

Clean Energy Incentive Programs Modestly Reduced. Includes $1.1 billion in 2023-24 for various clean energy programs. The five-year package totals $2.9 billion, with only $390 million in program reductions to help address the budget deficit.

Clean Energy Reliability Investment Plan (CERIP). Provides the first $100 million (General Fund) for the CERIP. Prior legislation earmarks a total of $1 billion over a three-year period for the CERIP, to accelerate the deployment of clean energy resources, support demand response, assist ratepayers, and increase energy reliability.

Defers Some Broadband Investments. Eliminates planned funding of $550 million for last-mile broadband infrastructure and $575 million for the Loan Loss Reserve Fund, used to finance local broadband infrastructure development, and instead plans funding for future years.

Resources and Environment

Offshore Wind Aspirations Likely to Raise Costs Again. Conveys the intention to evaluate offshore wind energy permitting, which could potentially exacerbate already-high energy costs.

Insufficient Funding for Flood Risk Reduction. Designates a meager one-time $436 million General Fund to assist at-risk communities in managing and preparing for future floods.

Dam Safety Local Assistance Program. Establishes a new dam safety assistance program to provide much-needed state funding for repairs, rehabilitation, enhancements, and other projects.

Continues to Expand Fee and Enforcement Authority. Extends the fee authority for recycled water permits, introduces new enforcement for hazardous materials programs, and removes the cap on administrative fees for the Pharmaceutical and Sharps Waste Stewardship Program.

Cannabis

Enhances Cannabis Licensure Process. Addresses key issues related to existing cannabis licensure laws and their alignment with federal requirements.

Perpetuates Troubled Cannabis Regulation System. Fails to address concerns about the sustainability and financial viability of the cannabis regulation system established in response to Proposition 64 (2016).

Funds Proposition 64 Programs. Provides $670 million spread across various cannabis programs, as required by Proposition 64.

Business and Employment

Breaks Promise of Relief for Job Creators and Small Businesses. Deletes $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.

Borrows to Cover UI Interest Payment. As a General Fund solution, the budget includes a loan of $306 million from the State Disability Insurance Program to the General Fund to cover the state's required payment of interest to the federal government on UI loans.

Industrial Welfare Commission. Includes $3 million to revive the long-dormant Industrial Welfare Commission, in an effort to "backdoor" the issuance of rules for fast food restaurants.

CalCompetes Grant Program. The budget includes $120 million General Fund for the CalCompetes grant program within the Governor's Office of Business and Economic Development (GO-Biz). This program was established to support additional firms that could not take advantage of the CalCompetes Tax Credit program, and it previously received $120 million General Fund in both 2021 and 2022.

Flood Relief Grant Program. The budget expands eligibility for the Small Agricultural Business Drought Relief Grant program within GO-Biz to include businesses impacted by storm flooding within a county that has a state or federal disaster declaration.

Developmental Services

Provisional Eligibility for Services to Children Age 2 and Under. The budget expands provisional eligibility to likely developmentally disabled children 2 and under in order to reduce the likelihood of delays in needed intensive services and supports.

Allows Service Provider Rates to Increase as the State Minimum Wage Increases. Provider reimbursement rates for services will adjust whenever the California minimum wage increases.

Waives Family Fees for an Additional Year. The budget extends the pandemic-era non-collection of family fees for one more year.

Creates a New Employment Incentives Office as Subminimum Wage Law Phases Out. As employers lose the right to hire at wages that match productivity, the state will coordinate employer grants to help hire developmentally disabled individuals.

Human Services

CalWORKs Grant Increases. Provides $111 million for a 3.6 percent Maximum Aid Payment (MAP) Increase beginning on October 1, 2023, and removes the expiration on a temporary 10 percent CalWORKs grant increase provided in the 2022 budget, originally set to expire on September 30, 2024.

Undocumented Immigrant – IHSS Coverage. Provides $902 million General Fund in 2023-24 for the In-Home-Support-Services (IHSS) costs related to the full-scope Medi-Cal expansion to undocumented immigrants 50 and over.

Summer Electronic Benefits Program. Includes $47 million ($24 million General Fund) for outreach and automation costs related to the phase-in of the new federal Summer Electronic Benefits Transfer (EBT) program.

Southern Border Activities. Includes $150 million General Fund for the Rapid Response program, which awards grants and contracts to entities that provide assistance to immigrants (likely undocumented) including but not limited to temporary shelter, medical screening and treatment, food, and clothing.

Food Assistance Expansion to Undocumented Immigrants. Includes $40 million one-time General Fund to support automation and program outreach for the implementation of the expansion of the California Food Assistance Program (CFAP) for undocumented individuals aged 55 and older.

Theft Reimbursement and Prevention of Welfare Benefits. Provides $50 million ($17 million General Fund) to improve EBT card security and reduce benefit theft by upgrading EBT cards to include Chip/Tap technologies. Also includes $43 million in federal funds for automation and administrative activities for the reimbursement of food benefit theft.

IHSS Penalties and Collective Bargaining. Provides $1.5 million one-time General Fund to determine the best way to implement statewide or regional collective bargaining of In-Home Supportive Services (IHSS) providers. Also, beginning October 1, 2023, increases the IHSS county collective bargaining penalty from a 7 percent withholding to a 10 percent withholding of the 1991 Realignment funding.

Ban on Adoption Facilitators. Includes $317,000 from the Federal Trust Fund for the Department of Social Services to enforce a ban on adoption facilitators and to regulate unlicensed adoption agencies.

Taxes

Student Loan Forgiveness. A late 2022-23 budget trailer bill, AB 111, exempts forgiven unpaid community college fees, higher education emergency relief grants, and forgiven student loans from gross income for state tax purposes. The state now conforms to federal law in the tax treatment of forgiven students loans and other student aid.

Expanding the New Employment Tax Credit Exemption. The budget expands the New Employment Tax Credit program to semiconductor, lithium extraction, electric battery, and electric airplane manufacturing businesses.

Film and TV and Studio Tax Credit Program. The budget extends the Film and TV Tax Credit program for an additional five years, starting in 2025-26 through 2029-30. Notably, SB 132, a budget trailer bill, makes the Film and TV Tax Credit refundable, meaning businesses without sufficient tax liability to offset the credit would now receive payments from the program.

Local and General Government

Prioritization of Scarce General Fund for City of Fresno's Infrastructure Plan. The budget includes $50 million for the City of Fresno's Public Infrastructure Plan, and commits $100 million more in both 2024-25 and 2025-26, for a total of $250 million over three years. As the state grapples with how to address a $31.5 billion deficit, and years of deficits to come, it is unclear why Fresno has been singled out for favorable treatment over any other locality.

Governor's Think Tank Continues to Grow. The Governor's Office of Planning and Research (OPR) will receive nearly $160 million General Fund in 2023-24 for both new and expanded programs. This is in addition to the $320 million and $450 million provided in the 2022 Budget Act and the 2021 Budget Act, respectively, for an agency that traditionally has been a think tank rather than a program administrator.

Increased Borrowing with Shift to Lease-Revenue Bonds for New State Office. The budget shifts $402 million in financing for the Richards Boulevard Office Complex from General Fund (approved as part of the 2022 Budget Act) to lease-revenue bonds, increasing the state's long-term costs for the project. Lease-revenue bonds, as used by the state, are arguably a backdoor method of issuing General Fund bonds without meeting the constitutional requirement to obtain voter approval for general obligation bonds.

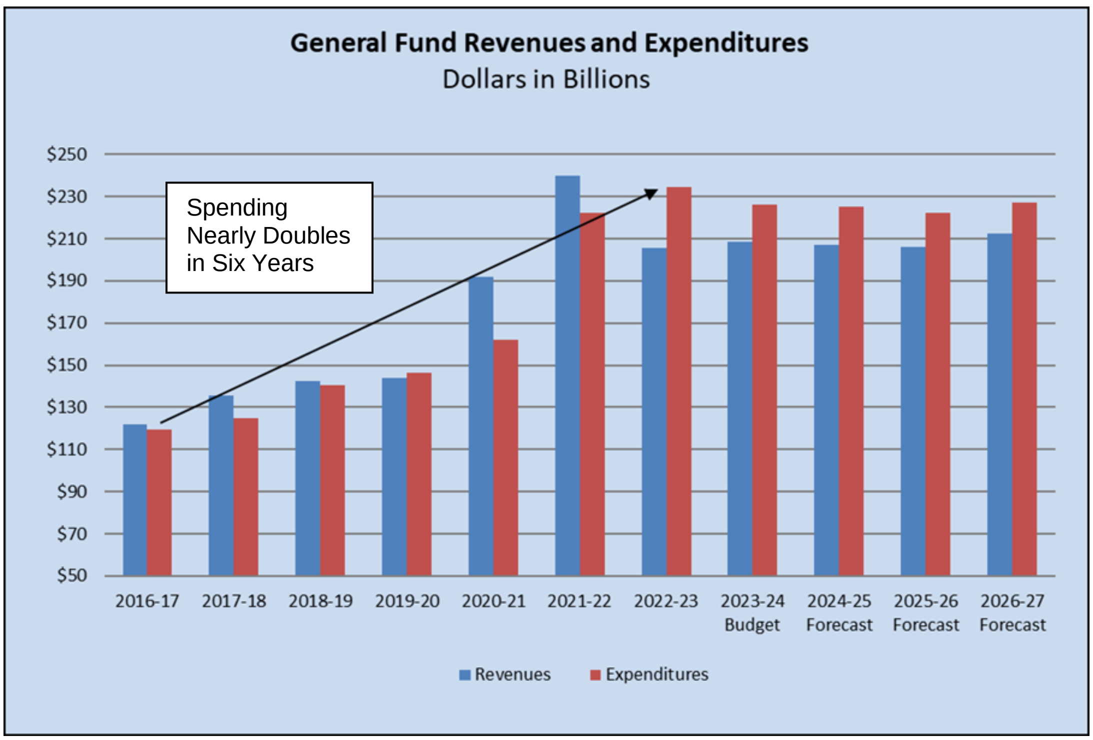
Budget Borrows Capital Annex Project Funds. The budget borrows $500 million from the State Project Infrastructure Fund to help close the 2023-24 General Fund deficit, paving the way for the Governor and legislative Democrats to continue the reckless spending of the past few years.

Overall Revenues, Expenditures, and Deficits

Key Points

- **Revenues Fall Substantially, Remain Flat.** Reflects revenues that are $31 billion below the last boom year in 2021-22, but projects largely flat revenue moving forward.
- **Spending Beyond Our Means Leads to Annual Deficits.** Authorizes ongoing expenditures that would outpace revenue growth, leading to operating deficits each of the next several years.
- **Solutions Include Taxes and Borrowing, Few Actual Reductions.** Largely rejects real reductions to ongoing programs, and instead relies on borrowing, taxes, and fund shifts for most deficit solutions.
- **Reserves Left Untapped for Now.** Leaves reserves untouched for now due to heightened risk of further shortfalls. Amounts could cover only about half of the deficits projected in future years.

Revenues Fall Substantially, Remain Flat. Revenues assumed for the 2023-24 budget would reach nearly $209 billion General Fund, a slight increase of $3 billion (1.5 percent) from the revised 2022-23 level. This is a substantial decrease of $31 billion (13 percent) from the amount received in 2021-22, when federal pandemic stimulus spending and tech-driven capital gains pushed state tax revenues to stratospheric levels. The budget forecasts that revenues would actually decline slightly through 2025-26 before ticking up slightly in 2026-27. The blue bars in the chart below show these trends.



At the time of the budget's enactment, the nonpartisan Legislative Analyst's Office (LAO) had projected that revenues would be $11 billion lower through 2023-24 than adopted in the budget. Data received since that time, reflecting collections through the end of August, showed revenues were tracking on par with the amounts assumed in the enacted budget. This is a positive step for the credibility of the budget's revenue assumptions so far, though the risk of a further shortfall remains elevated.

Tax Filing Delay Increases Uncertainty. In response to several natural disasters, the federal government delayed the federal tax filing deadline from April to October 16th. The state followed suit, as it typically does in response to federal deadline changes. Hence, the tax filing data on which the state typically bases its budget was not available in developing the revenue forecast. This creates a higher level of uncertainty for how much tax revenue the state will actually receive.

General Fund Expenditures Dip Slightly After Years of Increase. The enacted budget authorizes nearly $226 billion in General Fund spending for 2023-24, which is $8 billion (3.4 percent) below the 2022-23 enacted budget of $234 billion. The updated estimate of actual spending for 2022-23 was nearly identical to the enacted budget total. Despite the slight year-over-year decline, General Fund spending for 2023-24 still would be $9 billion (4 percent) *higher* than the revised spending amount for 2021-22. The table below compares the new budget to the previous two years.

Expenditures by Fund Category

Dollars in Billions

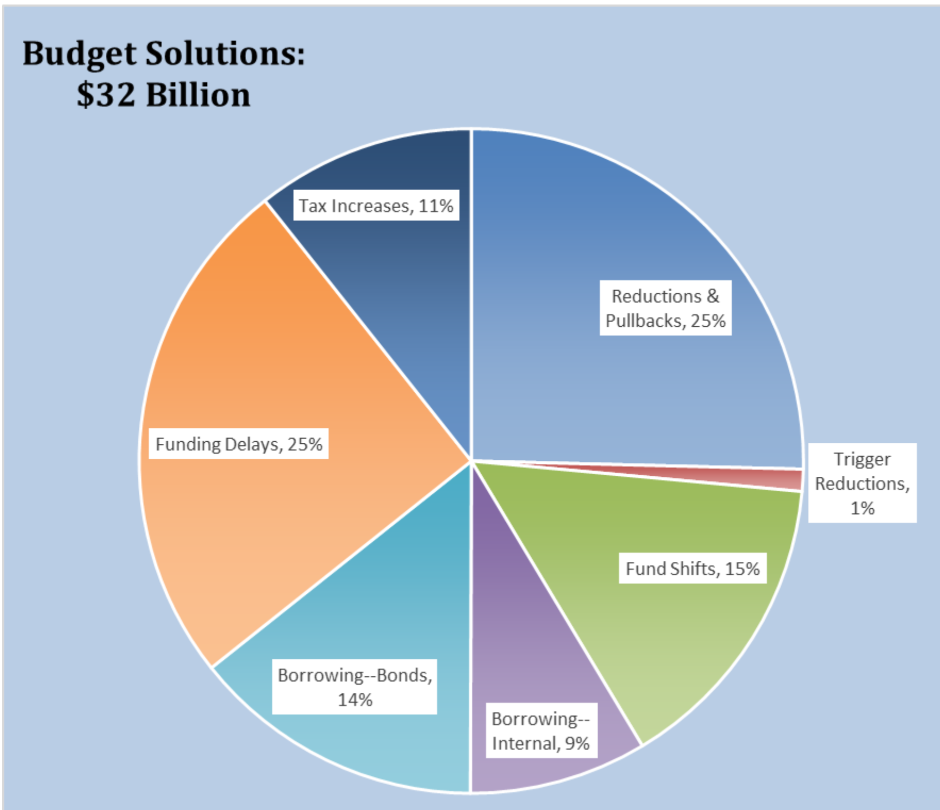
	2021-22 Actual		2022-23 Revised		2023-24 Enacted	
	$	% of Total	$	% of Total	$	% of Total
General Fund	$217	49%	$235	50%	$226	50%
Special Funds	$45	10%	$74	16%	$82	18%
Bond Funds	$9	2%	$6	1%	$3	1%
Total, State Funds	**$271**	**61%**	**$314**	**67%**	**$311**	**68%**
Change from previous year			16.1%		-1.1%	
Federal Funds	$172	39%	$153	33%	$144	32%
Total, All Funds	**$442**	**100%**	**$468**	**100%**	**$455**	**100%**
Change from previous year			5.7%		-2.8%	

Other State Spending Continues to Rise, but Federal Funds Fall. The table above also shows spending from special funds, bond funds, and federal funds for the budget and previous years. Notably, special fund spending continues to increase throughout these three years, rising 81 percent from $45 billion in 2021-22 to $82 billion in 2023-24. This dramatic increase is partly the result of the accounting treatment for federal funds, roughly $15 billion of which were recorded as "negative expenditures" in 2021-22 that artificially reduce the total spending. Another contributing factor is the addition of $7.2 billion in 2023-24 spending from the revised managed care organization tax. In contrast to state special funds, federal funds moved in the opposite direction, falling from a pandemic-fueled $172 billion in 2021-22 to $144 billion in 2023-24.

Democrats Double Down in Six Years. The short-term revenue spike from 2020 through 2022 led Democrats to ramp up spending rapidly. The revised General Fund spending level of $235 billion in 2022-23 is nearly double the spending level of $119 billion seen in 2016-17, just six years prior, as shown by the arrow in the chart on the previous page. This is an astonishing spike in spending over such a short time. The state needed roughly 18 years for the previous doubling of state spending, from 1998-99 to 2016-17, which is three times as long as the recent time span for doubling.

Spending remains nearly $80 billion above prepandemic levels, which reflected a more sustainable revenue trend. The enacted spending amount demonstrates that the majority party, after doubling spending over six years, has yet to come to grips with economic reality.

Solutions Include Taxes and Borrowing, Few Actual Reductions. The enacted budget includes $32 billion in budget "solutions" to address the deficit, as summarized in the following chart and described further below. Borrowing and tax increases account for a combined 34 percent of the solutions, while actions counted as reductions make up only 25 percent. However, these "reductions" include previously approved funds that went unspent for non-budget reasons, as well as planned amounts that would have been increases to programs.



- Reductions and pullbacks of $8.1 billion, including the following:
  - $3.0 billion for an "inflation placeholder" that was included in the baseline budget. This does not represent an actual reduction to any program.
  - $2.6 billion in reversions of previously appropriated funds that were not spent.
  - $750 million to eliminate a planned payment to reduce the state's massive debt to the federal government for Unemployment Insurance loans.

- Delays in program funding totaling $7.9 billion. Significant examples include $481 million for behavioral health infrastructure and $550 million for last-mile broadband.

- Borrowing of $4.5 billion by shifting cash-funded programs to new bonds. The Governor classified these shifts to new bonds as a "fund shift" rather than borrowing, even though bonds, by definition, are loans. A majority of the bonds would be issued by public universities for student housing or other facilities, which prior budgets authorized for cash funding.

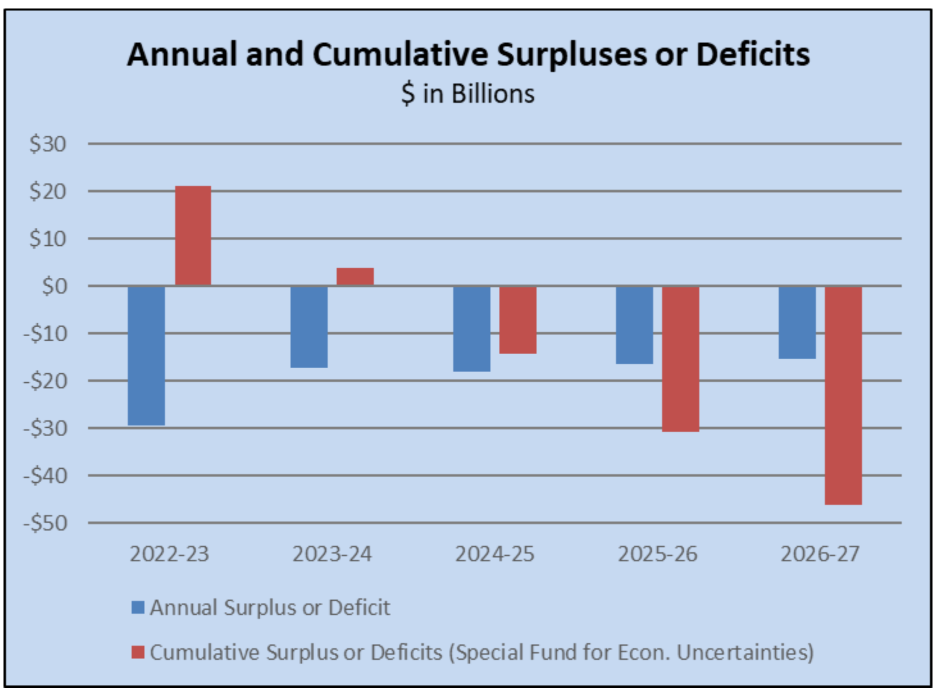
➢ Borrowing of $2.7 billion from state special funds, notably including:
   - $600 million from Covered California's Health Care Affordability Reserve Fund, which collects penalty taxes on those who do not purchase health insurance.
   - $500 million from the State Project Infrastructure Fund.
   - $306 million from the Unemployment Compensation Disability Fund.

➢ Shifting $4.7 billion in costs from the General Fund to other state funds, including $1.0 billion to greenhouse gas funds (Cap and Trade revenues) for various climate-related issues.

➢ Tax increases of $3.4 billion, almost entirely from the managed care organization (MCO) tax. This means that a significant portion of MCO tax revenues, though paid by health care plans, would contribute to the General Fund that pays for a wide range of state programs, rather than benefit health care.

➢ "Trigger" reductions of $340 million that would be restored at the discretion of the Department of Finance in January 2024 should "sufficient" funds be available.

High Expenditures Create Massive Deficits Every Year in Forecast. The budget's lack of true, ongoing spending reductions means the state would continue to live off the recent short-term revenue surge while refusing to pause or reverse many recent program expansions. The budget only solves the deficit for 2023-24, but the lack of spending restraint means that projected deficits will continue every year through 2026-27. The table below summarizes these annual deficits as well as their cumulative effect. These deficits must be addressed through some budgetary action, such as spending reductions, tax increases, or use of reserves.



The significant cumulative surplus in 2022-23 resulted from tax revenues coming in at higher levels than anticipated over the past two years. This was largely the result of capital gains proving to be higher than estimated. The state budget is continuing to ride the tail end of that wave through 2023-24, or much larger deficit solutions would have been necessary.

Many Discretionary Spending Increases Continue. The table below displays spending by broad program area. In some cases, such as Natural Resources, the budget shows multibillion-decreases as grant funds were delayed or one-time grants in the prior year did not repeat. However, despite the forecast of deficits for years to come, the state's Democratic leaders continued to fund billions of dollars in discretionary, unsustainable increases in the budget. Many of these appeared in the Health and Human Services arena, where the budget shows an increase of more than $12 billion from the prior year. Most notable among these spending increases is the continued expansion of Medi-Cal eligibility to undocumented immigrants ages 26 to 55, which is set to take effect January 1, 2024 and cost the state $4.1 billion annually when fully implemented. Even a delay in implementing this new expansion would provide billions in savings, but Democrats refuse to push pause on expanding the welfare state.

General Fund Expenditures by Agency

(Dollars in Millions)

	2021-22	2022-23	2023-24	
Agency	Actual	Revised	Budget Act	Change from Revised 2022-23
Legislative, Judicial, Executive	$15,466	$18,116	$9,756	-$8,360
Business, Consumer Services, Housing	$1,048	$3,984	$2,739	-$1,245
Transportation	$706	$1,986	$1,390	-$596
Natural Resources	$7,238	$15,738	$7,474	-$8,264
Environmental Protection	$2,049	$3,893	$589	-$3,304
Health and Human Services	$48,877	$61,590	$73,852	$12,262
Corrections and Rehabilitation	$13,797	$15,696	$14,750	-$946
K-12 Education	$78,313	$77,038	$79,100	$2,062
Higher Education	$21,367	$22,102	$22,715	$613
Labor and Workforce Development	$1,575	$1,274	$864	-$410
Government Operations	$19,178	$6,892	$4,010	-$2,882
Gen Govt - Non-Agency Depts	$1,679	$2,551	$1,822	-$729
Gen Govt - Tax Relief/Local Govt	$616	$668	$595	-$73
Gen Govt - Statewide Expenditures	$4,876	$3,064	$6,272	$3,208
Total, General Fund Expenditures	**$216,785**	**$234,592**	**$225,928**	**-$8,664**

Reserves Held Intact for Now. The enacted budget provides nearly $38 billion in total reserves, including the following categories:

- Rainy Day Fund balance of $22 billion (technically called the "Budget Stabilization Account" in Proposition 2).

- Discretionary reserve of $3.8 billion (also called the Special Fund for Economic Uncertainty).
- Safety Net Reserve of $900 million (after rejecting the Governor's initial proposal to draw down half this balance).
- Public school reserve of $11 billion. This balance actually grows by $903 million from the current year, in compliance with Proposition 2 requirements.

Despite the seemingly high reserve balance, the public school reserve can be used only to increase spending on Proposition 98 purposes and is thus not available to cover general deficits. Additionally, the LAO estimated during the May Revision that reserves could only cover about half of the cumulative deficits projected through the forecast period. More fundamentally, the purpose of reserves is to help address unexpected downturns in the budget, not the planned deficits that Democrats have approved.

Threshold Met to Permit Using Reserves for Future Deficits. Under the rules of Proposition 2, the state can withdraw funds from the Rainy Day Fund only in the case of a "budget emergency," defined as a situation in which General Fund resources are not sufficient to cover the highest enacted budget level of the past three years. The proposition only permits the Governor to declare a budget emergency. The Legislature would then need to pass a bill to withdraw funds from the reserve for use in the budget. Proposition 2 limits the withdrawal to 50 percent of the reserve balance in the first year of withdrawal.

As described above, the 2023-24 budget is $8 billion below the enacted 2022-23 budget, so the condition for a "budget emergency" has technically been met, and the Governor could choose to declare a budget emergency. Given the higher-than-usual level of economic risk and tax uncertainty, the enacted budget prudently refrains from withdrawing reserves.

Most Other States Avoid Cuts, and Some Half Propose Tax Breaks. California's current budget predicament stands in contrast to many other states… According to the National Association of State Budget Officers, California is one of only four states that needed to revise revenue projections downward in 2022-23. Moreover, 24 other states proposed reductions to personal income taxes for 2023-24, but not California. On the spending side, California is one of only five states that needed to revise its spending downward at the midpoint of 2022-23, and one of only six states that needs to make cuts going into 2023-24. Neither of Governor Newsom's favorite comparison states, Florida and Texas, are making cuts for 2023-24.

State "Gann" Spending Limit. The budget estimates that state spending would be under the constitutional Gann limit for the combined 2021-22 and 2022-23 years by nearly $33 billion, and would also be under the limit for 2023-24 by $15 billion. These calculations reflect budget gimmicks included in the 2022 Budget Act, such as redefining "state subventions" for local government spending to create $21 billion in additional "room" under the limit over the previous two years. Although the 2023-24 budget projects significant spending room under the Gann limit, lower 2023-24 revenues received between now and the October tax filing deadline would mean there will be even more room under the limit. Lower revenues, however, also mean the state faces a larger budget problem, potentially in 2023-24 as well as 2024-25.

Housing

Key Points

- **Continues to Throw Money at Housing Despite Policy Failures.** Budget continues to throw billions at housing subsidies in an apparent effort to overcome the state's failed housing policies and lack of needed reforms.
- **CA Dream for All Program**. Includes $220 million shifted from 2022-23 for this shared-mortgage program that provides General Fund for up to 20 percent of down-payment costs.
- **CalHome Program.** Includes $50 million for direct homeowner and housing rehabilitation assistance.
- **Infill Infrastructure Grant Program.** Provides $225 million General Fund, and expands eligibility and allowable activities within the Infill Infrastructure Grant program, which prioritizes infill parcels in downtown-oriented areas.
- **Adaptive Reuse Program Infrastructure Grants.** Provides $250 million in grants for adaptive reuse purposes, including infrastructure.
- **Multi-Family Housing.** Provides $325 million in low-interest loans for new construction, rehabilitation, and preservation of rental housing for lower-income households.
- **State Excess Site Development.** Includes $75 million to provide developers with one-time grants for activities that enable development on excess state-owned property.
- **Includes Nearly $15 billion in Spending For Housing Programs.** Provides $14.7 billion in spending for various housing programs, including Infill Infrastructure and Multi-Family Housing.

Spending Billions on Housing Reflects Failure of State Housing Policies. The 2023-24 budget follows recent tradition by continuing to throw money at the housing crisis in an effort to overcome the state's failed housing policies that increase the cost and decrease the number of housing units that are able to be built across the state. California's housing permit numbers were virtually unchanged from 2017 to 2021. In contrast, the competitor states of Florida and Texas build dramatically more housing in raw numbers, despite having populations that are significantly smaller.

The state is in need of broader policy changes that deal with the underlying cause of expensive housing. These include restrictive environmental reviews, extensive and cost-prohibitive zoning restrictions, and a host of excessive fees, which have raised the costs of building and slowed down the production of housing units. The housing crisis will continue until these cost-prohibitive requirements are undone.

Budget Borrowing to Close Deficit. As part of the solutions to close the budget deficit, the 2023-24 budget borrows $400 million from the Department of Housing and Community Development's (HCD's) Housing Rehabilitation Loan Fund. Unfortunately, the Majority Democrats continue to prefer borrowing to fill a revenue gap in lieu of making the tough decisions needed to balance the state's budget, resulting in multi-year deficits returning as soon as next year.

State a "Silent Partner" in Home Ownership. The budget includes $220 million General Fund, shifted from the 2022 Budget Act, for the California Dream for All program. This program, established in 2022-23, is a shared mortgage assistance program where the state pays up to 20 percent in down payment or closing cost assistance for first-time homebuyers. The program includes the use of a revolving fund to receive repayments as homes are sold or refinanced, but repayments would not begin for several years, likely resulting in pressure for the state to provide additional General Fund for the program. Continuing to fund risky new programs established when the state had billions in excess revenue, especially in light of the structural deficits facing the state, is fiscally irresponsible.

CalHome Homeownership Support Program. The budget includes $50 million in 2023-24 for the CalHome program, which enables low- and very low-income households to become or remain homeowners. The program provides grants to local agencies and nonprofits for direct homeowner and housing rehabilitation assistance (including mobile homes). The grants may provide support for homebuyer counseling, self-help mortgage assistance, loans to developers for property acquisition, and site development for projects. The program is one of only a handful of state programs that provide funds for mortgage assistance and housing rehabilitation.

Infill Infrastructure Grant Program. The budget includes $225 million General Fund in 2023-24 for the Infill Infrastructure Grant program (IIG), which prioritizes infill parcels in downtown-oriented areas. The IIG program provides grants to local governments and developers in order to defray the costs for things like sewers, roads, and site preparation that further drive up the already egregious cost to build in California.

Adaptive Reuse Developments Prioritized. The budget includes $250 million in 2023-24 within HCD to provide grant funding to local jurisdictions for adaptive reuse projects. Adaptive reuse is the process of changing the use of an existing building for any purpose other than its original design. This grant program could help remove cost impediments to adaptive reuse projects, such as (e.g., structural improvements or plumbing/electrical design, and could accelerate residential conversions. Additionally, the budget reverts $17 million of the $20 million General Fund appropriated for this program in the 2000 Budget Act. Given the level of unused funding for the program, it will be critical to determine if there is an actual need within the industry for the $250 million provided in 2023-24.

Multi-Family Housing. The budget provides $325 million in 2023-24 for the Multi-Family Housing Program, which provides low-interest loans for new construction, rehabilitation, and preservation of rental housing for lower-income households. Previously, the program received $1.5 billion in bond funds authorized by the Veterans and Affordable Housing Bond Act of 2018 (Proposition 1), but as those bonds funds have been fully expended, the state has provided General Fund for the past few years.

Portfolio Reinvestment Program. The budget includes $100 million in 2023-24, for the Portfolio Reinvestment Program, which restructures certain HCD loans in order to preserve affordable housing units. Without the restructuring of the loans, these housing developments would no longer be eligible to restrict rents and occupancy for low-income Californians**.**

Veterans Housing and Homelessness Prevention Program. The budget includes $50 million in 2023-24 for the Veterans Housing and Homelessness program, which provides long-term loans for the acquisition, construction, rehabilitation, and preservation of affordable multifamily housing to allow veterans to access and maintain housing stability.

Manufactured Housing Opportunity and Revitalization Program. The budget includes $75 million in 2023-24, for 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. The budget includes $75 million in 2023-24, for a matching grant program that provides developers with one-time grants for activities that enable development on excess state-owned property. The program requires interested developers to submit extensive request for qualifications and request for proposals, and sets specific criteria for each site. The budget includes statutory changes that provide development partners with additional time to expend grant funding, allowing projects additional time to enter into a lease with the state to create affordable housing on excess state-owned property.

Foreclosure Intervention and Housing Preservation Program. The budget provides $115 million in 2023-24 and defers $230 million from the 2021 Budget for the Foreclosure Intervention and Housing Preservation Program (FIHPP), which provides funding as loans or grants to eligible borrowers to acquire and rehabilitate properties at risk of foreclosure or in the foreclosure process. The 2021 Budget Act appropriated $500 million through June 30, 2027 for the program. The budget defers $230 million of that allocation as part of the state's budget solutions, and would instead allocate $85 million in 2024-25, $100 million in 2025-26, and $63 million in 2026-27.

Accessory Dwelling Unit Program. The budget provides $25 million for the Accessory Dwelling Unit program within the California Housing Finance Agency (CalHFA). The ADU program is intended to assist homeowners by providing up to $40,000 towards pre-development and non-reoccurring closing costs associated with the construction of an ADU. Predevelopment costs include site prep, architectural designs, permits, soil tests, impact fees, property surveys, and energy reports.

CalHFA and the Business, Consumer Services, and Housing Agency. A budget trailer bill, AB 129, provides the authority for CalHFA to be a separate state entity under the reporting umbrella of the Business, Consumer Services, and Housing Agency, shifting it away from its current status as part of HCD. The action should ease the administrative burden and provide flexibility for CalHFA's numerous programs focused on increasing California's housing supply.

Employee Housing Regulation Fund Changes. AB 129 also establishes the Employee Housing Regulation Fund within HCD, requires HCD to deposit all Employee Housing (EH) fees into the fund, and provides authority for HCD to reduce fees if necessary. The fund receives permit-to-operate and inspection fee revenue from EH facilities, which is currently deposited into the General Fund. Having a dedicated fund to support the program could improve critical health and safety conditions within Mobile Home Parks, Special Occupancy Parks, and Employee Housing facilities.

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

Ongoing Funding for Affordable Housing and Emergency Shelter Construction. The 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.

Affordable Housing Programs and Funding. The table on the next page summarizes information on all state programs and funding available to support affordable housing development in 2023-24. The budget includes a total of nearly $15 billion in support of various housing programs, as shown in the table.

Clearly, there is no lack of subsidies from the state for housing, even during years marred by multi-billion dollar deficits.

Affordable Housing Funding at 2023-24 Enactment
(Dollars in Millions)

Department	Program	Total Funding 1/
Department of Housing and Community Development	Permanent Local Housing Allocation Program	$193.0
	Housing Investment Program	$14.0
	Farmworker Housing Program	$28.0
	Infill Infrastructure Grant Program	$225.0
	Veterans Housing and Homelessness Prevention	$125.0
	Affordable Housing and Sustainable Communities Program	$711.0 2/
	Adaptive Reuse	$250.0
	Portfolio Reinvestment Program	$100.0
	Excess Sites - Local Government Matching Grants Program	$75.0
	Foreclosure Intervention Housing Preservation Program	$82.5
	Community Development Block Grant Program	$30.0
	HOME Investment Partnerships Program	$47.0
	National Housing Trust Fund	$131.0
	Multifamily Housing Program	$643.0
	Mobilehome Park Rehabilitation and Resident Ownership Program	$75.0
	Office of Migrant Services	$6.0
California Housing Finance Agency	Single Family First Mortgage Lending	$1,750.0
	Multifamily Conduit Lending	$1,410.0
	Multifamily Permanent Lending	$430.0
	Single Family Down Payment Assistance/Homeowner buyer Assistance	$42.0
	Mixed Income Loan Program	$50.0
California Tax Credit Allocation Committee	Low Income Housing Tax Credit	$1,004.9 3/
California Debt Limit Allocation Committee	Qualified Tax-Exempt Private Activity Bonds	$4,684.0 4/
Department of Veterans Affairs	CalVet Home Loans	$150.0
Judicial Council	Legal Assistance for Renters and Homeowners	$20.0
Department of Public Health	Housing Opportunities for Persons with AIDS	$5.0
	Housing Plus Program	$1.0
California Community Colleges California State University University of California	Higher Education Student Housing Grant Program	$2,237.3 5/
	California Student Housing Revolving Loan Fund	$200.0 6/
	TOTAL	**$14,719.7**

Notes:

1/ Does not reflect carryover or multi-year funding appropriated in prior fiscal years, unless specified. Funding includes General Fund, Special Funds, Federal Funds, and Bond Funds.

2/ The Affordable Housing and Sustainable Communities Program amount reflects 20 percent of the projected Cap and Trade revenues.

3/ Includes Federal Low Income Housing Tax Credit estimated for the 2023 calendar year.

4/ The amount reflects amount available for Qualified Residential Rental Projects for the 2023 calendar year; however, some amount may be awarded to exempt facilities.

5/ The 2023-24 funding for the Higher Education Student Housing Grant Program shifts the prior and planned General Fund support for UC, CSU, and CCC affordable student housing grants from General Fund to UC-, CSU-, and CCC-issued bonds. The UC- ,CSU- and CCC-issued bonds reflect roughly $2.2 billion of funding for these student housing projects.

6/ The 2023-24 funding for the California Student Housing Revolving Loan Fund reflects $200 million one-time General Fund for zero-interest loans for the UC, CSU, and CCC to construct affordable student housing and affordable faculty and staff housing.

Homelessness

Key Points

- **Homelessness Worsening Despite Billions Spent.** A rise in homelessness despite billions spent indicates that state and some local policies are misguided.
- **Provides $3.5 billion for Homelessness Programs.** Provides $3.5 billion to support efforts to reduce homelessness, including encampment resolution and behavioral health bridge housing, among others.
- **Statewide Accountability For Homeless Programs Still Unresolved.** Includes new accountability measures for one homelessness program out of 35 state programs, and still fails to outline a statewide strategy.

Billions Spent for Poor Results, Republicans Offered Real Solutions. California has spent astronomical amounts of General Fund resources on homelessness, including more than $20 billion between 2018 and 2022-23, and the new budget adds another $3.5 billion in 2023-24 (see chart at the end of this section for program and funding information). Despite this, there is little evidence of success or improvement in this health crisis. Over that same period, California's homeless population increased nearly 32 percent, from 129,972 homeless in 2018 to 171,500 homeless in 2022. For comparison, from 2018 to 2022, the homeless population of the United States, without California, went from about 422,000 to about 411,000 homeless, a reduction of 11,000 homeless during a time when California grew by more than 41,000 homeless.

The state's failures on homelessness stem not from a lack of spending, but from a lack of accountability and a misunderstanding of the various causes of the problem, which stems from more than just a lack of affordable housing. The state needs bold reforms, such as conservatorship law reforms, behavioral health infrastructure, and supportive housing targeted to those with disabilities, mental health issues, or substance use disorders.

Senate Republicans have led the way on seeking solutions to the state's homelessness crisis in recent years, but the effort has fallen on deaf ears in the Legislature and with the Administration. In the fall of 2022, Republicans called for a Special Session on Homelessness, but Governor Newsom ignored the plea. Last year, when the state had a surplus, Senate Republicans called for an unprecedented, long-overdue $10 billion investment in mental health infrastructure and workforce efforts. Republicans introduced bills to loosen rules for the Lanterman Petris Short Act and Housing First requirement, and again the legislation was ignored by Democrats, who refuse to question the orthodoxy of Housing First, even though homelessness has continued to increase while that policy has been the law of the state.

Flexible Funding for Local Governments to Combat Homelessness. The 2023-24 budget provides $1.1 billion General Fund for the Homeless Housing, Assistance, and Prevention program (HHAP), requires 10 percent of the funds to be spent on homeless youth, and begins to transition the grant program to the Department of Housing and Community Development. Budget language states intent to provide an additional $1.2 billion in HHAP funding for 2024-25, even though the state will certainly be facing yet another multi-billion dollar budget deficit.

The state has recently received action plans from local governments, required as part of the 2021 budget, which includes the size of their homeless populations, how many are being served, an inventory of funding available, and measurable goals. However, upon review of several of the plans, the information appears insufficient to help the Legislature determine the effectiveness of local strategies, the level of cooperation between localities, nor what programs and services provide the most support necessary to reduce the number of homeless people living on our streets.

Accountability and Performance Metrics Needed For Homeless Programs. The state continues to struggle to develop a statewide strategy and coordinate efforts to address homelessness. Making state and local coordination even more difficult is the fact that California does not track outcomes, which makes it challenging to determine whether homelessness programs are actually working. The budget includes statutory changes (trailer bill AB 129) to establish coordinated planning, accountability and performance metrics within the state's HHAP program, but fails to define how future funding would be tied to defined outcomes. The state needs a better understanding of what is currently working and where programs are failing. Without this, not only will it be impossible to establish clear, achievable goals, but billions of taxpayers' dollars will continue to be thrown at the problem without any real hope of reducing the number of people sleeping on the streets.

Encampment Resolution Grant Program. The budget provides $400 million for the Encampment Resolution Grant program within the California Interagency Council on Homelessness (Council). The program, established with $50 million in the 2021 Budget Act, and provided another $300 million in 2022-23, partners with local governments and provides grant funding to assist them with resolving critical encampment concerns and transitioning individuals into safe and stable housing. The program requires participating entities to develop a detailed service delivery plan, including a description of how individuals will be served with permanent housing solutions.

Behavioral Health Bridge Housing Program. The budget appropriates a total of $265 million in Proposition 63 Mental Health Service Act funding to support the Behavioral Health Bridge Housing program. The program awards competitive grants to counties for short-term housing and treatment needs of the seriously mentally ill homeless. With these funds, counties can purchase and install tiny homes with time-limited operational supports, or purchase bed space at assisted living facilities.

Homekey Program. A core component of the Governor's homeless strategy in the last two years is the state's Homekey Program (established initially as a temporary program known as Roomkey). The Governor claims Homekey has provided 10,000 new homeless housing units. In a May 18, 2022 press release, the Governor even went so far as to say that "Homekey's success over the past two years has proven that homelessness is a solvable issue."

Unfortunately, a recently released study from the Pacific Research Institute (PRI) indicates the Homekey program is costly, rife with abuse and inefficiencies, and has been plagued with violence and drugs, indicating the program is failing to address the core problems causing many people to fall into homelessness. Based on the Department of Housing and Urban Development's (HUD) 2022 point-in-time count, the state's homeless problem persists despite the billions of dollars of expenditures. Several localities indicate the total number of homeless continued to grow in 2022 in six of the eight counties with the largest groups of homeless (Santa Clara, San Bernardino, San Diego, Riverside, Sacramento, and Alameda).

Since 2020-21, the state has provided nearly $3 billion for the program, and while the 2023-24 budget does not provide separate funding for Homekey, the budget authorizes a portion of the funding provided for HHAP ($170 million in 2023-24) to be used for Homekey activities. However, this funding would be restricted to localities that are in compliance with state housing element law.

Social Services Homelessness Support Program. The budget provides $196 million in total funds for the homelessness programs under the Department of Social Services (DSS), including the following:

- $95 million for the CalWORKs Housing Support Program, which provides resources and housing supports to CalWORKs families at risk of or experiencing homelessness.
- $76 million for the CalWORKs Homeless Assistance Program, which provides temporary and permanent homeless assistance payments to eligible CalWORKs families once every 12 months.
- $25 million for the Housing and Disability Advocacy Program, which provides assistance to individuals who are likely disabled and experiencing homelessness or are at risk of homelessness. Assistance provided includes housing supports as well as help in applying for disability benefits.

While the investments in this budget are modest, there were significant investments in DSS housing and homelessness programs in prior budgets, totaling over $2 billion, which have multi-year spending authority.

Total State Homelessness Funding. The chart on the next page provides a list of all state programs and funding available to support homelessness efforts in 2023-24:

Homelessness Funding at 2023-24 Enactment
(Dollars in Millions)

Department	Program	Total Funding [1]
Department of Housing and Community Development	Federal Funded Programs for Homelessness	$15.0
	Foster Youth Housing Navigators	$13.7
	Transitional Housing Program	$42.3
California Interagency Council on Homelessness	Homeless Housing, Assistance and Prevention Grant Program	$1,000.0
	Encampment Resolution Efforts	$400.0
Office of Emergency Services	Various Homeless Youth Programs	$0.7 [2]
	Youth Emergency Telephone Network	$0.6
	Domestic Violence Housing First Program	$21.0
	Transitional Housing Program	$17.0
	Specialized Emergency Housing	$10.0
Department of Social Services	CalWORKs Housing Support Program	$95.0
	CalWORKs Homeless Assistance Program	$76.4
	Housing and Disability Advocacy Program	$25.0
Department of Health Care Services	Behavioral Health Bridge Housing Program	$265.0 [3]
	Housing and Homelessness Incentive Program	$644.0 [4]
	Project for Assistance in the Transition from Homelessness	$9.1
Department of State Hospitals	Incompetent to Stand Trial (IST) Solutions	$482.2 [2]
	Acute Bed Capacity Expansion	$146.0 [2]
	Community-Based Restoration (CBR)	$28.9 [2]
Department of Transportation	Encampment Relocation Coordinators and Homeless Services Liaisons	$5.8
	Clean California Hazmat	$15.0
	Other Costs (Encampment Clearing, Damage Repair, Maintenance Zone Enforcement)	$25.1
	Hazardous Material Removal at Encampments	$20.6
Department of Corrections and Rehabilitation	Returning Home Well	$10.6
California Community Colleges	Basic Needs Funding - Student Hunger and Homelessness Programs	$43.3 [5]
	Rapid Rehousing	$20.6 [5]
California State University	Basic Needs Funding - Student Hunger and Homelessness Programs	$26.3 [5]
	Rapid Rehousing	$6.8 [5]
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	$15.8 [5]
	Rapid Rehousing	$3.7 [5]
	TOTAL	**$3,485.5**

Tax Policy

Key Points

- **Student Loan Forgiveness.** Includes statutory changes that exempt unpaid and forgiven educational grants and loans from consideration as income for tax purposes.
- **Expands New Employment Tax Credit Exemption.** Expands and modifies current tax credit for semiconductor, lithium extraction, electric battery, and electric airplane manufacturing businesses.
- **New Revenue Generated from Trust Income Tax Changes.** Includes $30 million in new revenue from statutory changes that revise treatment of certain trusts for tax purposes.
- **Extends and Makes Refundable the Hollywood Tax Credit.** Extends the Film and TV Tax Credit program and makes the tax credit refundable.
- **Reversion of Middle Class Tax Refund Monies.** Assumes savings of $200 million General Fund from the Middle Class Tax Refund program.

Student Loan Forgiveness. A late 2022-23 budget trailer bill, AB 111, exempts forgiven unpaid community college fees, higher education emergency relief grants, and forgiven student loans from gross income for state tax purposes. The state now conforms to federal law in the tax treatment of forgiven student loans and other student aid. The exemption would result in less General Fund revenue than if the conforming action was not taken. This policy would have reduced tax revenue by an estimated $1.3 billion over two years under the unconstitutional plan originally put forth by the Biden administration, but now that the U.S. Supreme Court has ruled that plan to be invalid, the effects of this policy under any potential replacement forgiveness plan are unclear.

Expanding the New Employment Tax Credit Exemption. The budget expands the New Employment Tax Credit program to semiconductor, lithium extraction, electric battery, and electric airplane manufacturing businesses. The New Employment Tax Credit provides a credit for businesses that operate in high-poverty areas and provide long-term employment for specified populations, and was originally assumed to generate up to $200 million in tax credit upon full implementation. In recent years, taxpayers have reported $3.6 million claimed on 2019 tax returns, and $3.9 million claimed on 2020 tax returns, but the 2020 data is incomplete.

The budget expands eligibility by modifying the definition of eligible employees to those who receive starting wages that exceed 100 percent of California minimum wage, instead of the current 150 percent requirement. The budget also removes existing geographic restrictions for qualifying manufacturing, research, and development firms, which could increase uptake of the tax credit and result in higher economic output, increase jobs, and increase California's manufacturing footprint.

Taxation of Income from Certain Trusts. The budget, for taxable years beginning on or after January 1, 2023, includes the income from an incomplete non-grantor trust in the calculation of gross income for state income tax purposes. The Department of Finance projects a $30 million revenue increase in 2023-24, with revenue gains of roughly $17 million in subsequent years. This tax policy change would likely impact 1,300 higher-income taxpayers in the first year, and around 600 taxpayers after that, assuming behavior changes.

Film and TV and Studio Tax Credit Program. The budget extends the Film and TV Tax Credit program for an additional five years, starting in 2025-26 through 2029-30. Notably, SB 132, a budget trailer bill, makes the Film and TV Tax Credit refundable, meaning businesses without sufficient tax liability to offset the credit would now receive payments from the program. Although several other states, as well as several other countries now offer 100 percent refundable tax credits, this would be the first business tax credit program that the state would make refundable, potentially setting a bad precedent that could result in the majority party's further expansion of refundable tax credits.

Reversion of Middle Class Tax Refund. The budget reverts $200 million General Fund from the Middle Class Tax Refund program. The 2022-23 budget provided $9.5 billion General Fund to provide tax refunds to Californians to help with growing inflation. After all eligible recipients have received their refunds, the program has $200 million unspent that is available for reversion back to the General Fund to mitigate a small portion of the state's deficit.

"Tax Expenditure" Report Shift. A budget trailer bill, SB 131, moves the due date of the so-called Tax Expenditure Report (provided by the Department of Finance to the Legislature) from September 15th of each year to November 1, 2024, and biennially thereafter. The Department of Finance notes that the modifications to the report's timing and delivery to the Legislature better align with budget workload during the year. Democrats use the term "tax expenditures" to refer to tax credits or deductions that lower state General Fund tax revenues, and various left-wing groups view these policies as targets for revision or elimination in order to increase tax revenues. However, policies that allow taxpayers to keep more of their own hard-earned dollars arguably should not be described as "expenditures."

Health

Key Points

- **Imposes a Managed Care Organization Tax on Health Plans.** Authorizes a 3.75-year managed care organization (MCO) tax that is scheduled to provide $19.4 billion in new budget resources for both General Fund relief and for Medi-Cal provider rate increases.
- **Greenlights Long Overdue Medi-Cal Provider Rate Increases**. A number of health care providers, including hospitals, will experience much-needed rate increases for services to Medi-Cal enrollees.
- **Adds Relief for Vulnerable Hospitals**. Sets aside $200 Million to aid hospitals at risk of closure or in need of relief from seismic safety retrofitting requirements.
- **Resumes Covered California Health Insurance Premium Subsidies.** Ends the practice of siphoning off the individual mandate penalty tax revenue for other General Fund needs and uses the revenue to restart health insurance subsidies.

A New Managed Care Organization (MCO) Tax. The budget includes a new MCO tax, effective retroactively from April 1, 2023, through December 31, 2026, on both commercial and Medi-Cal managed care plans. This MCO tax is estimated to provide an additional $19.4 billion in budget resources over this time period, with $11.1 billion intended to support additional Medi-Cal provider rate increases and $8.3 billion for General Fund budget relief. For the 2023-24 budget, $3.4 billion will be used for General Fund relief, $1 billion for Medi-Cal provider rate increases starting in January 2024, and $200 million for direct hospital relief. While the rate increases and funds for hospitals are welcome, unfortunately this plan also gives the Democrats an additional $8.3 billion in General Fund resources over four years to use on their non-healthcare related priorities—and that is only if the Democrats stick to the plan. With further budget deficits looming, a raid on the set-aside for providers could happen.

Medi-Cal Providers to Get Rate Increases. The budget package details the MCO tax expenditure plan, which includes reimbursement rate increases and targeted payments for many Medi-Cal providers, including primary care, obstetrics, outpatient mental health, specialty care services, community and outpatient procedures and services, emergency room and emergency physician services, designated public hospitals, ground emergency transfers, and behavioral health services in hospital settings. The plan also includes additional amounts annually for graduate medical education and for healthcare workforce investments. These investments will help to stabilize Medi-Cal and increase access to providers as the program serves more than 15 million beneficiaries.

Additional Funding for Distressed Hospitals, Seismic Safety Relief. The budget makes two critical expenditures for hospitals:

- First, the budget adds $150 million in MCO tax resources into the Distressed Hospital Loan Program, which the Legislature created in May 2023 through AB 112 to provide short-term financial relief to stave off hospital closures. This $150 million is on top of the $150 million General Fund initially provided by AB 112 to the program. On August 24, 2023, the state issued $292 million in awards to 17 distressed hospitals. 13 additional hospitals applied, but were awarded no funding.

- Second, the budget adds $50 million to support small and rural hospitals in their attempt to meet the state's 2030 seismic safety standards.

These sums are small in comparison to the statewide need, but will provide much-needed resources to keep hospitals open in certain communities.

Building the Abortion "Sanctuary." The budget makes a number of changes to support the abortion industry:

- Allocates an estimated $90 million annually from MCO tax revenues for increases to the Medi-Cal reimbursement rates for abortions.
- Gives the Governor authority to procure and stockpile any drug he wants, like abortion pills, under the guise of "patient access."
- Adds pharmacists to the list of abortion providers that can earn abortion workforce incentive grants.
- Creates a new program to provide $200 million in grants to abortion providers in order to offset service costs.

While a majority of Californians favor pro-choice abortion access laws, even they might be amazed at how much the state directly provides to abortion providers. The total amount of $290 million described here as specifically dedicated to abortion providers is above and beyond the regular payments that abortion providers receive for services, and it is larger than the $150 million this budget provides to bail out hospitals that are at risk of closing, as noted above.

Health Care Mandate Tax Penalty Revenues Used for Covered California Subsidies. The budget package ends the practice of sending individual healthcare mandate tax penalty revenues to the General Fund, and will instead divert the funds to Covered California to provide subsidies to purchasers of health insurance. For the past three fiscal years, the administration has siphoned off that revenue for non-healthcare General Fund purposes. Language in the health trailer bill ends that practice and requires Covered California to restart the program that provides premium subsidies to Covered California insurance purchasers.

The budget dedicates $82.5 million for subsidies in 2023-24 and $165 million in 2024-25. While the state's previous subsidy program was available to families making up to 600 percent of the federal poverty limit, or $180,000 annually for a family of four, Covered California's board recently adopted a new subsidy plan with eligibility caps at 250 percent of federal poverty level or $70,000 for a family of four. While these subsidies will undoubtedly help many Californians, it is also the case that the state has mandated a very expensive benefit package for Covered California plans, and we could reduce costs by making more mainstream plans available.

Continues Funding for Health Care Workforce Incentives. The budget provides $282 million in General Fund and Mental Health Services Act resources for another year of healthcare workforce incentives. These include grants for nurses and community health workers, an initiative to increase the number of social workers, and fellowships in addiction psychiatric/medicine fellowships.

Continues Unaffordable Medi-Cal Eligibility Expansion Despite Deficit. With the state facing years of projected deficits, one of the more obvious solutions would be to forego new expansions of programs that the state already cannot afford. However, the budget makes no adjustments to the previously planned expansion of Medi-Cal to undocumented adults ages 26 to 49 years old. This expansion is set to take effect January 1, 2024 and will cost the state $4.1 billion annually when fully implemented. Merely delaying this expansion by six months would provide $1.2 billion in budget savings. No other state in the nation provides full-scope coverage to undocumented adults, but this budget continues to commit billions of dollars to this policy while hospitals around the state face closure. Following this expansion, the Medi-Cal program would cover more than 40 percent of the state's population.

Mental Health

Key Points

- **Misguided Delay in Behavioral Health Infrastructure.** Delays by up to two years $480 million for direct funding of the current mental health bed capacity expansion program.
- **Planning for the Governor's Behavioral Health Housing Bond**. Allocates $20 million to prepare for the Governor's proposed allocation of bond funding for treatment beds, if the bond is approved by the voters in March 2024.
- **Funds Short-Term Housing for Severely Mentally Ill.** Appropriates $265 million to counties to purchase and install tiny homes with time-limited behavioral health supports, or purchase bed space at assisted living facilities.
- **Short-Changes Counties in CARE Court Funding**. Allocates $129 million to the counties to implement the Governor's CARE Court program to treat severely mentally ill individuals, an amount the counties deem "inadequate."

Misguided Delay in Behavioral Health Infrastructure Funding. The enacted budget delays $480 million in General Fund that was originally appropriated in the 2022 Budget Act for 2023-24 for the final round of behavioral health continuum capacity grants. This funding was to be allocated to 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 an elevated priority to include in the budget, rather than delayed.

Planning for the Governor's Proposed Treatment Bed and Housing Bond. The Governor ignored a 2022 legislative Republican budget request to use $10 billion of the then-projected surplus to permanently end the psychiatric treatment bed deficit in California, estimated by the RAND Corporation at 7,730 beds. Instead, the Governor proposed legislation to place a $6.4 billion bond on the March 2024 ballot to address this issue. To pay for the annual debt service on the bond, the Governor proposed shifting a portion of the Proposition 63 Mental Health Services Act (MHSA) funding. If approved by the voters, the bond would aim to reduce this bed deficit as well as provide other low-income housing in assisted living settings. The Legislation approved a bill (AB 531, Irwin) to place this bond on the March 2024 ballot at the end of the legislative session, while the 2023-24 budget allocates $20 million in MHSA funds to prepare for the implementation of this new program should the voters approve it.

Senate Republicans agree this effort will help address a vital need around the state, but the better approach would have been to fund the treatment beds out of last year's surplus. Instead, Democrats chose to spend the surplus in other areas, and would now incur billions of dollars in interest payments over the course of the bond to achieve the same treatment goal.

Funding for Short-Term Mental Health-Focused Housing. The budget appropriates a total of $265 million in MHSA funding to support short-term mental health housing. This funding provides grants to counties to cover the rehabilitation or construction of tiny homes or small multi-bed facilities in locations where wrap-around behavioral health treatment can be administered. In January, the Governor had proposed delaying this funding, which would have impeded ongoing local efforts to move individuals away from unhealthy, dangerous encampments.

Inadequate CARE Court Funding. The enacted budget provides $129 million in General Fund to the counties to begin implementation of the Community Assistance, Recovery and Empowerment (CARE) Act. Of this amount, $67 million General Fund in 2023-24, and up to $152 million annually thereafter, is to support county behavioral health treatment and court costs. While this funding is welcome, the counties responded that this amount is "*inadequate to ensure the successful implementation of the new court process associated with the CARE Act."* Eight counties will begin implementation in late 2023 with the remainder in 2024. If California is going to make a real effort to heal the severely mentally ill on our streets, the counties must have the resources to provide actual treatment.

Expanding the 988 Suicide Crisis Line. This budget makes a number of changes to the recent 988 Suicide and Crisis Line legislation (AB 988, 2022), including conforming the program definitions to federal requirements, changing stakeholder workgroup timelines, and allowing the 988 surcharge revenue to be used to pay state departments for their costs in administering the 988 Suicide and Crisis Lifeline. The 988 line is proving to be a crucial tool in saving lives. Based upon recent data collected by the health research firm KFF, the 988 line received more than 58,000 calls from California in the months of April and May in 2023.

Expansion of the Naloxone Distribution Project. With the state's fentanyl-related deaths increasing, the budget provides $75 million, with additional amounts in future fiscal years, to expand the state's effort to increase naloxone supplies to first responders, law enforcement, community-based organizations, and county agencies. Naloxone, when administered in a timely fashion, can prevent overdose deaths from fentanyl and other opioids. In addition, the budget provides $30 million to the state's drug procurement program to purchase additional supplies of naloxone for the distribution program.

Continuing the Incompetent to Stand Trial Solutions. The 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 869 individuals over that period.

California to Seek Federal Funding for Locked Psychiatric Facilities. The budget provides authority for the Department of Health Care Services to 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.

Human Services

Key Points

- **CalWORKs Grant Increases.** Provides a 3.6 percent CalWORKs Maximum Aid Payment increase that will need to be backfilled by the General Fund in future budgets. Also makes a previous “temporary” 10 percent increase permanent.
- **Summer EBT Program.** Provides $47 million for outreach and automation costs to phase in the new federal Summer EBT program.
- **Expansion of Food Assistance for Undocumented Persons.** Provides $40 million for automation and outreach to expand food assistance for undocumented immigrants.
- **EBT Theft Prevention.** Includes $50 million ($17 million General Fund) to improve electronic benefit transfer (EBT) card security and reduce benefit theft.
- **IHHS Collective Bargaining.** Provides $1.5 million to explore ways for IHSS workers to collectively bargain at the state or regional level, and increases county penalties for failing to reach collective bargaining agreements from 7 percent to 10 percent.
- **IHSS Undocumented Expansion.** Provides $902 million General Fund in 2023-24 for the IHSS costs related to the full-scope Medi-Cal expansion to undocumented immigrants 50 and over.
- **Adoption Facilitator Reform.** Bans Adoption Facilitators and provides enforcement mechanisms for unlicensed adoption agencies, as first proposed by a Republican Senator.
- **Southern Border Activities.** Includes $150 million General Fund for the Rapid Response program to provide Southern border support, likely for undocumented immigrants.

California Work Opportunity and Responsibility for Kids (CalWORKs)

CalWORKs Maximum Aid Payment (MAP) Increase. The budget provides $111 million for a 3.6 percent MAP Increase beginning on October 1, 2023. The MAP increase costs are supposed to be funded entirely by the Child Poverty and Family Supplemental Support Subaccount, a fund source that the state previously realigned to counties. However, the nonpartisan Legislative Analyst’s Office (LAO) raised concerns that while the increase can be covered by the subaccount in 2023-24 and 2024-25, in 2025-26 General Fund will likely be needed to backfill the increase. Providing an increase while knowing that a backfill will be needed in the near future is not responsible budgeting. The majority party continues to create ongoing obligations, leaving the state in a situation where benefits would have to be cut significantly in a difficult budget year.

Makes a Temporary 10 Percent CalWORKs Increase Permanent. The budget removes the expiration on a previous “temporary” 10 percent CalWORKs grant increase, originally set to expire on September 30, 2024. The estimated cost of this increase for 2023-24 is $383 million but will vary depending on caseload. The total CalWORKs grant increases between the 2022 and 2023 budgets add up to nearly 25 percent. While welfare benefits such as CalWORKs provide an important safety net for many California families, the continued increases in benefits, combined with policy changes that diminished accountability in recent years, is not aligned with the program’s original intent of providing a safety net while restoring people to self-sufficiency. Making the increase permanent after claiming it would be temporary is also indicative of a growing trend among the majority party of using bait-and-switch methods with their budgeting.

CalWORKs Guaranteed Income Exemption. The budget makes statutory changes to exempt all guaranteed income payments from consideration as income or resources for the purpose of determining benefits for the CalWORKs program. The budget also allows the Department of Social Services (DSS) to accept funds from any public or private source to administer the Guaranteed Income Pilot Program, established in the 2021 budget, and enables DSS to award funds to tribal entities. CalWORKs enrollees are supposed to receive benefits based on their financial need, so if they are also receiving funds as part of a guaranteed income program, it makes no sense to still provide them with the same level of CalWORKS benefits.

Food Assistance Programs

Summer EBT Rollout. The budget provides $47 million ($24 million General Fund) for outreach and automation costs related to the phase-in of the new federal Summer Electronic Benefits Transfer (EBT) program. This program begins in the summer of 2024 and is for children who qualify for free or reduced-price school meals. Participation in the Summer EBT program is projected to draw down about $480 million in federally funded food benefits for California students.

County Administration Rebase. The budget includes $407 million ($160 million General Fund) to reflect a revised budget methodology for county CalFresh administration activities. This increase reflects requirements, included in the 2022 Human Services omnibus trailer bill (AB 207), for DSS, representatives of county human services agencies, and the County Welfare Directors Association of California to update the budgeting methodology.

California Food Assistance Undocumented Expansion. The budget includes $40 million one-time General Fund for automation and program outreach to implement the expansion of the California Food Assistance Program (CFAP) for undocumented individuals aged 55 and older. The budget also includes $3.3 million General Fund for state-level administration of the program and adjusts the timing of the CFAP expansion from January 2025 to October 2025. At a time when the state is facing a nearly $32 billion dollar budget deficit in 2023-24 and multiple years of multibillion dollar deficits after that, it is fiscally irresponsible to continue expanding programs.

The anticipated costs to eventually cover all undocumented immigrants, regardless of age, are in the hundreds of millions General Fund. It should also be noted that the federal government currently allows California to distribute funding to documented immigrants on CFAP, using the CalFresh system. This involves California reimbursing the federal government with General Fund; however, using the CalFresh system for undocumented immigrants is not permitted. To distribute the funding to undocumented immigrants, California has to build an entirely new CFAP distribution system, using state taxpayer dollars.

Monthly Minimum CalFresh Benefit Pilot. The budget provides nearly $1 million General Fund to establish the CalFresh Minimum Nutrition Benefit Pilot Program. This pilot is contingent upon an appropriation in future budgets and would raise the monthly minimum food benefits individuals on CalFresh receive from the current minimum of $23 to $50. The Department of Finance notes that it is assumed that $15 million one-time General Fund will be provided in 2024-25 to implement the program. This pilot project implements the provisions of SB 600 (Menjivar, 2023), which was held in the Assembly Human Services Committee at the request of the author.

EBT Benefit Theft Reimbursement and Prevention. The budget includes $50 million ($17 million General Fund) to improve security by upgrading EBT cards to include Chip/Tap technologies. The budget also provides $43 million in federal funds for automation and administrative activities for the reimbursement of food benefit theft. With these investments, California is on track to be the first state in the nation to rollout EBT cards with chip/tap technology, and full implementation is anticipated to be completed in 2025-26.

In-Home Supportive Services (IHSS)

IHSS Collective Bargaining Strong-Arming. The budget provides $1.5 million one-time General Fund to explore the implementation of statewide or regional collective bargaining of In-Home Supportive Services (IHSS) providers. Also, beginning October 1, 2023, the budget increases the IHSS county collective bargaining penalty from a 7 percent withholding to a 10 percent withholding of the 1991 Realignment funding. Despite the majority party's claims of transparency, this penalty increase appeared at the last minute in the Human Services trailer bill (AB 120) with no prior discussion in any committee.

Realignment penalties represent millions of dollars in funds to large counties and tens of thousands to hundreds of thousands in smaller counties. Fiscal penalties such as this ignore the progress that has been made to date on IHSS collective bargaining and punishes counties that have properly balanced labor demands and fiscal stewardship of taxpayer dollars. These penalties also reduce funding for other county realignment health and social service programs, including childcare and mental health.

The exploration of a way to move IHSS collective bargaining to the state or regional level is also concerning. Allowing IHSS providers to negotiate with the state or on a regional scale could drive up costs significantly and potentially remove counties from the bargaining table despite IHSS being partially funded by county dollars. The budget also authorizes the administration to hire a consultant to develop the cost and benefits analysis, but it exempts this contract from the usual public contracting process and form review or approval by the Department of General Services. This lack of transparency could allow an entirely biased "analysis" of the costs and benefits, thus producing a "conclusion" that further harms counties. This effort is another unwarranted intrusion by the Governor and legislative Democrats into local government operations.

IHSS Phase-In of Undocumented Immigrants. The budget provides $902 million General Fund in 2023-24 for the IHSS costs related to the full-scope Medi-Cal expansion to undocumented immigrants 50 and over. IHSS benefits have already been extended to children, adults aged 19-25, and now adults 50 and over. Benefits are planned to be expanded to adults aged 26-49 by January 1, 2024, meaning all income-eligible undocumented immigrants will be covered. It will take a few years for the total cost of the full expansion to be realized, but will likely cost over a billion in state taxpayer dollars.

Other Human Services Programs

State Supplementary Payment (SSP) Grant Increase. The budget assumes an additional SSP grant 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. The SSP program augments the federal Supplemental Security Income (SSI) program, and recipients are income-eligible individuals who are aged 65 or older, blind, or disabled. Even with these increases, the maximum grant for SSI/SSP individual recipients will still be below the federal poverty level.

Adoption Facilitator and Unlicensed Adoption Agency Enforcement. The budget provides $317,000 from the Federal Trust Fund for DSS to enforce a ban on adoption facilitators and to regulate unlicensed adoption agencies. The ban would begin January 1, 2024, and prohibits a person or organization from engaging in activities relating to adoption without a valid license to operate as a licensed adoption agency. Statutory changes were also made to provide an enforcement mechanism for DSS to uphold the ban and licensure requirements.

The move to ban facilitators was sparked by reports and investigations of a number of complaints regarding adoption facilitators in recent years. The Sacramento Bee highlighted this in an investigative article released in January 2023 that noted a facilitator collected hundreds of thousands of dollars from prospective parents without ever placing a child, and that DSS at the time did not provide oversight over adoption facilitators. Republican Senator Rosilicie Ochoa Bogh proposed a bill to fix these issues (SB 807), and her proposals were adopted in the budget package reflected through the human services trailer bill (AB 120).

Additional Housing Support for Foster Youth. The budget provides $909,000 to create a housing supplement to the basic rate paid for a non-minor dependent placed in a supervised independent living placement (SILP). These SILPs are placement options for individuals ages 18 to 21 participating in extended foster care. Foster youths in this age range are especially vulnerable, and providing an additional housing supplement will help fill the gap between housing costs and the basic rate paid. The estimated ongoing cost of this supplement is $25 million ($19 million General Fund) beginning in 2025-26.

Rapid Response – Southern Border Activities. The budget includes $150 million General Fund for the Rapid Response program, which awards grants and contracts to entities that provide assistance to immigrants including, but not limited to, temporary shelter, medical screening and treatment, food, and clothing. At a time when the state is facing years of multibillion dollar deficits, and is raising taxes and borrowing to make ends meet, it makes no sense to use state taxpayer dollars to provide new services for a population that is likely undocumented. The amount approved here is the same as that granted to bailout hospitals who are at risk of closing due to decades of underpayment by the state Medi-Cal program. The majority party in Sacramento would rather launch new and expanded programs for undocumented immigrants than make longstanding programs sustainable.

Developmental Services

Key Points

- **Expands Provisional Eligibility for Services to Children Age 2 and Under.** Earlier eligibility reduces the likelihood of delays in needed intensive services and supports.
- **Allows Service Provider Rates to Increase as the State Minimum Wage Increases**. Provider reimbursement rates for services will adjust whenever the California minimum wage increases.
- **Establishes Provider Quality Incentives.** Providers achieving certain quality benchmarks in their service delivery will obtain financial incentives.
- **Waives Family Fees for an Additional Year.** Extends the pandemic-era non-collection of family fees for one more year.
- **Creates a New Employment Incentives Office as Subminimum Wage Law Phases Out.** As employers lose the right to hire at wages that match productivity, the state will coordinate employer grants to help hire developmentally disabled individuals.

Expands Provisional Eligibility for Services to Children Ages 0-2. Prior to this budget, California law allowed provisional eligibility for regional center services to a child who was three or four years of age and had two life-functioning non-physical disabilities, such as learning or self-direction. These provisional eligibility rules were created to reduce the likelihood of children experiencing delays in receiving needed permanent services. These delays can lead to long-term negative impacts and a need for more intensive services and supports in the long run. During the provisional period, determinations are made on a child's level of need for permanent services. This budget expands that provisional eligibility to children ages 0 to 2, thus increasing the likelihood that delays in receiving needed services are prevented.

Increases Provider Payment Rates for Changes in Minimum Wage. Developmentally disabled service provider payment rates are governed by calculated rate models. Prior to this budget, the law assumed the minimum wage in California is $15.00 per hour in those rate models. This budget adjusts all applicable rate models to account for the current minimum wage and for future increases in the state minimum wage, thus ensuring that no provider will be squeezed between a lower reimbursement and a higher hourly wage paid to employees. Unfortunately the budget did not resolve the issues of funding for the state requirement that a business pay "exempt" employees (managers) at least twice the minimum wage or provide the ability to adjust the rate models to account for changes in local minimum wages that exceed the state minimum. These issues continue to be a problem, despite the recent improvements in rates.

Creates a Structure for Provider Quality Incentive Payments. This budget authorizes the Department of Developmental Services (DDS) to establish quality measures or benchmarks in order to measure meaningful outcomes of individual consumer services. The department will be required to calculate each provider's annual quality incentive payment—a payment on top of a provider's base rate—if the department determines that the provider met those agreed upon annual benchmarks.

This policy is an important step that could help improve the quality of services delivered, rather than just pay for the quantity of service. Notably, in 2015 a Senate Republican bill (SB 638, Stone) first proposed that DDS create a plan to provide incentives for high-quality services. Democrats did not advance that bill, but this budget's belated step toward quality incentives moves in a positive direction.

Extension of Remote Meetings Option for Consumers. Current law requires regional centers to meet with the families of the regional center consumer on an annual basis to discuss that consumer's Individual Program Plan or an Individual Family Service Plan. Prior to the pandemic, this meeting was always conducted in-person. During the pandemic, state law changed to allow for meetings to be conducted electronically on telehealth-type electronic platforms. That electronic option had a sunset date of June 30, 2023, but this budget extends that sunset date by one year until June 30, 2024.

Adds a Year of Family Program Fee Suspension. Due to the pandemic, all regional centers were required to halt the collection of annual family program fees charged on some non-low-income consumer families. The suspension of the fees was set to come to an end on June 30, 2023. This budget extends this suspension by one additional year until June 30, 2024.

Creates a New State Employer Incentives Office in the Wake of Subminimum Wage Elimination. Historically, disabled people in California could get a job under an exemption to minimum wage laws that allowed the employer to better match wages to the person’s productive capability. This made it feasible for employers to hire someone who, for example, could produce half the amount of work as a non-disabled person. This exemption allowed many people with intellectual or developmental disabilities to find meaningful employment. Sadly, but predictably, the number of job opportunities for developmentally disabled individuals in California is now shrinking. The main cause of this is the phased-in implementation of SB 639 (Durazo, 2021), which will fully eliminate all subminimum wage job opportunities for the developmentally disabled by January 1, 2025. Estimated employment within that population has declined from approximately 6,100 individuals in 2018 to roughly 2,000 individuals in 2022.

In response to this noticeable decline in employment for this population, this budget creates a new government entity called the Office of Employment First within the state Health and Human Services Agency to monitor the transition from subminimum wage and to coordinate employment incentives and programs across multiple state departments. While grant programs for employers make an attempt at correcting the situation, common sense would allow some form of wage exemptions to remain in place to make it feasible for employers to hire—and more importantly train—developmentally disabled individuals. The 2021 bill placed political ideology ahead of compassion and practicality. Concerned advocates asked for the phase-out of the subminimum wage elimination to be delayed so that the Legislature can evaluate the extent of the problem. This budget did not approve that delay. For now, any evaluation will be done by this office as the elimination takes effect.

Child Care and Early Education

Key Points

- **New Child Care Providers Bargaining Agreement.** Utilizes $2.4 billion of $2.8 billion previously set aside for child care and preschool providers to implement the new bargaining agreement with Child Care Providers United (CCPU).
- **Major Handouts to Providers.** Includes extra monthly cost-of-care “add-on” payments ranging from $98 to $211 per child and one-time extra payments ranging from $500 to $3,000 per provider.
- **Provider Retirement Trust.** Appropriates $80 million General Fund for the establishment of a retirement trust for child care providers, and authorizes additional funding for training and health benefits.
- **Alternative Methodology Development.** Begins the development of an alternative methodology to inform setting reimbursement rates, which could cost billions of dollars.
- **“Hold Harmless” Extension.** Extends the COVID-era hold-harmless policy until June 30, 2025, for child care program and preschool reimbursement.
- **Full-Time Definition Change.** Changes the definition of “full-time” child care to 25 or more hours per week, instead of 30 or more, leading to higher payments.
- **Family Fee Restructuring.** Significantly reduces or eliminates family fees for child care and preschool families.
- **Child Care Slot Expansion Delay.** Delays the implementation of 20,000 child care slots from 2023-24 to 2024-25, reflecting a lack of demand for slots.

New Bargaining Agreement for Child Care Providers. The June budget set aside $2.8 billion one-time ($1.67 billion from General Fund and various federal funds, and $1.16 billion Proposition 98 General Fund) for reimbursement rate increases for child care and preschool providers through 2024-25, pending a new agreement with CCPU. An agreement was reached with CCPU in July, with a total cost over two years of about $2.4 billion. The remaining $400 million is Proposition 98 General Fund and has been set aside for preschool programs. In order to free up a portion of the funding that will be utilized to cover the new agreement costs, the budget suspends a statutory cost-of-living-adjustment for child care and state preschool programs in 2023-24 and 2024-25.

For background, child care providers were authorized to form, join, and participate in a “certified provider organization” by the passage of AB 378 (Limon, 2019). Child care providers are not state employees, and the creation of this union was unprecedented and a direct give-away to a special interest group. Satisfying the demands of CCPU has already cost billions, and costs are projected to grow astronomically in future years with the potential implementation of an alternative methodology.

Cost of Care “Add-On” Payments. Beginning January 1, 2024, the budget provides all subsidized child care providers with a temporary monthly “cost of care plus rate” per child. The amount of the add-on will be determined by region and whether the provider is licensed or license-exempt. These payments range from $98 for license-exempt providers in the Central Region to $211 for licensed providers in the Bay Area. The funding to cover the add-ons was included in the $2.8 billion set-aside for the bargaining agreement and will cost approximately $1.2 billion over two years. While these add-ons are temporary for now, there will likely be pressure in the future to maintain the funding level.

One-Time Add-On Payments. As part of the bargaining agreement, the budget also includes one-time payments to providers who were reimbursed for subsidized child care or state preschool services in April 2023. The one-time payments are $500 for license-exempt providers, $2,500 for licensed small family daycare homes, and $3,000 for licensed large family daycare homes. Child care providers have been flooded with rate add-ons, one-time subsidies, and hold harmless reimbursement policies. This raises the question of whether or not the state should continue to provide handout after handout to the providers at the expense of taxpayers. The one-time cost of these add-ons is $229 million.

Health, Retirement, and Training Benefits. As part of the CCPU agreement, the budget appropriates $80 million for the establishment of the CCPU Retirement Trust to provide access to retirement benefits for family child care providers, and also authorizes a contribution of $15 million to the Joint CCPU Training Partnership Fund and $100 million to the CCPU Workers Health Care Fund. Provisions were also included that would require the state to make a single contribution to each of the funds on a yearly basis to shore up the funds to their initial appropriation. As noted previously, CCPU members are not state employees, begging the question of why the state is using state taxpayer dollars to provide benefits to a private sector group.

Family Fee Restructuring. The budget enacts a permanent family fee change that, beginning October 2023, waives fees entirely for child care and preschool families that make below 75 percent of the state's median income. Also, rates for families making 75 percent or more will be capped at one percent of their monthly income. The budget also allows for fees accrued and uncollected prior to October 1, 2023 to be forgiven.

In addition to these policy changes, the budget provides a number of funding allocations related to family fees, including:

- $56 million one-time General Fund to reimburse child care providers for family fees waived or reduced as a result of fee schedule changes beginning October 1, 2023.
- $12 million one-time Proposition 98 General Fund and $11 million one-time General Fund to waive and reduce preschool family fees beginning October 1, 2023.
- $29 million in federal funds to waive family fees for child care programs through September 30, 2023.
- $4.4 million one-time General Fund and $5.3 million Proposition 98 General Fund to waive family fees for preschool providers through September 30, 2023.

Alternative Methodology for Rate Reimbursements. The budget directs the Department of Social Services (DSS), in collaboration with the State Department of Education (CDE), to develop and conduct an alternative methodology for setting reimbursement rates for state-subsidized childcare and preschool services. The alternate methodology is required to build on the recommendations of a rate and quality workgroup convened in 2022 and the recommendations of the Joint Labor Management Committee of the state and CCPU. The budget also establishes several deadlines to initiate the implementation of the alternative methodology, including requiring DSS to submit the required information to the federal government by July 1, 2024.

While an alternative methodology may offer improvements, the preliminary estimated cost to fully fund the methodology is $12 billion. Although the bill does not require DSS to actually implement the alternative methodology, it states the Legislature's intent to utilize the methodology to inform the rate-setting. With a bleak future fiscal outlook ahead already, and a majority party that is unwilling to live within its means, the state could be faced with major future child care spending obligations to fund the new methodology. This is the predictable result of a newly formed union negotiating with elected officials and their appointees, all using the taxpayers’ money.

Needlessly Extends Hold-Harmless Policies. The budget extends the COVID-era "hold harmless" policy until June 30, 2025 for child care and preschool reimbursements. This policy gives providers of subsidized care 100 percent of their maximum reimbursable amount or the actual reimbursable program costs, whichever is less, <u>even if the provider cared for no children</u>. The nonpartisan LAO notes that this policy has merit for voucher-based providers, but does not incentivize direct contract providers to fill child care slots, and disconnects program funding from the number of children served. The extension of this policy is a waste of General Fund dollars and serves to benefit providers only, not the children and families the state is supposed to serve. The funding for this extension was included in the $2.8 billion appropriated for the bargaining agreement, along with an addition $22 million, and totals about $177 million over two years.

Part-Time and Full-Time Definition Changes. The budget re-defines “part-time” care as care certified for a child for less than 25 hours per week, and “full-time” care as 25 hours or more per week. The previous “part-time” definition was less than 30 per week. Changing the definition of “part-time” moves more providers into the “full-time” classification, increasing their reimbursements. The estimated cost of this change for the 2023-24 fiscal year is $35 million, with another $70 million in 2024-25. When the standard “full-time” work week for most employees in the state is 40 hours, it hardly seems reasonable for child care providers to be deemed “full-time” at 25 hours per week. Most employers do not even provide benefits to an employee unless they work 30 hours per week.

Child Care Slot Expansion Timing Delay. The 2021 Budget Act initiated adding 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 budget delays the implementation of 20,000 new slots to 2024-25. This creates a savings in 2023-24 of about $136 million General Fund. Adding slots provides benefits to families, and is thus preferable to this budget’s focus on increasing payment rates instead.

Delays Enrollment Expansion for Children with Exceptional Needs. The 2022 budget established requirements that at least 7.5 percent of a state preschool program’s funded enrollment be reserved for children with exceptional needs by July 1, 2023, and at least 10 percent by July 1, 2024. This budget delays these requirements by two years so that at least 7.5 percent will be reserved by July 1, 2025, and 10 percent by July 1, 2026. The original requirements were likely overly ambitious, and the new timeline is more reasonable given the recent major changes to early education and the time still needed to get back to pre-pandemic levels.

K-12 Education

Key Points

- **Proposition 98.** Proposition 98 funding would reach $108 billion for K-14, about a $900 million increase over the revised 2022-23 budget.
- **Local Control Funding Formula.** The budget provides a $3.4 billion increase in the Local Control Funding Formula (LCFF), reflecting an 8.22 percent cost-of-living-adjustment (COLA).
- **Overdose Drugs on Campus.** Provides $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.
- **Reduction to Previously Allocated Block Grants.** Cuts the Learning Recovery Emergency Block Grant by $1.6 billion and the Arts, Music, and Instructional Materials Discretionary Block Grant by $200 million.
- **Proposition 28 Arts Education Implementation.** Includes $938 million to implement Proposition 28, which provides funding for arts and music in schools.
- **Equity Multiplier.** Includes $300 million ongoing Proposition 98 General Fund for an equity multiplier, which seeks to provide more support for low-performing students.
- **Dyslexia Screening.** Requires reading difficulty screenings to be conducted in Kindergarten through second grade.
- **Substitute Teachers.** Extends the authorization to allow substitute teachers to serve up to 60 cumulative days for any one assignment until July 1, 2024.
- **Charter School Renewals.** Provides a one year extension for all charter school renewals.

Overall Education Spending. The budget includes $129 billion in total funding for K-12 education programs. Of this funding, $79 billion is General Fund and $50 billion is from other funding sources.

Proposition 98. The budget reflects a Proposition 98 minimum guarantee of $108 billion for K-14, of which $95 billion is for K-12 programs. The Proposition 98 minimum guarantee reflects an increase of about $950 million over the 2022-23 revised totals. Under this proposal, ongoing K-12 Proposition 98 per pupil expenditures would be $17,678 in 2023-24, and $24,054 per pupil when accounting for all K-12 funds. The table on the next page summarizes Proposition 98 funding over the budget year and two preceding years.

Proposition 98 Funding by Segment and Source (Dollars in Millions Except Funding Per Student)					
	2021-22 Final	2022-23 Revised	2023-24 Enacted	Change From 2022-23	
				Amount	Percent
K-12 Education					
General Fund[a]	$70,236	$67,786	$68,101	$315	0.5%
Local property tax	23,286	25,455	26,852	1,397	5.5%
Subtotals	**$93,521**	**$93,241**	**$94,953**	**$1,712**	**1.8%**
California Community Colleges					
General Fund	$8,678	$8,544	$8,453	-$91	-1.1%
Local property tax	3,515	3,787	4,003	216	5.7%
Subtotals	**$12,193**	**$12,331**	**$12,456**	**$125**	**1.0%**
Proposition 98 Reserve Deposit[b]	$4,840	$1,787	$903	-$885	-49.5%
Totals	**$110,554**	**$107,359**	**$108,312**	**$953**	**0.9%**
Enrollment					
K-12 attendance	5,349,982	5,356,421	5,371,161	14,740	0.3%
Community College FTE students	1,111,055	1,082,160	1,047,839	-34,321	-3.2%
Funding Per Student					
K-12 Education	$17,481	$17,407	$17,678	$271	1.6%
California Community Colleges	10,974	11,395	11,887	493	4.3%

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

[b] Consists entirely of General Fund.

FTE = full-time equivalent.

Proposition 98 Rainy Day Fund. The budget includes a deposit of $902 million into the Public School System Stabilization Account (PSA), for a balance of about $11 billion at the end of the 2023-24 fiscal year. This reflects updated deposits of $4.8 billion in 2021-22 and $1.8 billion in 2022-23. Under current law, if the PSA balance is greater than or equal to 3 percent of the total share of the K-12 Proposition 98 guarantee level, local schools districts' reserves are capped at 10 percent. The balance in the PSA triggers the school reserve caps 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.

Local Control Funding Formula. The budget includes a COLA of 8.22 percent for the LCFF that, when combined with enrollment adjustments, will result in $3.4 billion in additional discretionary funds for schools. This is an increase of almost 1.7 percent from the COLA adjustment in the 2022 Budget Act, making the 2023-24 COLA adjustment the largest ever for the LCFF. In order to fully fund this increase and maintain current apportionments, the budget uses $1.6 billion in one-time Proposition 98 General Funds. This brings the total LCFF funding to approximately $79 billion. The budget's use of one-time Proposition 98 funds for an ongoing COLA raises concerns over how future budgets will pay for this.

Opioid Overdose Drugs in the Classroom. The budget provides $3.5 million ongoing Proposition 98 General Fund to County Offices of Education to maintain and purchase a minimum of two units of naloxone hydrochloride or other opioid overdose medication for each public and charter middle school and older. Investments such as these, while surreal, are necessary as the opioid crisis continues to grow. According to the California Department of Public Health, opioid-related overdose deaths among those 10-19 years old increased by 407 percent between 2018 and 2020, with fentanyl-related deaths increasing by 625 percent among the same population. The need for this proposal illustrates the state's failure to get ahead of an alarming epidemic that is now robbing youth of their lives.

Cuts to Block Grants Previously Allocated. The budget cuts the Learning Recovery Emergency Block Grant (LRG) by about $1.6 billion in Proposition 98 General Fund and also cuts the Arts, Music, and Instructional Materials Discretionary Block Grant by $200 million Proposition 98 General Fund. The cuts were implemented to free up one-time funds to partially cover the ongoing 8.22 percent LCFF COLA and other ongoing and one-time costs. After these cuts, these block grants would still have $6.3 billion and $3.4 billion available, respectively.

While these cuts were reduced when compared to the Governor's original proposal, the LRG funding has already been distributed to Local Education Agencies (LEAs) and would require a "claw back". The LAO and education advocates raised concerns throughout the process that the reduction to the arts grant would be disruptive, as many districts have already developed plans to spend these funds. It should be noted that the education budget trailer bill (SB 114) includes intent language to allocate $379 million per year from the 2025-26 fiscal year to 2027-28 for a total restoration of about $ $1.1 billion of the LRG, but as this is "intent" and not a guarantee, it is possible that the funding will never materialize.

Proposition 28 Implementation. The budget includes $938 million to implement the Arts and Music in Schools – Funding Guarantee and Accountability Act, approved by the voters at the November 8, 2022 election as Proposition 28. The measure requires an amount equivalent to one percent of the prior year's Proposition 98 funding received by local education agencies to be directed to schools for arts education. The budget also made statutory changes necessary to clarify and allow for the implementation of the measure. Some of these changes include how the funds are distributed to preschools, reporting deadlines for unexpended funds, and the reversion of unused funds in the event of a charter school closure.

Universal Transitional Kindergarten (TK). The budget provides $597 million ongoing Proposition 98 General Fund to support the second year of the four-year Universal Transitional Kindergarten (TK) expansion plan. This expansion includes all children turning five years old between September 2 and April 2, an additional 42,000 TK students in the budget year. The budget also provides $165 million General Fund to support an additional certificated or classified staff person in each TK classroom. Additional policy changes impacting TK include delaying both the requirements for TK classrooms to have a 1:10 adult-to-student ratio and the increased requirements on TK teacher credentials by two years. The extensions will provide schools with much needed relief as the state continues to face educator staffing troubles.

Equity Multiplier. The budget includes $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 high-need students in the state using a targeted methodology. LEAs who have a "nonstability" rate greater than 25 percent and a socioeconomically disadvantaged pupil rate greater than 70 percent in the prior year will receive grants at a minimum of $50,000.

While the multiplier has merits and seeks to improve outcomes for students that typically have lower performance rates, the multiplier could be viewed as duplicative. LEAs are currently provided supplemental and concentration grants for their "unduplicated" pupil population, many of which already fit the new criteria established in the multiplier. This funding could have been better served to help fund the ongoing 8.22 percent LCFF COLA or prevent the cuts to the arts and LRG.

Literacy Coaches and Reading Specialists. 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 was established in the 2022 budget with a $250 million one-time Proposition 98 General Fund investment. This program provides funds for high-poverty schools to train and hire literacy coaches and reading specialists to assist students that need targeted literacy support. While this literacy program might be laudable, it is premature to double down on the prior expenditure before any results are available to evaluate its success and pitfalls. The budget also includes $1 million one-time General Fund to create a Literacy Roadmap to help educators better utilize available literacy resources.

FDK Program Delay. This budget delays $550 million General Fund for the Preschool, Transitional Kindergarten, and Full Day Kindergarten Facility Grant (FDK) program from 2023-24 to 2024-25. With the rollout of universal TK and the push for universal preschool and mandatory kindergarten, it is counterproductive to delay funding to provide adequate facilities to meet the new demand. On the other hand, the LAO has noted that facilities for these programs are less of a concern to LEAs and that staffing needs are the more pressing issue. Time will tell if this delay has negative impact on the state's early education push.

Juvenile Court and Community Schools Support. The budget includes $80 million ongoing Proposition 98 General Fund for additional support for County Offices of Education (COEs) operating juvenile court and community schools. This includes an allocation of $200,000 per COE operating one or more juvenile court school and $200,000 for each COE operating one or more community school. The alternative funding model also increases the LCFF base rate for COEs' average daily attendance (ADA). COEs and other education groups expressed the need to reform the base rate and provide additional funding for juvenile court and community schools due to the volatility of relying heavily on ADA for such an unstable and fluid student population.

Special Education. The budget included a number of statutory changes that impact special education, including:

- Changing the amount of additional funding Special Education Local Plan Areas (SELPAs) are allowed to retain for non-direct student services before allocating base funding to their member LEAs.
- Extending the moratorium on the creation of new single-district SELPAs by two years from June 30, 2024 to June 30, 2026.
- Requiring the Department of Education (CDE) to post each SELPA's annual local plan on the department's website to increase fiscal transparency.

Reading Difficulties and Dyslexia Screening. The budget provides $1 million one-time Proposition 98 General Fund to create an independent panel of experts that would approve screening instruments for reading difficulties and dyslexia in kindergarten through second grade. LEAs will then be required to adopt one or more of the approved screening instruments and to assess each pupil in those grades by the 2025-26 school year. The requirement to screen for reading difficulties and dyslexia is long overdue. Early identification and intervention are key to improving student outcomes, and California is behind the majority of the nation as one of only 10 states that does not currently require dyslexia screening for all children.

Substitute Teacher Allowance. The budget extends the authorization for substitute teachers to serve up to 60 cumulative days for any one assignment to July 1, 2024. This extends a pandemic era policy that expired on July 1, 2023. In addition to a longstanding teacher shortage, schools are also facing substitute teacher difficulties. Extending the allowable time substitutes can serve will provide districts with much needed flexibility to better utilize the limited supply of substitute teachers, as more long-term subs are needed to fill teacher vacancies.

Extension of Charter School Renewals. The budget provides a one-year extension for all charter schools whose term expires on or between January 1, 2024 and June 30, 2027. This was the top priority for charter schools, and helps ensure that these schools have additional time to let their post-pandemic results be fully incorporated in the school dashboard before the renewals resume.

Commercial Dishwasher Grants. The budget also includes an unnecessary $15 million one-time Proposition 98 General Fund for LEAs to purchase and install commercial dishwashers. The 2022 budget already provided $600 million to LEAs for kitchen infrastructure grants, and nothing precludes the use of those funds to purchase commercial dishwashers. The claimed justification for this funding is to limit Styrofoam single use trays in schools, but as noted by the LAO, there are alternatives such as compostable trays that schools can use. Actions such as this, at a time when the state has cut other funding that schools need, raises the question of whether or not the administration and the majority party truly understand and take seriously the gravity of the state's fiscal situation.

Higher Education

Key Points

- **Student Housing Funds Shifted to Bond or Delayed.** Deletes a previous award of $1.4 billion for housing grants from 2022-23 and instead plans to fund the projects through various bond arrangements. Also delays $700 million in zero-interest loans for housing projects to future years.
- **Campus Infrastructure Shifted to Bonds or Delayed.** Shifts over $1 billion in previous cash awards for campus facilities to bond financing, and delays $200 million for a UCLA facility.
- **UC and CSU Compacts Continued.** Continues the second year of the compacts between the Governor and the University of California (UC) and California State University (CSU) by providing each system a discretionary 5 percent base increase in General Fund dollars.
- **Community College Budget Rises.** Under Proposition 98, provides $678 million ongoing for a cost-of-living adjustment of 8.22 percent, as well as $290 million one-time for the Student-Centered Funding Formula.
- **Community College Full-Time Faculty.** Responds to a scathing recent audit by implementing several measures to improve colleges' compliance with the requirement that full-time faculty teach 75 percent of classes.
- **Debt-Free College for Foster Youth.** Expands the Student Success Completion Grant and Middle-Class Scholarship terms to support debt-free college for current or former foster youth.

Higher Education Budget Summaries. The table below shows the General Fund and total fund budgets for the three higher education systems. Funding for community colleges increased based on Proposition 98 requirements, while the General Fund budgets for UC and CSU remained essentially flat on net. Significant programmatic adjustments for each system are described below.

Higher Education Budgets (Dollars in billions. Reflects state-provided funds, but excludes tuition.)						
	2022-23		2023-24		Change	
	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds
University of California	$4.9	$9.9	$4.8	$9.9	-$0.1	$0.0
California State University	$4.9	$6.6	$5.0	$6.7	$0.1	$0.1
Community Colleges	$8.1	$9.1	$8.7	$9.1	$0.6	$0.0
Note: Numbers may not sum correctly due to rounding.						

Student Housing and Campus Infrastructure

Financing Shift for Affordable Student Housing Grants In the 2022-23 budget, $1.4 billion General Fund was set aside for the three higher education segments to construct affordable student housing. Now, to help address the deficit, the new budget shifts these costs to bond financing. The UC and CSU systems would issue lease-revenue bonds, but the state will provide funds annually to pay the debt service (principal and interest) on the bonds. The $1.4 billion previously awarded included the following amounts for the three higher education segments:

- $490 million to UC, which will now shift to UC-issued bonds. The state will provide $34 million to pay the annual debt service.
- $655 million to CSU, which will now shift to CSU-issued bonds, while the state will provide $52 million to pay the annual debt service.
- $1.1 billion to community colleges, which will shift to a combination of UC-issued bonds and potentially a state-issued bond, as described in the paragraphs below.

June Budget Decision Placed Community Colleges in Difficult Position. Both the UC and CSU systems have used bonds to build housing in the past, but only a handful community colleges have ever built student housing. The Governor originally only proposed shifting the UC and CSU projects to bonds, while allowing community colleges to keep their previous grants. However, a last-minute budget change in June, enacted in final backroom negotiations with no public discussion, also required community colleges to shift to bonds and to return the previous grants to the state. Many community colleges that received funds in 2022 had already begun spending the money, making this “clawback” of money a major challenge. This last-minute choice by the majority party to address the budget deficit placed community colleges in a bind in order to allow Democrats to spend more elsewhere.

Expands UC Bond Authority for Joint Student Housing Projects. The end-of-session higher education trailer bill (SB 142) takes a positive step by increasing the authority for UC campuses to issue revenue bonds to pay for three shared student housing projects. These projects would total $338 million dollars among the three UC campuses (Riverside, Merced, and Santa Cruz) and nearby community colleges. Since UC campuses are accustomed to issuing bonds, this step makes sense as a partial solution to the problem that Democrats created when they decided to claw back student housing funds from community colleges.

Intent for Statewide Community College Bond Authority. Once community colleges realized the budget would claw back the previously awarded housing funds, they asked to explore a statewide bond instead of an individual campus approach. SB 142 declares the Legislature’s intention to work toward a statewide lease-revenue bond for community college student housing, though details of such a bond are unknown. The bill maintains the clawback requirement but delays the payment until the later of the 2024 budget enactment or June 29, 2024. If the state can actually arrange a statewide bond on behalf of the colleges, the new bond funds would offset the funds that colleges must pay back. This approach is an improvement on the majority party’s ill-advised, last-minute budget decision that created the clawback in the first place, but the chances of a successful statewide bond remain unclear. Simply allowing community colleges to keep the previously awarded funds would have been a superior policy.

Student Housing Project Loan Delayed. The 2022-23 budget package planned to provide $1.8 billion over two years for zero-percent interest loans to qualifying campuses of the UC, CSU, and community college systems for construction of affordable housing projects. Now, to help address the deficit, the budget delays $700 million from 2023-34 and $600 million from 2024-25 to future years. This leaves $200 million General Fund in place for 2023-24, with the intent to provide $300 million annually from the 2024-25 to 2028-29 fiscal years for student housing project loans. This plan would spread housing funds over a six-year period, rather than the previous plan to spend the funds over two years.

Campus Infrastructure Project Shifts and Delays. In order to help address the deficit, the budget revises previous actions and shifts some campus projects to bonds or delays funding, as follows:

- ***Various UC Campus Projects Shift to Bonds.*** Shifts $498 million for the UC Berkeley clean energy campus project and UC Merced and UC Riverside campus expansion projects from General Fund to UC-issued bonds, and provides $34 million General Fund for debt service.
- ***Various CSU Projects Shift to Bonds.*** Shifts $330 million for various CSU facility projects from cash to CSU-issued bonds, and provides $43 million General Fund annually to pay debt service.
- ***UCLA Immunology Institute Delayed.*** Delays $100 million General Fund each from 2022-23 and 2023-24, but states intent to provide a total of $300 million in 2024-25.
- ***Cal Poly Humboldt Infrastructure.*** Shifts $201 million provided in the 2021-22 budget from cash to CSU-issued bonds, and provides $16 million annually to pay the debt service.
- ***CSU Chico Human Identification Laboratory.*** Provides an increase of $4.4 million in ongoing General Fund to support the construction of the Human Identification Laboratory at CSU Chico through the issuance of CSU bonds.

University of California (UC)

UC Compact Continued. The 2023-24 budget contains the second year of the compact between the Governor and the UC by providing a discretionary 5 percent base increase in General Fund dollars. This funding increase provides $216 million ongoing General Fund for operating costs.

Resident Undergraduate Enrollment Growth. The budget provides $30 million in ongoing General Fund to offset revenue reductions from replacing 902 nonresident undergraduate students at three UC campuses with an equivalent number of California resident undergraduate students in 2023-24.

California State University (CSU)

CSU Compact Continued. The 2023-24 budget contains the second year of the compact between the Governor and CSU by providing a discretionary 5 percent base increase in General Fund dollars. This increase provides $227 million ongoing General Fund for operating costs.

CSU Deficit and Planned Tuition Hike. The CSU Board of Trustees recently reported that the system recorded a deficit of $1.5 billion for 2022-23, a result of revenues covering only 85 percent of CSU's costs. CSU trustees subsequently voted on September 13, 2023, to raise tuition by 6 percent annually for five years, beginning in the fall of 2024. By comparison, the UC raised its tuition at the inflation rate plus 2 percent in 2022 for its incoming cohort of students.

The tuition hike would amount to a $342 increase for an in-state student, raising the bill to $6,084 per year. By the end of the fifth year, tuition would be $1,940 higher than the pre-hike level. The increase would provide CSU with $148 million in new revenue the first year, about one-third of which would pay for higher financial aid. Around 60 percent of CSU students currently pay no tuition because they receive enough state and federal financial aid, while another 18 percent pay partial tuition.

The state has the option to cover the $148 million increase for 2024 out of the state General Fund, in order to avoid the need for tuition increases. However, the majority party has chosen to spend money on program expansions in areas, such as state employee pay increases ($937 million General Fund), grants to abortion providers ($200 million General Fund), and expanding eligibility for Medi-Cal to more groups of undocumented immigrants ($1.2 billion General Fund just in 2024-25).

Community Colleges

Increased Operating Funds. The budget provides an increase of $678 million ongoing Proposition 98 General Fund in order to pay for an 8.22 percent cost-of-living adjustment (COLA) for 2023-24. This is consistent with the COLA that K-12 schools received. In addition, the budget provides $290 million one-time for the Student-Centered Funding Formula, and $26 million in ongoing funds for 0.5-percent enrollment growth.

Future Nursing Workforce Funds. The budget authorizes, subject to future legislation, $60 million per year for five years, starting in the 2024-25 fiscal year, to expand nursing programs and Bachelor of Science in nursing partnerships through the community college system. There is no guarantee these funds would materialize since they would not begin until the year after the 2023-24 budget.

Some Steps to Improve Community College Full-Time Faculty Composition. A recent State Auditor report sharply criticized the community college system for failing to meet requirements to hire a minimum of 75 percent of faculty as full-time and for miscalculating which staff count as full-time. The 2022-23 budget appropriated $50 million General Fund to the community colleges for hiring new full-time faculty to help meet that requirement. The June 2023 higher education trailer bill, SB 117, made several changes to begin to remedy the deficiencies identified by the State Auditor.:

- Codifies the definition of faculty diversity and full-time faculty in statute.
- Every March 31, each community college district must report to the Chancellor on the progress of increasing the percentage of full-time faculty and faculty diversity.
- Every May 30, the Chancellor’s Office must publish a summary of the community college districts' full-time faculty and faculty diversity reports online.

More Flexible Spending for Previous Funds. The 2022-23 budget provided various block grant funds for deferred maintenance, student recruitment, and COVID response. This year’s budget reduces funding by $500 million Proposition 98, but provides flexibility for colleges to use the remaining grant funds for any of these purposes, rather than specifying amounts for different categories.

Student Recruitment Funds. Community college enrollment had been flat for much of the past decade before trending slightly down by 2019 and then dropping significantly during lockdowns. The budget package provides $50 million under Proposition 98 in 2023-24 for community college student recruitment in an effort to reverse the decline. However, the latest data show student enrollment is back on a recovery trend already, calling into question the need for these funds. Additionally, the funds would be better spent fixing operating issues that diminish the attractiveness of community colleges, such as an insufficient level of full-time faculty, rather than outreach spending of dubious value.

Financial Aid

Debt-Free College for Current and Former Foster Youth. The higher education trailer bill expands financial aid for current and former foster youth. For community colleges, the bill amends the Student Success Completion Grant so that current or former foster youth receive $5,250 per semester, or the quarterly equivalent, for 12 to 15 units of study to cover their unmet needs. For UC and CSU, the bill would cover the total cost of attendance for current or former foster youth by providing them with their full Middle-Class Scholarship award amount.

Maintains Middle Class Scholarship Increase. The budget continues the 2022 plan to provide an increase of $227 million one-time General Fund to support a modified version of the Middle Class Scholarship that will focus resources toward reducing a student's total cost of attendance.

Golden State Education and Training Program. The budget reflects a decrease of $480 million one-time General Fund to wind down the Golden State Education and Training Program at the end of the 2022-23 fiscal year. Demand for this previously approved program was significantly less than anticipated, making this reduction a reasonable action to help address the deficit.

Other Higher Education Additions

In addition to the various changes described above, the budget includes several adjustments, as listed below, for which the majority party offered no rationale to the public. These appear to be member-driven requests, approved by the majority party for unclear reasons. The majority party did not provide any programmatic goals or outcome measures that would indicate what these funds hope to accomplish.

- ***LGBTQ+ Pilot Project.*** An increase of $10 million a year for three years one-time Proposition 98 General Fund to support the Los Angeles Community College District LGBTQ+ Pilot Project.
- ***Ralph J. Bunche Center.*** A $5 million General Fund increase to support the Ralph J. Bunche Center for African-American Studies at UCLA.
- ***East Los Angeles College Entrepreneurship and Innovation Center.*** An increase of $2.5 million one-time Proposition 98 General Fund for the East Los Angeles College Entrepreneurship and Innovation Center.
- ***UC Global Entrepreneurs.*** An increase of $2 million one-time General Fund to pilot an entrepreneur-in-residence project for foreign-born entrepreneurs and UC students.

Labor and Workforce Development

Key Points

- **Breaks Promise of Relief for Job Creators and Small Businesses**. Deletes $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.
- **Borrows to Cover UI Interest Payment.** Includes a loan of $306 million from the State Disability Insurance (SDI) Program to the General Fund to cover the state's required payment of interest to the federal government on UI loans.
- **Industrial Welfare Commission.** A late-session deal on fast food employment removes funding previously included in the budget to revive the Industrial Welfare Commission.
- **Employment Development Department (EDD) Modernization.** Includes $198 million in funding for EDD IT systems, improved service for claimants, and fraud prevention, continuing a five-year modernization plan initially funded in 2022-23.
- **Some Reductions to Workforce Programs.** The budget cuts some workforce programs by a combined $60 million, though the effects of these cuts are unclear.
- **Monthly Minimum Wage for Goat Herders.** Extends provisions for a monthly minimum wage for goat herders by two years to January 1, 2026.

Breaks Promise of Relief for Job Creators and Small Businesses. The 2022-23 budget appropriated a measly $250 million for payments towards California's Unemployment Insurance (UI) Fund debt to the federal government, which has an astonishing balance of roughly $18 billion. California is one of only two states that has failed to eliminate its debt so far. (The other is New York, whose debt balance is only 38 percent of California's.) The Governor also promised a modest principal payment of $750 million in 2023-24 to further pay down this debt, but the budget 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 increased in January 2023 by $21 per employee, and will continue to increase annually until the principal debt is paid. Last year's budget stated the intent of the Legislature to appropriate $500 million in 2024-25 to offset the costs for small businesses paying this increased tax, but the budget 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 them 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 to stay afloat during COVID-19 shutdowns, other state mandates, and inflation.

Borrows to Cover UI Interest Payment. While increased federal employer taxes pay down the principal on the federal UI loans, the state is responsible for the interest payments. As a General Fund solution, the budget includes a loan of $306 million from the Unemployment Compensation Disability Fund, which funds the State Disability Insurance (SDI) Program, to the General Fund to cover the state's required payment of interest. Given the certainty of the state's on-going obligation to make this payment, it should have been prioritized and planned for as a General Fund expenditure. Borrowing is a one-time action.

Industrial Welfare Commission. The June budget added $3 million (General Fund) to the Industrial Welfare Commission (IWC), which was left dormant and unfunded since 2004. The IWC regulated wages, hours, and working conditions through wage orders. The revival of the IWC appeared to be a backdoor attempt to issue rules for fast food restaurants, skirting around a pending referendum on AB 257 (Ch. 246, Stats. 2022, Holden), which qualified for the November 2024 ballot. AB 257 created a state council to set wages and other workforce standards for a large portion of California's fast food industry. A late-session deal reflected in AB 1228 (Holden, 2023) resulted in the removal of this funding. AB 1228, upon a withdrawal of the referendum, repeals several portions of AB 257 and replaces them with similar provisions. Most notably, a newly created Fast Food Council will have the authority to increase wages, regulate working conditions, and set the minimum wage for fast food workers at $20 beginning April 1, 2024, with annual increases going forward.

Continues Funding to Modernize the EDD. The budget provides $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, develop data analysis tools to help curb fraud, and reform training and tools to speed up application processing. This work is long overdue. The majority party knew over a decade ago that EDD's systems were inadequate for its mission, but Democrats prioritized many other programs in the budget. This neglect set the stage for EDD's horrendous performance during the pandemic.

Some Reductions to Workforce Programs. Some of the relatively few budget cuts occurred among workforce programs, including a $40 million cut to the Apprentice Innovation Fund (leaving $135 million in place) and $20 million to the Emergency Medical Technician Training program at EDD (leaving $40 million in place). During the two surplus years of 2021-22 and 2022-23, Democrats threw money at a long list of workforce-related programs, with little or no consideration of how effective each of these programs might be, irrespective of how appealing their names may sound, or how they fit into the broader array of existing workforce programs. As such, these cuts may very well have little practical effect, and the state potentially could cut more in this area.

Monthly Minimum Wage for Goat Herders. Senate Bill 143 (Budget, 2023), a budget trailer bill, extends provisions for a monthly minimum wage for goat herders by two years to January 1, 2026. This extension allows additional time to explore concerns over a monthly minimum wage for goat herders and continues, at least temporarily, to treat goat herders and sheepherders the same. Requiring goat herders to adhere to standard hourly minimum wages would quadruple labor costs from about $50,000 to approximately $191,000 annually per herder. Such an increase would be cost prohibitive for the employers and would drive the herds, and their herders, out of California. This would be an unfortunate result given California's increased use of grazing both goats and sheep to decrease brush and lower wildfire risk. In fact, in 2021 the California Department of Forest and Fire Prevention (Cal Fire) awarded more than $10 million in wildfire prevention grants targeted at grazing. Absent this language in SB 143, hourly minimum wage and overtime requirements would apply to goat herders beginning January 1, 2024.

Public Safety and Judiciary

Key Points

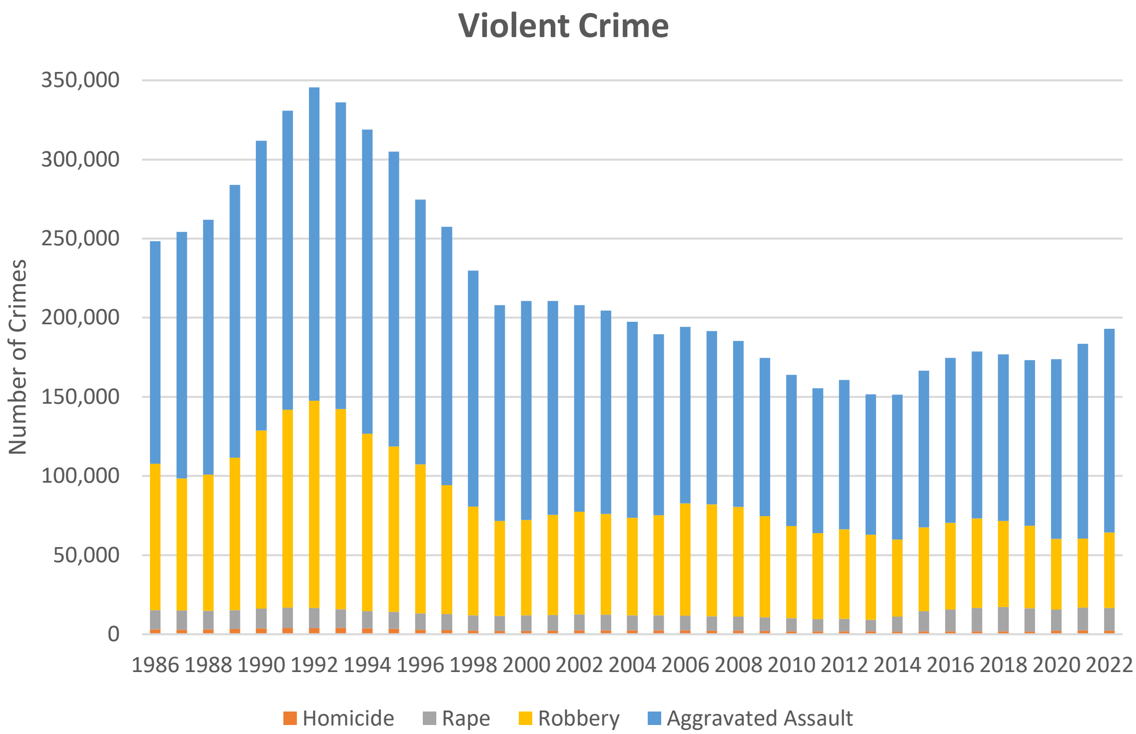
- **Rising Crime a Low Priority for Elected Democrats.** Majority party budget fails to invest in crime reduction efforts or reverse ill-conceived policies.
- **San Quentin Boondoggle Spends Big and Skips Safeguards.** Governor's plan for softer prison experience wastes hundreds of millions of taxpayer dollars on experimental model, ignores environmental safeguards.
- **Legislative Democrats Cave to Governor on Gun Buybacks.** Governor wastes scarce resources buying guns off the street. Misses opportunity to disarm dangerous felons.
- **Attorney General's Slush Fund Bails Out General Fund.** General Fund borrows $400 million from "idle resources" in the Litigation Deposit Fund to help address deficit.
- **Costs of Ammunition Background Check Program Exceed Revenues.** Poor planning and overspending threaten to sextuple consumer transaction fees.

Crime

Budget Fails to Address Rising Crime. If a budget documents the priorities of those who craft it, then this budget highlights the fact that legislative Democrats and the Governor do not consider reducing crime a priority. The enacted budget maintains previous funding levels for certain crime-related programs, like the organized retail theft task forces created in 2019, but provides no significant additional funding to address the concerning crime trends that are now moving solidly in the wrong direction.

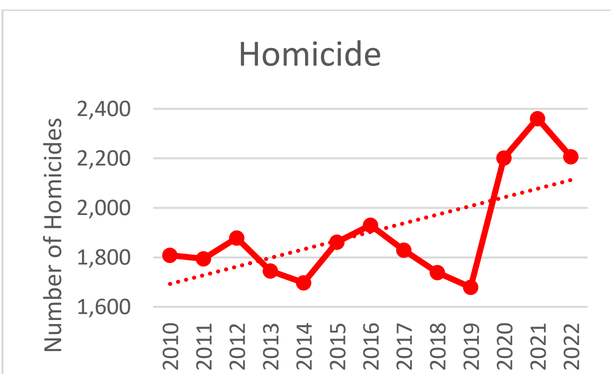
Violent crime (homicide, rape, robbery, and aggravated assault) peaked in California in 1992, then declined steadily for more than two decades as the state implemented tough-on-crime policies. It reached its lowest point in 2014, just before the full effects of the 2011 Public Safety Realignment (Realignment), Proposition 47 (2014), and other soft-on-crime policies championed by the ruling party began to change the trajectory.

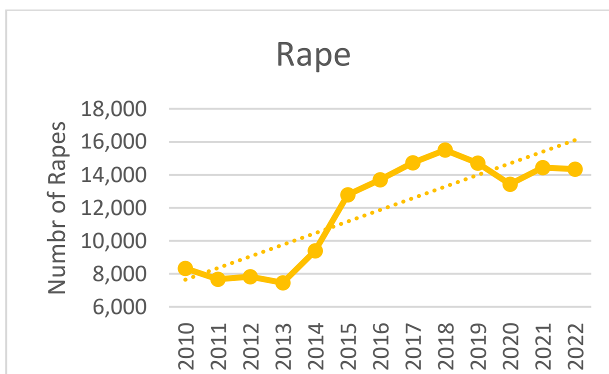
While violent crime is still well below the 1992 high water mark, the policies that led to its steady increase over the past decade threaten to return the state to the high violent crime rates of the 1980s and 1990s. As shown in the chart on the next page, violent crimes began to resurge between 2014 and 2022, increasing by 27 percent and erasing more than one fifth of the two-decade decrease.

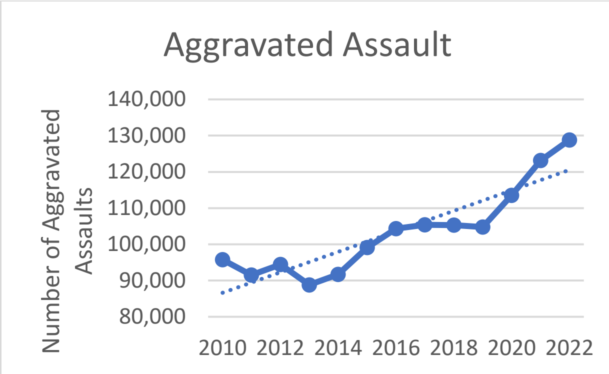


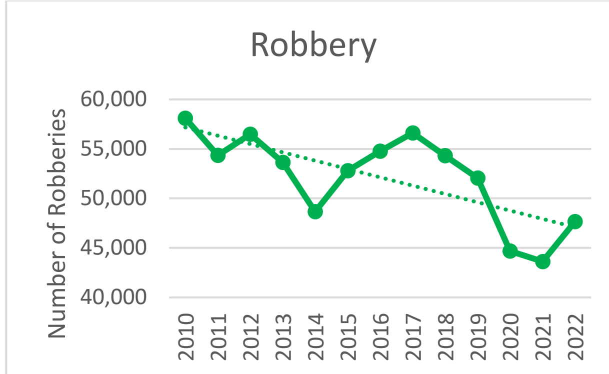
Source: California Department of Justice, Open Justice Data Portal. Data through calendar year 2022.

The charts below and on the next page show the specific crime categories for the 13-year period since the Democrats' so-called "reforms" began. Over that period, homicide increased by 22 percent, rape increased by 72 percent (actually exceeding the historical peak in 1991), and aggravated assault increased by 35 percent. Robbery decreased by 18 percent, but would have decreased further except that it rebounded in 2022, increasing by 9 percent compared to 2021. It is not a stretch to say that the reforms that have been implemented since 2010 have been bad for public safety.









Source: California Department of Justice, Open Justice Data Portal. Data through calendar year 2022.

Legislative Democrats would have Californians believe that the soft-on-crime policies they support and have implemented over the past dozen years have had little effect on crime rates or public safety. They hide behind the fact that crime is still below the historical highs of the 1990s. The truth is that these policies have eroded a significant portion of the progress the state made in reducing crime since the 1990s.

Department of Corrections and Rehabilitation (CDCR)

The 2023-24 budget includes total funding of $14.4 billion ($14 billion General Fund) for CDCR. This is an ***increase*** of approximately $416 million above spending levels approved in the Budget Act of 2022. This net spending increase comes despite $270 million in savings from the closure of three prisons and multiple individual yards, irrespective of the fact that the average daily inmate population is projected to decline by 2,678 in 2023-24, and notwithstanding the fact that the state is facing multibillion-dollar deficits for years to come. The annual cost per CDCR inmate has ballooned to $128,000, an increase of $68,000 (more than double) compared to ten years ago.

San Quentin Rehabilitation Center. The budget enacts the Governor's narcissistic bid to rename San Quentin State Prison – one of the oldest state-owned properties and the state's first prison, built in 1852. The newly-renamed "San Quentin Rehabilitation Center" is part of his plan to emulate the "Norway Model" of rehabilitating felons. During the budget subcommittee process, both houses rejected the Governor's proposal, which included spending more than $360 million to demolish a single building at San Quentin and replace it with a building designed for rehabilitative programming.

The Administration touted the plan as a proof of concept that it plans to emulate at other prisons throughout the state if successful. However, it is unlikely CDCR would be able to replicate the environment at San Quentin – where there is an abundant supply of community-based service providers and volunteers to fuel rehabilitative efforts – in places where other prisons are located, like Blythe, Crescent City, or Susanville. Thus, San Quentin is likely a poor choice for a proof-of-concept pilot.

Unfortunately, following closed-door negotiations between the Governor and legislative Democrats, the enacted budget authorizes the Governor's request by providing $360 million in lease-revenue bonds for the one-building project, undoing the Legislature's previous actions to reject the proposal. This is an extraordinarily high price tag for a single structure. In comparison, the federal Receiver who oversees prison medical care recently built the California Heath Care Facility, an entire prison/hospital complex with 37 buildings, 1,818 patient beds, a kitchen capable of serving 10,000 meals per day, and numerous support facilities for $840 million.

In addition, the budget package makes statutory changes to enable the Governor's plan to proceed faster. One such change waives certain provisions of the California Environmental Quality Act (CEQA). The ruling party's hypocrisy regarding CEQA is boundless: they will waive CEQA for a prison project that is literally a stone's throw from the water of San Francisco Bay – one of the most environmentally sensitive areas of the state – yet they refuse to enact broad reforms to end obvious CEQA abuse that contributes significantly to the housing crisis.

CDCR's Workforce Drives Major Costs. Prisons continue to see ongoing declines in the average daily inmate population (2,678 fewer projected for 2023-24 than in 2022-23) and will employ about 2,300 fewer workers in 2023-24 than in 2022-23. Despite this, costs related to CDCR's workforce, including salaries, benefits, and pension contributions, continue to increase significantly. In 2023-24, these costs add nearly $890 million to CDCR's budget, or about six percent of the Department's total budget, just in increased employee-related costs.

Division of Juvenile Justice Closure. CDCR's Division of Juvenile Justice (DJJ) ceased operations and closed its doors permanently on June 30, 2023, pursuant to SB 92 (Committee on Budget and Fiscal Review, 2021). CDCR will continue operation of the Pine Grove Youth Conservation Camp. The budget reflects a decrease of $92 million ($89 million General Fund) associated with the closure. Each juvenile offender who was committed to DJJ and not scheduled for release prior to June 30 has been transferred to the probation department in his or her county of commitment.

As required by existing law, the budget includes $194 million General Fund for the Juvenile Justice Realignment Block Grant program established by SB 823 (Committee on Budget and Fiscal Review, 2020) for counties to provide appropriate rehabilitative housing and supervision services for realigned youth.

Judicial Branch

The budget includes total funding of $5 billion ($3.1 billion General Fund) in 2023-24 for the Judicial Branch, including $4 billion to support the trial courts. Relative to the 2022 Budget Act, 2023-24 Judicial Branch spending levels are about $228 million lower. However, funding for the trial courts is approximately $46 million higher. This is possible thanks to an assumption of higher offsets from local property tax revenues (which reduces General Fund spending by $119 million) and a 15 percent spending reduction for the Judicial Council (saving $166 million).

Community Assistance, Recovery, and Empowerment (CARE) Act Court Funding. In March 2022, the Governor announced an initiative, dubbed the CARE Act, that will use the civil courts to require care and services for the state's mentally ill and addicted living in the streets. The budget provides $56 million General Fund in 2023-24, increasing to $133 million by 2025-26, for the Judicial Branch to implement the courts' component of the CARE Act. Of this amount, $33 million (increasing to $69 million annually by 2025-26) is for the courts' program administration costs. The remaining $23 million (increasing to $65 million annually by 2025-26) will support public and community-based organizations that provide legal counsel to CARE Act program participants. The budget also includes $68 million General Fund (increasing to $152 million annually by 2025-26) to support the costs of services provided by county behavioral health departments, as described in the *Mental Health* section of this report.

Trial Court Funding. The enacted budget includes $105 million to continue backfilling the Trial Court Trust Fund for revenue declines expected in 2023-24. This is down significantly from the $152 million provided for this purpose in the Budget Act of 2022. The budget also provides a $74 million General Fund augmentation for trial court operations to offset increasing operational costs.

Missed Opportunity to Disarm Felons. In January, it was apparent that the Board of State and Community Corrections was unlikely to spend the $25 million General Fund provided in the Budget Act of 2022 for local gun buyback grants. The Governor proposed reappropriating the funds in 2023-24 and shifting them to the Office of Emergency Services (OES) to provide direct assistance for the same purpose (bypassing the competitive grant process). Decades of research have shown gun buybacks to be ineffective at reducing gun violence. The Legislature rejected the Governor's proposal in their initial budget bill, SB 101, which instead reappropriated the funds to the Judicial Branch to expedite the removal of firearms from prohibited persons convicted of certain felonies and misdemeanors. This would have been a far better use of the funds and would have been much more likely to actually reduce gun violence. However, legislative Democrats apparently caved to pressure in final, closed-door negotiations, and the enacted budget instead includes the Governor's ineffective buyback proposal through OES.

Department of Justice (DOJ)

The 2023-24 budget includes total funding of $1.3 billion ($487 million General Fund) for DOJ, an increase from $1.2 billion in 2022-23.

Litigation Deposit Fund (LDF) Loan to General Fund. The LDF is a special fund established to receive proceeds from litigation conducted by DOJ. Currently, the balance in the LDF is more than a billion dollars. Some of the amounts in the fund are restricted by the terms of judgments or settlement agreements, while other amounts are more fungible.

Over the years, some have referred to the LDF as the Attorney General's slush fund because there is no regularly-published public accounting of spending from the fund and because DOJ can use it to hold money it intends to use for its own priorities indefinitely. Funds can then be transferred to other state special funds when the Attorney General is ready to proceed with his plans, thus masking the availability of the funds from the public, the Legislature, and other interested parties.

The enacted budget authorizes a $400 million loan from the LDF to the General Fund to help address the state's budget deficit. According to the Department of Finance, the loan will 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, the DOJ's General Fund budget could have been reduced by a commensurate amount, allowing the Department to fund its operations from the LDF in 2023-24 while helping to address this state's multiyear, multibillion dollar deficits.

DNA Identification Fund Backfill. The enacted budget provides $53 million General Fund annually for three years to continue backfilling a decline in fine and fee revenue to the DNA Identification Fund. This funding is necessary for DOJ to maintain current service levels related to processing forensic evidence for local law enforcement. The backfill amount is about $18 million higher than the amount included in the Budget Act of 2022.

Fine and fee revenues have continued to decline for more than a decade. Initially, the decline was due to the Great Recession. However, as the state's economy recovered, the Legislature began to enact laws to reduce the financial impact of the criminal justice system on offenders and their families. In addition, the courts have been finding more offenders unable to pay and reducing their fines and fees or eliminating them altogether. The result is that offenders pay less of the costs of supporting the criminal justice system, and the taxpayers pay more. Realistically, absent a major overhaul of the fine and fee system and the programs that depend on it, taxpayers should expect to continue paying an increasing share of the costs of these programs into the foreseeable future.

Office of General Counsel. The enacted budget redirects $14 million in existing General Fund resources and 75 existing positions within DOJ to establish the Office of General Counsel within the Department. The Office will provide internal legal guidance, ensure compliance with data confidentiality and document retention policies, and oversee legal ethics and conflict-of-interest concerns. Given that DOJ is an agency comprised largely of attorneys and other legal experts, one must ask oneself what exactly they are doing that requires this level of resources for internal legal advice.

Ammunition Authorization Program. The DOJ currently imposes a fee of $1 on each transaction in the state involving the sale of ammunition. This fee was authorized (and capped) by SB 1235 (De Leon, 2016) and is intended to pay the costs of DOJ's ammunition regulation duties established by Proposition 63 (2016). DOJ has consistently outspent fee revenues. The budget provides a $4.3 million General Fund loan to the Ammunition Safety and Enforcement Special Fund in 2023-24 to support the Ammunition Authorization Program in the short term, with intent to provide another $4.3 million loan in 2024-25.

The second Public Safety budget trailer bill for 2023-24 (SB 135, Committee on Budget and Fiscal Review) authorizes DOJ to adjust the transaction fee administratively, as needed. In order to repay both the $25 million startup loan from the General Fund made in 2016, plus the $8.6 million in operational loans over the next two fiscal years, and provide sufficient revenues for ongoing operations, the $1 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. Furthermore, since it is a per-transaction fee, not a per-unit fee, any increase would incentivize people to purchase more ammunition per transaction to keep the per-unit cost of the fee down. This could actually result in less fee revenue than anticipated, leaving the issue of insufficient revenue unresolved. 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.

Local Law Enforcement

No Funding for Fentanyl 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."[1] Although this budget does make good on the Governor's promise to continue funding existing state-level fentanyl enforcement efforts, it is particularly egregious that the ruling party did not include any direct support for local law enforcement to go after fentanyl traffickers.

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

Resources & Environmental Protection

Key Points

- **Offshore Wind Aspirations Likely to Raise Costs Again.** Conveys the intention to evaluate offshore wind energy permitting, which could potentially exacerbate already-high energy costs.
- **Insufficient Funding for Flood Risk Reduction.** Designates a meager one-time $436 million General Fund to assist at-risk communities in managing and preparing for future floods.
- **Dam Safety Local Assistance Program.** Establishes a new dam safety assistance program to provide much-needed state funding for repairs, rehabilitation, enhancements, and other projects.
- **Continues to Expand Fee and Enforcement Authority...** Extends the fee authority for recycled water permits, introduces new enforcement for hazardous materials programs, and removes the cap on administrative fees for the Pharmaceutical and Sharps Waste Stewardship Program.
- …**While Also Creating Carve Outs.** Last-minute budget bill creates a substantial exception to hazardous waste fees, casting doubt on the majority party's claimed commitment to their environmental principles.

Offshore Wind Aspirations Likely to Raise Costs Again. The natural resources trailer bill, SB 122, indicates the Legislature's intention for the administration to evaluate offshore wind energy permitting and related resource needs across relevant state entities. Although not explicitly stated, the state's overarching plan to achieve energy reliability through offshore wind energy will likely lead to higher costs for ratepayers. This is due to the overly ambitious targets set by the Energy Commission for offshore wind energy generation off California's coast.

The Energy Commission aims to install five gigawatts (GW) by 2030, which would supply electricity to 9.5 percent of California’s population (around 3.7 million residents) at 30 cents per kilowatt. This is 13 percent higher than the most recent price data of 26.6 cents per kilowatt in California (as of March 2023). That price is already far higher than comparison states, including 90 percent higher than consumers pay in Texas (14 cents) and 86 percent higher than they pay in Florida (14.3 cents).

The Energy Commission’s goal is then expected to increase to 25 GW by 2045. However, considering the state's struggles to launch desalination plants or flood infrastructure projects, it is doubtful that offshore wind projects would cost-effectively reach completion. For various reasons, offshore wind generation is an expensive, inefficient, intermittent, and unreliable energy source that could further escalate energy costs for Californians.

Insufficient Funding for Flood Risk Reduction. The perils linked to California's lack of investment in water infrastructure became a stark reality for millions of residents when atmospheric rivers soaked the state this past January. Regrettably, this budget once again falls short on water infrastructure, designating a one-time amount of only $436 million General Fund to assist various at-risk communities, including those in the Tulare Basin, in managing the effects of and increasing their resilience to future flood events. The following list outlines the new funding proposals.

- *Urban Flood Risk Reduction:* $136 million General Fund over a span of two years to bolster local agencies' efforts in diminishing urban flood risk.
- *Delta Levees:* $41 million from the General Fund and bond funds for the continuation of Delta projects aimed at reducing the risk of levee failure and flooding, enhancing habitats, and preventing saltwater intrusion from contaminating water supplies.
- *Central Valley Flood Protection:* $25 million General Fund for projects that aim to lower the flood risk for Central Valley communities while promoting ecosystem restoration and agricultural sustainability.
- *Contingency:* $135 million General Fund on a one-time basis as a reserve to cover costs related to preparedness, response, recovery, and other activities associated with the 2023 storms, the subsequent snowmelt, and other flood risks. This includes a $20 million allocation each for flood relief in the communities of Pajaro and Planada.
- *Flood Control Subventions:* $75 million one-time from the General Fund to aid local flood control projects, including those in communities affected by recent storms, such as the Pajaro River Flood Risk Management Project.

Other Flood Funding. The budget also includes $25 million one-time General Fund for Small Agricultural Business Relief Grants ($20 million) and the California Underserved and Small Producer Farmer Program (CUSP) to offer $5 million in direct aid to eligible agriculture-related businesses impacted by the recent storms.

Dam Safety Local Assistance Program. The budget requires the Department of Water Resources (DWR) to develop and administer the Dam Safety and Climate Resilience Local Assistance Program. This new program will help provide much-needed state funding for repairs, rehabilitation, enhancements, and other dam safety projects at existing state jurisdictional dams and associated facilities that were in service before January 1, 2023. The budget package also:

- Raises the application fees for new dams or reservoirs and extends these fees to applications for repair, alteration, or removal of existing dams or reservoirs.
- Mandates that DWR annually adjust these fees based on the Consumer Price Index for goods and services.
- Requires DWR to set up a regulatory process to ensure that the fees collected cover its reasonable costs for application work, including design review and construction oversight.

While it is prudent for the state to set up a standard of operation for this new program to prevent the current predicament regarding the disrepair of water infrastructure, it continues down the slippery slope of fees and enforcement, as discussed in the following paragraphs.

Continues to Expand Fee and Enforcement Authority. Unsurprisingly, features of the budget demonstrate California's continued drive to expand its fee and enforcement powers. The following changes enacted in the natural resources trailer bill, SB 122, illustrate the state's latest strategy to increase regulatory oversight and raise revenue through a never-ending array of permits and programs.

<u>Extends Fee Authority to Recycled Water</u>. The budget empowers the State Water Resources Control Board (State Water Board) to set an annual fee for recycled water permits, which raises several issues:

- First, this proposal was developed without stakeholder input, but it grants the State Water Board extensive authority to determine new fees for water recycling projects. This could potentially disrupt the development of recycled water projects, as there is no legislative oversight or guidelines to limit the fee authority granted by this proposal.
- Second, the fees for other types of Water Board permits have seen significant increases over recent budget cycles. The State Water Board has not indicated any intention to curb the rate and extent of these annual permit fee increases, which could potentially discourage the development of recycled water projects.
- Finally, the State Water Board already levies permit fees for potable reuse projects, sometimes amounting to tens of thousands of dollars per project per year, during the acquisition or renewal phase. These fees are intended to cover the costs of staff resources used by the State Water Board's Division of Drinking Water to review projects and issue permits. It remains unclear whether the proposed recycled water permit fees would overlap with the existing fees already collected by the State Water Board.

*New Enforcement Authority Over Hazardous Materials Programs***.** The budget grants the Environmental Protection Agency (CalEPA) new enforcement powers over the Hazardous Materials Business Plan (HMBP) and Accidental Release Prevention (CalARP) programs. These programs have seen an increase in legal and regulatory requirements following the transfer of related programmatic responsibilities from the Governor's Office of Emergency Services (Cal OES) to CalEPA in July 2021. However, this proposal could potentially lead to more enforcement actions against both small and large businesses that fall under hazardous waste laws. Given the economic impact of the COVID-19 lockdowns, businesses need an opportunity to recover and regain financial stability. An additional layer of regulatory scrutiny and enforcement, coupled with penalties and costs, moves in the wrong direction.

*Pharmaceutical and Sharps Waste Stewardship Program Fees***.** The budget gives the Department of Resources Recycling and Recovery (CalRecycle) authority to invoice a stewardship organization based on projected costs, with a reconciliation process before the next billing cycle. While adjustments are necessary to ensure sufficient funds for enforcing and running the existing program, this proposal exceeds mere efficiency improvements. It eliminates the limit on administrative fees and permits CalRecycle to set the fee based on whatever it claims its "needs" are. This essentially creates an unpredictable and fluctuating target with no restrictions on how significantly CalRecycle can raise fees to cover program expenses.

Significantly Amends the Hazardous Waste Generation and Handling Fee. A last-minute budget trailer bill (SB 143, Chapter 196, Statutes of 2023) provides a new exception to the recently established hazardous waste generation and handling fee. Previously set at $49.23 per ton of hazardous waste. the new alternative fee rate would be a mere $5.72 per ton for projects that meet specific criteria, raising glaring contradictions with the majority party's stated "Polluter Pays" principles and their environmental conservation narrative. This new exception highlights the tension between the majority party's professed environmental values versus the practical implications of their policy decisions, which raise the following concerns:

- *Conflicting Goals*: The fee cuts favor housing development at the expense of environmental protection, effectively encouraging waste production.
- *Inequitable Impact*: The fee reductions disproportionately benefit large-scale projects, shifting a greater financial burden onto smaller endeavors and distorting the distribution of environmental responsibility.

- *Ill-timed Criteria*: The legislation advantages existing projects based on arbitrary timing benchmarks, sidelining considerations for future sustainability.

- *Inconsistent Policy*: The state's dual role in regulating and incentivizing hazardous waste production creates a confusing regulatory landscape.

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Energy and Utilities

Key Points

- **Offshore Wind.** California continues to pursue ambitious offshore wind generation targets despite unknown environmental impacts and feasibility challenges.
- **Central Procurement Will Cause Electricity Rates to Rise.** Provides $32 million to set up a central procurement function, allowing the state to finance new offshore wind and geothermal projects by purchasing power on behalf of utilities before resources are even built.
- **Strategic Energy Reliability Reserve.** Provides $215 million for the Strategic Energy Reliability Reserve in an effort to keep the lights on.
- **California Arrearage Payment Program.** Reflects savings of $549 million based on approved applications for assistance with utility debt.
- **Clean Energy Incentive Programs Modestly Reduced.** Includes $1.1 billion in 2023-24 for various clean energy programs. The five-year package totals $2.9 billion, with only $390 million in program reductions to help address the budget deficit.
- **Clean Energy Reliability Investment Plan (CERIP).** Provides the first $100 million (General Fund) for the CERIP, as part of $1 billion over three years to accelerate the deployment of clean energy resources, support demand response, assist ratepayers, and increase energy reliability.
- **Defers Some Broadband Investments.** Eliminates planned funding of $550 million for last-mile broadband infrastructure and $575 million for the Loan Loss Reserve Fund, used to finance local broadband infrastructure development, and instead plans funding for future years.

Offshore Wind. In pursuit of state climate goals, last year the California Energy Commission adopted ambitious targets of 5 gigawatts (GW) of offshore wind installed by 2030 and 25 GW by 2045. Despite these short timelines, California is only in the beginning stages of offshore wind development. With current offshore wind turbine technology, California will need to install 3,247 turbines and supporting infrastructure. However, environmental impacts remain largely unknown. While a few floating wind turbines have been installed by other countries, the Pacific Ocean is far deeper, and it is unknown if the technology will work here.

Prior budgets included a total of $63 million for offshore wind planning and port investments. This budget did not provide additional funds in those areas, but instead included intent language in SB 122 for the Governor's administration to assess offshore wind energy permitting and related needs across state entities. Billions of dollars more in future investments by taxpayers and electricity customers will be needed to continue developing offshore wind, despite continued uncertainty that it can ever become a reality.

Central Procurement will Cause Electricity Rates to Rise. Assembly Bill 1373 (Garcia, 2023) provides authority, should the California Public Utilities Commission (CPUC) make a determination of need, for the Department of Water Resources (DWR) to purchase offshore wind and geothermal electricity on behalf of utilities and community choice aggregators (CCAs). This is known as central procurement. The budget provides $32 million (General Fund) for DWR to set up this central procurement function. AB 1373 also allows DWR to issue revenue bonds. The plan is to increase the viability of offshore wind and geothermal projects by purchasing the power, before the projects are even built, under long-term contracts using bond money. This means electric ratepayers will once again be saddled with expensive, long-term contracts that are more about picking a specific technology and meeting the state's climate goals, rather than meeting the state's electricity needs at a reasonable cost.

California ratepayers continue to face rate increases for policies such wildfire mitigation, mandated clean energy procurement, and decarbonization efforts, and this bill will add to those rate increases.

Strategic Energy Reliability Reserve. The budget includes $215 million in 2023-24 for a Strategic Reliability Reserve (Reserve), with $200 million more planned for future years. Despite the budget deficit, reserve programs were not significant reduced.

This Reserve's goal is to find more power because the grid is unreliable and at risk of rolling blackouts. Under the program, the Department of Water Resources will extend operation of some 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 budget reflects savings of $549 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. These savings will revert back to the General Fund.

Clean Energy Incentive Programs Modestly Reduced. The budget provides $1.1 billion for various clean energy programs. Overall, the five-year clean energy package includes $2.9 billion, with only $390 million in actual program reductions, and $1.1 billion shifted from General Fund to the Greenhouse Gas Reduction Fund (Cap and Trade revenue). Funds for various programs were cut or delayed to future years, as follows:

- ***Residential Solar + Storage ($270 million reduction, $350 million delayed):*** Incentivizes the installation of solar and solar with storage systems in low-income, tribal, and disadvantaged communities. The reduced funding results in the elimination of the portion of the program to incentivize general customers to install storage systems.

- ***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 ($283 million delayed):*** 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.

- ***Transmission Financing ($25 million reduction):*** Funding for financing of electricity transmission projects through the I-Bank's Climate Catalyst Revolving Loan Program.

- ***Oroville Pump Storage ($230 million delayed):*** Funding to modify the Oroville Dam complex so existing pump-back operations can be used to provide 500 megawatts of long-duration energy storage. The budget eliminates $230 million for this project and instead plans that funding for future years.

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 and reliability, like long-duration storage incentives and transmission infrastructure projects.

Summary of Energy Investments. As described above, the budget includes various reductions and delays in energy programs. The chart below reflects the final energy packages, with funding provided to these programs through 2023-24 and planned future funding.

Energy Reliability, Relief, and Clean Energy Investments
(Dollars in Millions)

Investment Category	Program	Agency	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Multiyear Total
Ratepayer Relief	California Arrearage Payment Program	CSD	$0	$651	$0	$0	$0	$0	$651
	Capacity Building Grants	CPUC	$0	$30	$0	$0	$0	$0	$30
Reliability	Investments in Strategic Reliability Assets	DWR	$1,500	$700	$20	$75	$75	$0	$2,370
	Support for Reliability	DWR	$0	$3	$0	$0	$0	$0	$3
	DOE Grid Resilience Match	CEC	$0	$5	$0	$0	$0	$0	$5
	Distributed Electricity Backup Assets	CEC	$545	$0	$100	$25	$25	$0	$695
	Demand Side Grid Support	CEC	$200	$0	$95	$0	$0	$0	$295
Clean Energy	Carbon Removal Innovation	CEC	$0	$50	$25	$0	$0	$0	$75
	Residential Solar & Storage	CPUC	$0	$0	$280	$125	$225	$0	$630
	Transmission Financing	I-Bank	$0	$200	$25	$0	$0	$0	$225
	Incentives for Long Duration Storage	CEC	$0	$140	$190	$0	$0	$0	$330
	Distributed Energy Workload	CPUC	$0	$1	$1	$1	$1	$1	$6
	Energy Modeling to Support California's Energy Transition	CEC	$0	$7	$0	$0	$0	$0	$7
	AB 525 Implementation	Various	$0	$4	$0	$0	$0	$0	$4
	Oroville Pump Storage	DWR	$0	$0	$10	$100	$130	$0	$240
	Food Production Investment Program	CEC	$0	$25	$40	$0	$0	$0	$65
	Offshore Wind Infrastructure	CEC	$0	$45	$0	$0	$0	$0	$45
	Equitable Building Decarbonization	CEC	$0	$62	$432	$213	$165	$50	$922
	Equitable Building Decarbonization - TECH Initiative	CPUC	$0	$50	$95	$0	$0	$0	$145
	Equitable Building Decarbonization - Accelerating Adoption of low-GWP refrigerants	CARB	$0	$20	$20	$0	$0	$0	$40
	Industrial Decarbonization	CEC	$0	$90	$0	$0	$0	$0	$90
	Hydrogen Grants	CEC	$0	$100	$0	$0	$0	$0	$100
	Hydrogen Hub	GO-Biz	$0	$5	$0	$0	$0	$0	$5
	Energy Data Infrastructure & Analysis	CEC	$0	$5	$0	$0	$0	$0	$5
Totals			**$2,245**	**$2,193**	**$1,333**	**$539**	**$621**	**$51**	**$6,983**

Clean Energy Reliability Investment Plan (CERIP). Separate from the investments detailed above, the budget includes the first $100 million (General Fund) for the CERIP. SB 846 (Ch. 239, Stats. 2022, Dodd) provided that upon appropriation by the Legislature, a total of $1 billion would be available over a three-year period for the CERIP, to accelerate the deployment of clean energy resources, support demand response, assist ratepayers, and increase energy reliability. The budget allocates the first $100 million as follows:

- $33 million for community solar (Public Utilities Commission)
- $32 million for a central procurement function (Department of Water Resources)
- $19 million for the Demand Side Grid Support Program (Energy Commission)
- $11 million for permitting and interconnection (GO-Biz)
- $4 million for transmission corridor planning (Energy Commission)
- $1 million for administration (Energy Commission)

Broadband

Defers Some Broadband Investments. The budget eliminates $550 million for last-mile broadband infrastructure grants and $575 million for the Loan Loss Reserve Fund, used to finance local broadband infrastructure development, and instead plans this funding for 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).

Although this deferral is significant, California was recently awarded $1.86 billion in federal funds via the Broadband Equity, Access, and Deployment (BEAD) program, as part of the 2021 Bipartisan Infrastructure Law. The federal funds require a 25 percent match and can be used for broadband planning, deployment, mapping, equity, and adoption activities. At this time, the specifics of how California will utilize these funds is unknown.

There is always a risk that delayed state funding does not materialize in future years. The addition of federal funds should result in more projects. The funds should not simply replace state funds to generate the same results. Senate Republicans will continue to seek additional information and oversight on the state’s progress to close the digital divide and continue to advocate for last-mile and local infrastructure dollars.

Transportation

<u>Key Points</u>

- **Implements Gas Price Gouging "Penalty."** Fails to enact any tax or regulatory reforms to reduce the price of gasoline, but instead implements the price gouging "penalty."
- **Gasoline and Diesel Taxes Increase Again.** Annual gas and diesel tax adjustments increase the price of gas by 4 cents per gallon and the price of diesel by 3.1 cents per gallon.
- **Transit Bail Out.** Provides $2 billion to bail out struggling transit operators, contingent upon compliance with new accountability and oversight requirements.
- **Zero-Emission Transit.** Provides $410 million for a new Zero-Emission Transit Capital Program to shift transit to zero-emission.
- **Zero-Emission Vehicle Subsidies and Infrastructure.** Includes $847 million for zero-emission vehicle (ZEV) subsidies, infrastructure, and equity projects.
- **Vehicle Taxes for ZEV Infrastructure.** Provides $112 million for electric and hydrogen vehicle fueling infrastructure, funded by continued taxes on motor vehicles and vessels.
- **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, the budget includes $889 million in 2023-24 from Cap and Trade funds.

Implements Gasoline Price Gouging "Penalty." The Governor and Legislative Democrats fail again to implement any tax or regulatory changes that could actually reduce the price of gasoline. Instead, the budget provides $7 million to implement SB 1x-2 (Skinner, 2023) to establish a penalty for gasoline refiners exceeding a yet-to-be-established maximum gasoline refining margin. Unfortunately, this bill misses the mark by not addressing underlying gasoline supply issues, caused largely by Democrats' policies in California. Refining capacity is diminishing and demand continues to exceed supply, placing upward pressure on prices. Assessing a penalty on refiners will likely result in higher prices, either by passing the penalty on to consumers in the product price or by forcing refiners to take measures to avoid triggering the penalty, which may push prices up or result in product shortages.

Though gas prices have declined from the spikes experienced in 2022, California's prices remain the second highest in the nation (behind Washington, which recently implemented a cap and trade program). California's prices averaged $4.84 per gallon as of July 6, 2023, a 37 percent premium over the national average of $3.53 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 cents to 15 cents per gallon. This special cleaner-burning fuel is almost 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. 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 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 increased by 4 cents per gallon, and the diesel excise tax increased by 3.1 cents per gallon. These increases will generate about $642 million in tax revenues, bringing total gas and diesel tax revenue to an estimated $9.4 billion for 2023-24. Sadly, even with increased gas taxes each year, California has fallen two places in the highway rankings from the prior year, ranking 47th out of 50 states in overall cost-effectiveness and condition, according to the Annual Highway Report by Reason Foundation. In fact, California ranks in the bottom ten nationally in 7 out of 13 categories. Sometimes you get what you pay for, but apparently not here. In California, despite paying for better roads, you get potholes and traffic.

Transit Bail Out. The budget provides $2 billion General Fund to bail out public transit, with an additional $2 billion planned for next year. Transit ridership was declining prior to COVID-19, but COVID-19 eviscerated ridership. Though some riders have returned, ridership is nowhere near pre-pandemic levels. This has caused financial hardship for transit agencies, as operating revenues have significantly declined. However, bailing out these entities makes little sense, due to a lack of demand for service and outdated business models, especially during a year with a large budget deficit.

Notably, a budget trailer bill (SB 125) allows funds previously reserved for capital projects to also pay for operating costs. As a small silver lining, this bill also requires additional accountability measures and short- and long-term financial plans for transit operators, allowing the state to have additional oversight of these entities and the funds spent. The bailout funds are contingent upon compliance with these new measures. This should help prevent throwing good money after bad in the long run. If transit is going to become viable again, increased accountability and oversight are necessary.

Zero-Emission Transit. The budget includes $410 million (Public Transportation Account and Greenhouse Gas Reduction Fund (GGRF)), with an additional $690 million planned for future years, for a new Zero-Emission Transit Capital Program to shift transit to zero-emission vehicles and related facilities. It is foolish to create a new billion dollar program to continue down an unrealistic path of transitioning transit to zero-emission while transit is struggling to survive and ridership remains low. The state is providing a $4 billion bailout because there is little or no demand for transit services and they cannot afford to operate. Additionally, this rushed effort to zero-emission transit is a result of state regulations, which could be paused or extended in light of transit struggles. This is another problem of our own making. The focus should be on making transit viable again first, and if that is achieved, then focus on upgrades. Instead, California is potentially sinking more than a billion dollars to upgrade transit no one will ride.

Zero-Emission Vehicle Subsidies and Infrastructure. The budget includes $847 million ($50 million General Fund, $720 million GGRF, and $77 million federal funds) for zero-emission vehicle (ZEV) subsidy, infrastructure, and equity projects. 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. This budget largely maintains that commitment by providing $10 billion over six years. This continues to be a hefty price tag for California taxpayers, with little return on investment. Despite billions in subsidies, the share of passenger ZEVs registered in California has risen only slightly to 2.5 percent. Specific program allocations are in the table on the next page.

Zero-Emission Vehicle Investments (Dollars in Millions)									
Investment Category	**Program**	**Agency**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**ZEV Package Totals**
Passenger Vehicles	Clean Vehicle Rebate Project	CARB	$525	$0	$0	$0	$0	$0	$525
	Clean Cars 4 All & Other Equity Projects	CARB	$150	$381	$80	$45	$0	$0	$656
	ZEV Fueling Infrastructure Grants	CEC	$515	$15	$0	$120	$140	$80	$870
	Equitable At-home Charging	CEC	$20	$0	$100	$80	$60	$40	$300
Big ZEVs	Drayage Trucks & Infrastructure	CARB	$157	$75	$80	$48	$48	$37	$445
		CEC	$181	$85	$85	$50	$50	$49	$500
	Drayage Trucks & Infrastructure Pilot Project	CARB	$40	$0	$0	$0	$0	$0	$40
		CEC	$25	$0	$0	$0	$0	$0	$25
	Transit Buses & Infrastructure	CARB	$70	$70	$0	$0	$0	$0	$140
		CEC	$30	$30	$0	$0	$0	$0	$60
		CalSTA	$0	$0	$220	$230	$230	$230	$910
	School Buses & Infrastructure	CARB	$130	$510	$0	$375	$375	$0	$1,390
		CEC	$20	$140	$0	$125	$125	$0	$410
	Clean Trucks, Buses and Off-Road Equipment	CARB	$500	$600	$0	$0	$0	$0	$1,100
		CEC	$299	$0	$145	$137	$89	$0	$670
	Ports	CARB	$0	$0	$0	$0	$0	$185	$185
		CEC	$0	$0	$0	$0	$0	$130	$130
	Near-Zero Heavy Duty Trucks	CARB	$45	$0	$0	$0	$0	$0	$45
Other	ZEV Consumer Awareness	GO-BIZ	$5	$0	$0	$0	$0	$0	$5
	ZEV Manufacturing Grants	CEC	$125	$125	$0	$0	$0	$0	$250
	Community-Based Plans, Projects and Support / Sustainable Community Strategies	CARB/ CalSTA	$0	$0	$60	$100	$100	$79	$339
	Emerging Opportunities	CARB	$53	$0	$0	$0	$47	$0	$100
		CEC	$54	$0	$0	$0	$46	$0	$100
	Hydrogen Infrastructure	CEC	$0	$0	$0	$0	$0	$0	$0
	Charter Boats Compliance	CARB	$0	$60	$0	$20	$20	$0	$100
	Transportation Package ZEV	CalSTA	$407	$77	$77	$77	$76	$76	$790
		Totals by FY	**$3,351**	**$2,168**	**$847**	**$1,407**	**$1,406**	**$906**	**$10,085**

(Source: Department of Finance)

Vehicle Taxes Extended for ZEV Infrastructure. In addition to the funds mentioned above, the budget includes $112 million (Alternative and Renewable Fuel and Vehicle Technology Fund) for electric and hydrogen vehicle fueling infrastructure within the state's Clean Transportation Program. Taxes on motor vehicle and boat registrations and taxes on certain identification plates fund this program. These taxes were set to expire on January 1, 2024, but instead, a late-session policy bill (AB 126, Reyes, 2023) extended the taxes until July 1, 2035. Extension of these taxes will cost the motoring public more than $2 billion over the period of the tax extension.

California High-Speed Rail

High-Speed Rail Office of the Inspector General. The 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, and evaluate contracts. The OIG must also report regularly to the Legislature, but a year after the Legislature established the office, an Inspector General has yet to be appointed. Additionally, the $1 million budget is far from sufficient to provide any meaningful oversight. This seems to be another fig leaf maneuver by the Governor and Legislative Democrats to give the appearance that something is being done to reign in the out-of-control train to nowhere.

High-Speed Rail Authority. The 2022-23 budget included $4.2 billion in remaining Proposition 1A (2008) bond funds for the High-Speed Rail Authority to continue the construction of the Merced to Bakersfield high-speed rail line. While previously appropriated, these funds will be spent over several years. In addition to previously appropriated bond funds, the budget includes $889 million in Cap and Trade revenues for the project in 2023-24. The 2023 Project Update Report indicated the total costs of completing HSR is up to $128 billion, with no estimated completion date, though much of the data remains based on operations from San Francisco to Los Angeles beginning in 2033. 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.

In contrast, the largely privately funded effort to build the Brightline West high-speed rail line from Los Angeles to Las Vegas has private investors who are willing to put up their own money. Though that project also faces some challenges, the underlying business case is much stronger for that project, as shown by the willingness of private investors to participate.

Cannabis

Key Points

- **Enhances Cannabis Licensure Process.** Addresses key issues related to existing cannabis licensure laws and their alignment with federal requirements.
- **Perpetuates Futile Cannabis Regulation System.** Fails to address concerns about the sustainability and financial viability of the cannabis regulation system established in 2016 by Proposition 64.

  Funds Proposition 64 Programs. Provides $670 million spread across various cannabis programs, as required by Proposition 64.

New Licensure Requirements. The budget trailer bill for cannabis, AB 128, presents a multi-pronged approach to enhancing the cannabis licensure process by establishing background check requirements for certain personnel, introducing a new license category, and streamlining the licensing process. These changes aim to keep the Department of Cannabis Control (DCC) in compliance with federal regulations, safeguard public safety, and promote responsible and transparent operations within the cannabis industry. The budget contains various changes to ensure the DCC maintains access to federal criminal history information, which is crucial for processing license applications under federal guidelines. The points below highlight the significance of each change.

Background Check Requirement. This change establishes a background check requirement for DCC employees and contract service providers, to enhance the integrity and security of the cannabis licensing process. By subjecting DCC staff and relevant service providers to thorough background checks, the department can ensure that individuals handling sensitive information and decision-making roles have a clean history, reducing the risk of potential misconduct or improper handling of licensing matters.

New License Classification. Another key change is the introduction of a new license classification for cannabis event organizers. This distinction addresses an existing gap in the regulatory framework, as events involving cannabis have become increasingly popular. By creating a specific license category for event organizers, DCC can more effectively monitor and regulate such events.

Streamlined Licensing Process. The third substantial change is the elimination of the requirement for cannabis licensees applying for a second or subsequent license to undergo another background check. This reform recognizes that licensees who have already passed background checks for their initial licenses have demonstrated their suitability to operate within the cannabis industry. Removing the redundant background check also facilitates the growth and expansion of businesses within the regulated cannabis market.

Reinforces Flawed Cannabis Regulation System. While the changes described above are positive, the budget still fails to reform other shortcomings and raises concerns about the sustainability and financial viability of the cannabis industry, as permitted in 2016 by Proposition 64. To create a truly successful and responsible cannabis regulatory framework, the Administration should address the problems DCC is experiencing before creating new responsibilities for it to undertake. Unfortunately, the budget overlooks the following key issues:

Financial Viability Concerns. The budget does not effectively tackle concerns about the sustainability and financial viability of the regulation system established by Proposition 64. The DCC's consistent overspending of license revenues by over $10 million annually raises alarms and poses a risk that the

Cannabis Control Fund will become insolvent within the next few years. The lack of a concrete plan to address this fiscal imbalance is reckless at a time when a multiyear, multi-billion dollar deficit looms over the state's finances.

Growth of Illegal Cannabis Cultivation. Another problem the budget overlooks is the proliferation of illegal cannabis cultivation and distribution networks. These illicit activities not only undermine the legitimacy of the regulated cannabis industry but also lead to environmental and societal damage. To combat illegal cannabis activities effectively, a comprehensive approach is necessary and should encompass financial reforms and stringent enforcement measures. Without incorporating these aspects, the state's ability to uphold its commitments to voters and foster a thriving and lawful cannabis industry remains uncertain.

Funding for Proposition 64 Programs. Before 2017, medical and recreational cannabis had separate licensing systems. To streamline regulations, SB 94 was signed by Governor Jerry Brown, integrating provisions of the Medical Cannabis Regulation and Safety Act (MCRSA) into the Adult Use of Marijuana Act (AUMA) framework. This unified regulatory system is now known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA). Revenues from taxes, fees, and fines on MAUCRSA-regulated activities are deposited into a fund for specific purposes. The fund primarily reimburses agencies for regulating the cannabis industry, covering both fees and non-fee-related costs.

The budget designates $670 million in baseline cannabis tax funding for specific activities mandated by existing law. Recent tax reforms have affected revenue streams required for law enforcement and the implementation of regulations. Consequently, the General Fund will provide backfill funding of $150 million in 2023-24 to compensate for these losses, an increase from $95 million the prior year. The remaining revenue is allocated as follows:

1. ***Education, prevention, and treatment of youth substance use disorders and school retention ($402 million):***

   - $292 million for childcare subsidies to income-eligible families by the Department of Social Services, despite not being originally intended for cannabis tax revenues under Proposition 64.
   - $78 million for competitive grants supporting youth substance prevention and treatment programs by the Department of Health Care Services.
   - $19 million for grants to provide youth access to natural or cultural resources, prioritizing low-income and disadvantaged communities, administered by the California Natural Resources Agency.
   - $12 million for cannabis surveillance and education by the Department of Public Health.

2. ***Cleanup, remediation, and enforcement of environmental impacts of illegal cannabis grows ($134 million):***

   - $80 million for cleanup, remediation, and restoration of watersheds, as well as enforcement activities on public lands, managed by the Department of Fish and Wildlife.
   - $54 million for identifying illegal cannabis grows; remediating and restoring illegal grow sites on state park land, and ensuring accessibility for peace officer patrol by the Department of Parks and Recreation.

3. Public safety-related activities ($134 million):

- $84 million for a grant program supporting local health and safety initiatives in localities without cannabis bans, administered by the Board of State and Community Corrections.
- $50 million for the California Highway Patrol's impaired driving and traffic safety grant program, along with training, research, and policy development related to impaired driving.

Local Government

Key Points

- **Fresno Infrastructure Prioritized.** Provides $50 million to the City of Fresno's Public Infrastructure Plan, including funds for a high speed rail station.
- **Local Government Support.** Provides $50 million for a recently established local government grant program that will provide resources for staffing and project management.
- **Local Economic Development Plans.** Provides $10 million to implement local plans for environmental enhancements, access to power plant lands, and local economic development.
- **County Assessors Grant Program.** Provides $10 million for the County Assessors' Grant program, providing resources to improve local property tax administration.
- **Insufficient Educational Revenue Augmentation Fund.** Provides $36 million General Fund to San Mateo County, Mono, and Alpine County for vehicle license fee insufficiencies.

Prioritization of Scarce General Fund for City of Fresno's Infrastructure Plan. The budget includes $50 million for the City of Fresno's Public Infrastructure Plan, and commits $100 million more in both 2024-25 and 2025-26, for a total of $250 million over three years. The funds would be used to support several infrastructure projects, including for investment in a high speed rail station, parking, green space, walkability, and water supply projects in the downtown area. As the state grappled with how to address a $31.5 billion deficit, and years of deficits to come, it is unclear why Fresno has been singled out for favorable treatment over any other locality.

Local Government Sustainability Fund. The budget provides $50 million in 2023-24 for the Local Government Sustainability Fund. The program provides short-term grants to local entities facing significant challenges to their local revenues and services, but who demonstrate a commitment to advancing a more climate-resilient local economy. Applicants shall be limited to county governments in high-unemployment and high-poverty areas. The 2022-23 budget provided $100 million General Fund for the program.

Local Economic Development Plan Implementation. The budget includes $10 million General Fund to support local economic development efforts as outlined in SB 846 (Dodd, 2022). The funds would be available for state operations or local assistance until June 30, 2027. SB 846 extended the Diablo Canyon nuclear power plant's license to operate for an additional five years, and called for expenditure of $160 million ($10 million in fiscal year 23-24 and $150 million in 24-25) to support implementation of a plan for environmental enhancements, access to power plant lands, and local economic development. The 2023-24 budget includes the first installment of funding to support these activities.

County Assessors Grant Program. The budget provides $10 million General Fund for the County Assessors' Grant Program. The program requires participants to report certain information regarding use of the funds to the Department of Finance no later than October 1, 2023.

Local Governments Get Minor Relief for Mandates. The budget includes $141 million General Fund to repay local agencies for costs related to state mandates. The inclusion of a portion of the state's outstanding mandate debt, especially in light of the state's General Fund deficit, is a step in the right direction, but the state continues to owe local agencies nearly $2 billion in outstanding mandate costs. On April 28, 2023, State Controller Malia Cohen sent a letter to both the Senate and Assembly Budget

Committee’s, as well as the Director of Finance, identifying the total amount owed to local agencies ($930 million), school districts ($840 million), and community college districts ($1 million) is $1.8 billion. Unfortunately, the state missed an opportunity to fully repay this debt in recent years, despite budget surpluses in the billions of dollars, leaving local governments with no significant fiscal relief from the state in recent years.

Educational Revenue Augmentation Fund Backfills. The budget provides $36 million General Fund to reimburse San Mateo County, Mono County, and Alpine County for Vehicle License Fee (VLF) insufficiencies driven by insufficient Educational Revenue Augmentation Fund (ERAF) revenues. ERAF revenues generally provide relief to counties for lost VLF revenue as a result of previous state law changes.

Los Angeles County Redistricting Commission. The budget includes $1.1 million to reimburse Los Angeles County to staff and fund the Citizens Redistricting Commission, which was created to adjust the boundary lines of the County supervisorial districts in the year following decennial federal census. In January 2023, the Commission on State Mandates found Chapter 781, Statutes of 2016 (SB 958), imposed a reimbursable state-mandated program. SB 958 established the Citizens Redistricting Commission in Los Angeles County. All Senate Republicans at that time except Senator Cannella voted against the measure out of concern it established a biased, unfair, and partisan gerrymander that fails to include partisan balance on the commission, as well as partisan balance on votes to adopt maps.

General Government

Key Points

- **Governor's Office of Planning and Research Continues to Grow.** Provides another $160 million General Fund, following nearly $800 million over the past two years.
- **CalCompetes Grant Program.** Includes a third year of funding, $120 million General Fund, for the CalCompetes grant program.
- **Flood Relief Grant Program**. Expands eligibility for the Small Agricultural Business Drought Relief Grant program to include businesses impacted by storm flooding.
- **Increased Borrowing with Shift to Lease Revenue Bonds.** Authorizes $400 million in lease revenue bond financing for the Richards Boulevard Complex in lieu of General Fund cash.
- **State Capitol Building Annex Project.** Borrows $500 million from project funds authorized for the State Capitol Annex Project.
- **CalKIDS Program Expansion.** Increases account deposits for all newborns, regardless of financial need, within the California Kids Investment and Development Savings (CalKIDS) program.

Office of Policy and Research (OPR)

Governor's Think Tank Continues to Grow. The Governor's Office of Planning and Research (OPR) will receive nearly $160 million General Fund in 2023-24 for both new and expanded programs. This level of funding is in addition to the $320 million and $450 million provided in the 2022 Budget Act and the 2021 Budget Act, respectively.

Traditionally, OPR has been more of a think tank for governors, rather than an administrator of major programs, which are typically left to departments to run. Senate Republicans have expressed concerns that OPR is ill-equipped to effectively administer hundreds of millions of dollars in programs across vastly different policy areas, and that its focus will be more on political headlines instead of actual results. Some may wonder if OPR is now the designated recipient of favored programs and if Governor Newsom trusts "regular" departments to run key programs.

Since the beginning of Governor Newsom's tenure, resources for OPR have grown from 45 employees and a General Fund budget of $44 million in 2018-19, to 146 employees with a General Fund budget of $315 million. Given this astronomical growth, the 2023-24 budget includes resources to begin shifting OPR's employee structure to a civil service format, resulting in the bureaucracy of yet another state department under Governor Newsom.

Several of the notable funding commitments and budget actions are below, many of which are duplicative of programs administered by other departments.

- $78 million for the Youth Job Corps established in 2021-22 within Cal Volunteers.
- $35 million in 2023-24 to increase awareness of the risks posed by extreme heat.
- $7 million and 15 positions to transition OPR to civil service employees.
- $5 million General Fund and 15 positions to establish an Information Technology Unit within OPR to support internal departmental oversight and administration of information technology needs.
- $4.7 million for Climate Action Corp established in 2021-22 within Cal Volunteers.

Reversion of OPR Program Funds. The budget reverts $25 million General Fund appropriated in 2022-23 for the Regional Climate Resilience Program within OPR, leaving a balance of $25 million available for the program in 2023-24. The final budget agreement includes the intent to provide $50 million for the program in 2024-25.

Racial Equity Commission Established. The budget establishes, until January 1, 2030, a Racial Equity Commission (Commission), originally created through the Governor's Executive Order N-16-22. The OPR will staff the Commission, develop resources, best practices, and tools for advancing racial equity by developing a statewide framework to advance racial equity and address structural racism in California. The Commission will prepare an annual report with the first report due April 1, 2026. The budget provides $3.8 million General Fund to support these activities.

Governor's Office of Business and Economic Development (GO-Biz)

CalCompetes Grant Program. The budget includes $120 million General Fund for the CalCompetes program within the Governor's Office of Business and Economic Development (GO-Biz). GO-Biz received $120 million General Fund in both 2021 and 2022 to support the CalCompetes Grant program, established to support additional firms that could not take advantage of the CalCompetes Tax Credit program. The budget also reverts $17 million provided in 2022-23 for the program. Currently, it is too soon to tell if businesses receiving the grant funding will actually meet employment target goals identified as part of the application process.

Flood Relief Grant Program. The budget expands eligibility for the Small Agricultural Business Drought Relief Grant program within GO-Biz to include businesses impacted by storm flooding within a county that has a state or federal disaster declaration. The funds can be used for employee expenses, working capital and overhead, as well as other flooding-related expenses. The 2023-24 budget includes $20 million General Fund for the expanded flood program.

Various GO-Biz Program Reversions. The budget reverts a total of $142 million General Fund initially appropriated to GO-Biz for the COVID-19 Small Business Relief Grant program. Within GO-Biz, the budget also reverts $50 million from 2021-22 for the Small Business Finance program, and $16 million from 2021-22 for the Climate Catalyst Fund Wildfire Prevention program, which is dedicated to supporting projects and businesses advancing sustainable forestry practices.

Various Departments

Increased Borrowing with Shift to Lease-Revenue Bonds for New State Office. The budget shifts $402 million in financing for the New Richards Boulevard Office Complex from General Fund (approved as part of the 2022 Budget Act) to lease-revenue bonds, increasing the state's long-term costs for the project. Lease-revenue bonds, as used by the state, are arguably a backdoor method of issuing General Fund bonds without meeting the constitutional requirement to obtain voter approval for general obligation bonds.

Budget Borrows Capital Annex Project Funds. The budget borrows $500 million from the State Project Infrastructure Fund (SPIF) to help close the 2023-24 General Fund deficit, paving the way for the Governor and legislative Democrats to continue the reckless spending of the past few years. The SPIF was established as part of the 2016-17 budget, and is continuously appropriated for the renovation and construction of state buildings. Prior budgets have transferred a total of $1.1 billion General Fund to the SPIF for planning, design, pre-construction, and construction activities currently underway. The Annex projects are scheduled for completion in 2026. The funds may be repaid in future years, as needed.

CalKIDS Program Expansion. The budget increases account deposits for all newborns, regardless of financial need, within the California Kids Investment and Development Savings (CalKIDS) program. The program was established to provide seed deposits to two sets of children, newborns and first graders. The 2022-23 budget provided $15 million for account deposits for children born on or after July 1, 2022, but the 2023-24 budget redirects $30 million from the low income first grade program to the newborn program in order to increase the deposit amount from $50 to $100, bringing the annual cost of seed deposits for the newborn program to $45 million annually.

California Arts Council New Programs. The budget includes $2 million General Fund to support two new programs, the Prison Theater Arts program and the establishment of a Creative Economy Workgroup. The budget also reverts $20 million General Fund from the 2022-23 budget intended to support the expansion of cultural districts within the Arts Council.

Litigation Deposit Fund. The budget provides authority to the Department of Finance to authorize budgetary loans from the Litigation Deposit Fund (Fund) to the General Fund. The 2023 budget includes a transfer of $400 million from the Fund to the General Fund. The Fund is under the control of the Department of Justice (DOJ) and consists of amounts received by the state as litigation deposits. The State Controller currently has authority to use money in the Fund as cash flow loans to the General Fund. DOJ has authority to determine an amount of money available within the Fund for investment, which generates additional earnings and revenue. Expanding the state's authority to borrow from the Fund in order to balance the state's budget could reduce the amount of investment money generated for the Fund.

Property Acquisition Law Money Account - Affordable Housing. The budget provides the Department of General Services with the authority to deposit net proceeds of any real property disposition, including the sale, lease, or exchange, into the Proposition Acquisition Law Money Account. These proceeds would maintain an operating reserve sufficient to continue redeveloping excess state properties as affordable housing. The budget defines a sufficient operating reserve as an amount not to exceed three years of operating costs.

State Fleet ZEV Infrastructure. The budget provides $35 million General Fund over three years to support the DGS Five-Year Zero Emission Vehicles Infrastructure Investment Plan (2023-24 through 2027-28) to continue performing installations of electric vehicle service equipment at state-owned and leased facilities.

California Department of Technology. The budget continues to bail out CDT with millions in General Fund due to their inability to compete with the market, continuing to lose service contracts to the private sector. The budget provides $42.3 million from the Technology Services Revolving Fund to the General Fund to support statewide services, mandatory oversight services, and internal indirect and administrative costs.

Additionally, the budget provides $3 million General Fund for the statewide strategic initiative's positions. This funding, which includes transitioning costs for 216 positions to the General Fund, is intended to allow CDT to reduce its rates to reflect only expenses required for the delivery of the service. The budget also provides $8.2 million to supplement an under-collection of revenue due to customers migrating to vendor cloud-based services.

State Employee Compensation and Retirement

<u>Key Points</u>

- **Pay Increases for State Employee Unions.** Includes $1.5 billion in funding for collective bargaining to ratify contract changes that provided pay increases and other compensation changes.
- **Contributions for State Retirement.** Provides $8.5 billion in state contributions for state pension costs, an increase of $5 billion compared to a decade ago.
- **Proposition 2 Debt Repayment.** Includes $1.7 billion in one-time Proposition 2 debt repayment funding for 2023-24 to reduce the unfunded pension liabilities, the minimum required under law.

State Employee Growth Outpaces Population Dramatically. Over the past decade, the state population has grown by only 1.5 percent, to about 39 million people, and has been flat over the past seven years. Over the same period, the number of state employees has grown nearly 21 percent, to a projected 428,454 in 2023-24, including a jump of 12 percent, or about 46,000 employees, since the pandemic started. The number of state employees per 1,000 residents will be 11 in 2023-24, the highest level for at least 50 years. This is particularly notable considering that the state "realigned" significant prison and human services responsibilities to counties roughly a decade ago, which should have decreased the number of state employees per resident.

Pay Increases for State Employees. The budget provides $1.5 billion ($937 million General Fund) in funding for collective bargaining to ratify contract changes that provided pay increases and other compensation changes. The state has reached an agreement with 14 of the state's 21 bargaining units. These agreements are reflected in Senate Bills 148 and 151, which were signed into law by the Governor on September 13, 2023. The bargaining units that reached agreements included correctional officers, law enforcement, engineers, and physicians, whose contracts or side letter agreements had expired by the summer of 2023. One additional union, the California Association of Professional Scientists (CAPS), was unable to reach an agreement before the Legislature adjourned.

The approved contracts continue the state's poor record of holding down compensation costs for state employees, and many provisions are particularly generous in light of the state's overall budget forecast of multiyear, multibillion dollar deficits. The nonpartisan Legislative Analyst's Office (LAO) reviewed the contracts and raised multiple concerns about a lack of justification or data for various increases. However, legislative Democrats ignored these concerns and, in the case of two late contracts, bypassed the normal Budget Committee hearing at which the public and legislators could have discussed these issues. The precise effect of the contracts on the deficit forecast is not clear, however, because the Governor's administration previously built in an unknown dollar amount for compensation increases and declined to disclose the amount. This lack of transparency prevents the Legislature from having complete information regarding the effect of this spending on state employees.

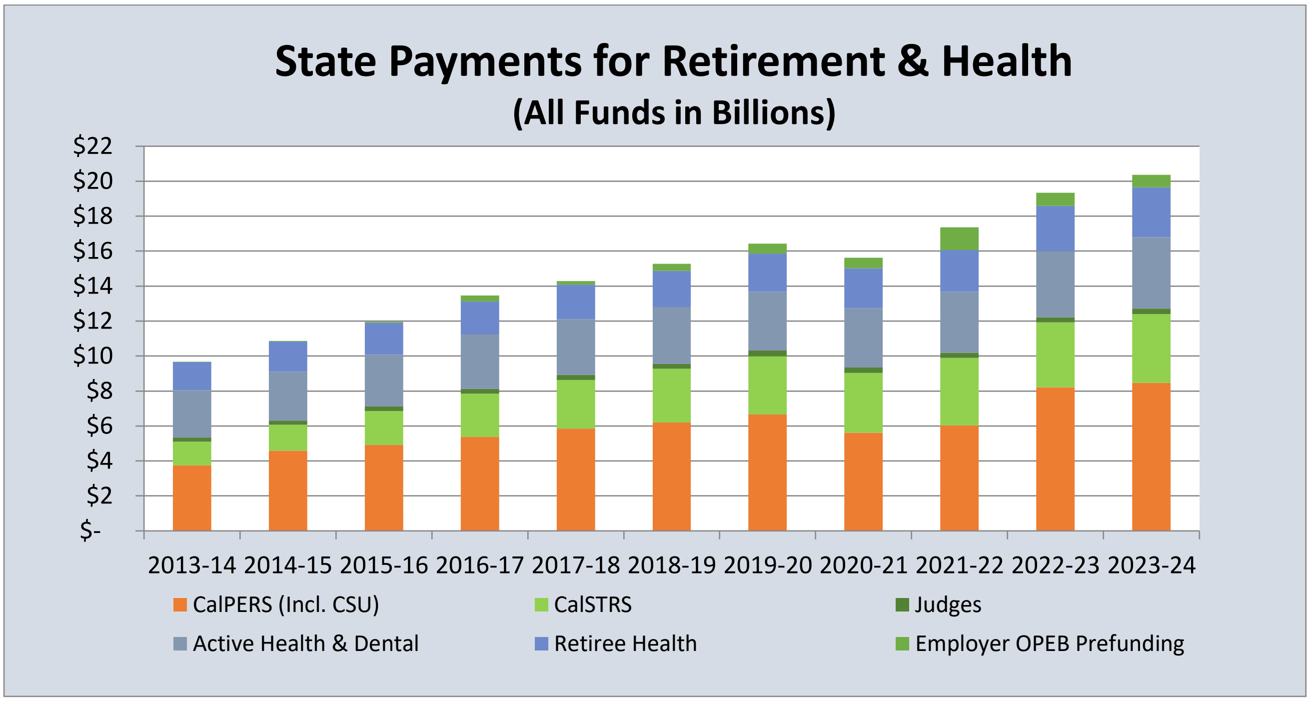
CalPERS Pension Costs Continue to Grow. The budget authorizes $8.5 billion in total funds ($4.7 billion General Fund) in employer contributions to Public Employee Retirement System (PERS) for state employees' retirement costs, including $744 million General Fund for California State University employees. This is up $5 billion compared to ten years ago, an increase of 126 percent.

Teacher Pension Costs Also Grow. The Budget includes a $3.9 billion General Fund for state contributions to CalSTRS, the teachers' pension fund. This is roughly a $227 million increase from 2022-23.

Retiree Health Care Benefits. The Budget includes $2.8 billion ongoing for health care benefits for state retirees, California State University retirees, and dependents. Retiree health care benefits continue to be paid out mainly on a "pay-as-you-go" approach, which has created a $96 billion unfunded liability.

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.



Making the Minimum Required Unfunded Pension Payments. The budget includes $1.7 billion in one-time Proposition 2 payments that reduce the unfunded state pension liability, which is $1.2 billion less than the 2022-23 budget allocation. This payment is estimated to save the state $3.4 billion over the next 30 years. Also, depending on the availability of Proposition 2 funding, an additional $1.8 billion is projected to be paid to CalPERS over the fiscal years 2024-25 to 2026-27. Unfortunately, during the last two years of surplus, Democrats imprudently chose not to make any payments beyond the minimum amounts required by Proposition 2 toward California's unfunded liabilities. Total liabilities have now climbed significantly just since last year, as described under the *State Debts and Liabilities* section.

Statewide Debts and Liabilities

Key Points

- **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 $4.5 billion in capital projects from General Fund cash to bonds funding, thus increasing borrowing and long-term debt obligations.

Overall State Debt Estimate Increases to $264 Billion. The state continues to face voluminous debts from various sources, which amount to nearly $264 billion at the beginning of the 2023-24 fiscal year, as summarized in the table on the following page. This is an increase of $24 billion (10 percent) from a year ago, and the budget approves billions in additional borrowing to help close the deficit, as described further below.

Pension liabilities showed a temporary reduction last year after strong investment performance by pension funds in 2020 and 2021 reduced the actuarial estimates of those liabilities. However, the state's liability for employee pensions ballooned from $44 billion last year to the most recent estimate of nearly $71 billion, an increase of 62 percent.

The state liability total of $264 billion does not include other public debts totals not specifically owed by the state government. These include the unemployment insurance debt ($18 billion), pension and retiree health liabilities faced by the University of California ($41 billion), or teacher pensions held by local school districts ($76 billion). These amounts appear in the table on the following page under "Other Related Public Debts." Notably, the local school districts' pension liabilities increased by more than $15 billion (26 percent) compared to last year's balance of $60 billion.

Continued Special Fund Borrowing. Now that the state's fiscal situation has shifted from surplus to deficit, the state's budget falls back on borrowing once again to close the budget gap. The budget authorizes $2.7 billion in loans from special funds to the General Fund to help close the deficit. 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 Payment Eliminated. As described more fully in the *Labor and Workforce Development* section of this report, the budget deletes $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 two states that still have a UI debt balance, and California's $18 billion balance is far higher than the other state, New York, at $7 billion.

State and Other Public Debts and Liabilities						
(Dollars in Millions)	At Start of 2023-24	Estimated Payments or Borrowing (-) 2023-24	2024-25	2025-26	2026-27	Remaining Liabilities
Special Fund Loans	$770	-$2,736	$325	$825	$280	$2,076
State Retirement Liabilities						
State Retiree Health	$95,510	$390	$400	$410	$420	$93,890
State Employee Pensions	$70,818	$1,657	$551	$547	$699	$67,364
Teachers' Pensions (state portion)	$10,256					$10,256
Judges' Pensions	$2,771	-	-	-	-	$2,771
SB 84 Loan from Surplus Money Invst. Fd.	$2,780	$290	$836	$590	$556	$508
Deferred payments to CalPERS	-	-	-	-	-	-
Subtotal	$182,135	$2,337	$1,787	$1,547	$1,675	$174,789
Other State Debts						
Long-Term Bonds - General Obligation & Lease-Revenue	$79,159	$7,876				$71,283
Suspended Local Mandates	486	154	-	-	-	$332
Education Mandates	1,100					$1,100
Subtotal	$80,745	$8,030	-	-	-	72,715
State - Total Debt	**$263,650**	**$7,631**	**$2,112**	**$2,372**	**$1,955**	**$249,580**
Other Related Public Debts						
Unemployment Insurance*	$18,002	-	-	-	-	$18,002
Teachers' Pensions (Local Districts)	$75,547	-	-	-	-	N/A
University of California Liabilities**						
UC Employee Pensions	21,800	-	-	-	-	N/A
UC Retiree Health	19,600	-	-	-	-	N/A
UC Total	$41,400	-	-	-	-	
Total, State and Other Public	**$398,599**	**$7,631**	**$2,112**	**$2,372**	**$1,955**	

* 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.

Increased Borrowing from Bonds. The budget increases borrowing and shifts funds for capital outlay projects from General Fund cash back to bond financing. Specifically, it includes a shift from General Fund to bond financing for infrastructure projects totaling $4.5 billion, which includes $2.4 billion for various university and college facilities and student housing projects. The General Fund savings created by this shift frees up room in the budget for other Democratic spending priorities this year, while adding to taxpayer costs in the long run.

In addition, the Governor and legislative Democrats hope to borrow tens of billions more through bonds. As noted in a recent LA Times column, proposed bills could add more than $100 billion to state borrowing, though that total is likely to be whittled down to somewhere between $20 billion and $30 billion that would go before voters.[2]

[2] Skelton, George, LA Times July 27, 2023. A massive borrowing binge is brewing in Sacramento.

Past Debt Reduction Efforts Reversed. The 2022 Budget had included several multi-year proposals intended to contribute to a reduction in the state's long-term debt obligations. However, this budget 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 general obligation 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, but the new budget backtracks on progress and instead withdraws that planned redemption of those bonds**.**

Proposition 2 Debt Payments. The Budget Act includes nearly $2.4 billion to pay down the state's current debts and liabilities, as required by the state constitution under Proposition 2. These debt payments include the following components:

- $1.7 billion for state employee pension liabilities.
- $390 million for state retiree health debt.
- $290 million to pay a state pension loan previously authorized by SB 84 in 2017.

Normal Bond Debt Service. According to the State Treasurer, the state currently has outstanding general obligation bonds totaling $79 billion and has authorization to issue $24 billion more. Additionally, outstanding lease-revenue bonds total $7.8 billion. The state must pay $7.9 billion in debt service costs for these outstanding and planned general obligation and lease-revenue bonds in 2023-24, as required by the constitution and debt covenants.

Appendix 1: Early Action Trailer Bills

Bill	Subject (Date Enrolled or Chaptered)
AB 100	**May Budget Bill Jr. (Chaptered 5/15/23)** Amends the 2021 and 2022 Budget Acts to add funds for various purposes and make technical changes. Adds funding to clean up after the McKinney Fire in Siskiyou County. Extends funding for preschool family fee waivers. Appropriates funds for the Office of Digital Innovation that was approved by the Legislature as part of the 2022 Budget Act but mistakenly not included in the final budget act appropriations.
AB 110	**Early childcare and education. (Chaptered 5/15/23)** Makes numerous changes regarding child care and early education, including re-appropriating one-time federal funds for child care, expanding the purposes for which the existing appropriation may be used to provide additional temporary rate supplements for child care and preschool programs, and extending family fee waivers.
AB 111	**Student Loan Relief (Chaptered 5/15/23)** Exempts the following from gross income for state tax purposes, 1) forgiven unpaid community college fees, 2) higher education emergency relief grants, 3) forgiven student loans. These actions conform with federal law.
AB 112	**Distressed Hospital Loan Program. (Chaptered 5/15/23)** Established the Distressed Hospital Loan Program to provide interest free loans to hospitals in significant financial distress and authorizes $150 million in General Fund for the program.
AB 113	**Agricultural Labor Relations. (Chaptered 5/15/23)** Amends the "card check" unionization process established by AB 2183 (Stone, 2022) for agricultural workers by enacting policy changes agreed upon by labor organizations and the Governor. A key policy change is that this bill deletes the two card check processes established in AB 2183 and replaces them with one card check process that does not include the mail-in ballot process.

Appendix 2: June 2023 Budget and Trailer Bills

Bill	Subject (Date Enrolled or Chaptered)
SB 101	**Two-House Budget Bill (Chaptered 6/27/23)** Initial budget bill passed by the Legislature on June 15, 2023, to meet the constitutional deadline.
AB 102	**Budget Bill Junior #1 for 2023 (Chaptered 7/10/23)** Amends initial budget bill to reflect the budget agreement between Democrats and the Governor.
AB 103	**Budget Amendments for 2021 and 2022 (Chaptered 6/30/23)** Amends budgets for 2021-22 and 2022-23 to reflect agreement between the Governor and legislative Democrats.
SB 114	**Education (Chaptered (Chaptered 7/10/23)** Appropriates billions in funding and makes a number of policy and administrative changes pertaining to preschool, transitional kindergarten, and K-12 education, including providing an 8.22 percent Cost-of-Living-Adjustment for the Local Control Funding Formula, extending charter school renewals by one year, cutting funding for several block grants, and establishing the Equity Multiplier.
SB 115	**Education (Prop 28) (Chaptered 7/10/23)** Makes statutory changes necessary to clarify and further the implementation of Proposition 28, the Arts and Music in Schools – Funding Guarantee and Accountability Act, including a reporting deadline for unexpended funds, the reversion of funds in the event of a charter school closure, and a funding distribution methodology for preschools.
AB 116	**Child Care (Chaptered 7/10/23)** Appropriates millions to fund child care proposals and makes a number of policy and administrative changes pertaining to preschool and subsidized child care programs, including family fee reform, increasing reimbursement rates, extending COVID-19 era hold harmless policies, and directing the Department of Social Services to develop and conduct an alternative methodology for future rate setting.
SB 117	**Higher Education (Chaptered 7/10/23)** The Higher Education trailer bill makes funding and policy changes primarily related to the University of California (UC), California State University (CSU), and community colleges.

AB 118	**Health (Chaptered 7/10/23)** Makes a number of policy changes pertaining to the state's health programs, including the expenditure plan for the Managed Care Organization (MCO) tax resources that will fund Medi-Cal provider rate increases and short-term relief for hospitals.
AB 119	**MCO Tax (Chaptered 6/29/23)** Imposes a new Managed Care Organization (MCO) tax on commercial and Medi-Cal managed care plans from April 1, 2023, through December 31, 2026.
AB 120	**Human Services (Chaptered 7/10/23)** Makes changes to numerous human services programs, including providing a housing supplement for youths in extended foster care, increasing State Supplemental Program (SSP) grants, banning adoption facilitators, increasing In-Home-Supportive-Services (IHSS) collective bargaining penalties on counties, and increasing CalWORKs maximum aid payments.
AB 121	**Developmental Services (Chaptered 7/10/23)** Makes a number of policy changes pertaining to the developmental disability services system, including the creation of a new office to increase employment of developmentally disabled individuals.
SB 122	**Resources (Chaptered 7/10/23)** Makes various changes, including establishing a new dam safety program, expanding fee authority across various agencies, and bolstering enforcement actions on certain businesses regulated under hazardous waste laws.
SB 123	**Energy 1 (Chaptered 7/10/23)** Makes various changes, including funding the above-market costs of energy imports, Energy Commissioner salary increases, and energy program modifications.
SB 124	**Energy 2 (Chaptered 7/10/23)** Makes various changes in the energy arena, including adding various new groups to the workgroup for the Transportation Fuels Transition Plan, as well as financing projects aimed at lowering greenhouse gas emission through procuring renewable energy and zero carbon resources.
SB 125	**Transportation (Chaptered 7/10/23)** Includes various new requirements for transit entities, including the formation of a Transit Transformation Task Force and a new Accountability Program, and continued fiscal relief for transit entities.

AB 127	**General Government 1 (Chaptered 7/10/23)** Makes numerous changes, including expansion of grant program for businesses impacted by recent flooding, dedicates a revenue source for the ongoing development of excess state surplus property, eliminates accountability measures within the Made in California program, establishes a new Racial Equity Commission within OPR, prioritizes grants from the Broadband Public Housing Account, shifts financial aid grant funding into a more flexible fund source within Military Department, among other changes.
AB 128	**Cannabis (Chaptered 7/10/23)** Changes cannabis licensure law to comply with federal requirements so that the Department of Cannabis Control (DCC) can continue to receive federal criminal history information necessary to process license applications. Changes include establishing a background check requirement for certain DCC employees, prospective employees, and contract service providers; establishing a new license classification for cannabis event organizers; and eliminating the requirement for cannabis licensees who apply for a second or subsequent license to undergo another background check.
AB 129	**Housing (Chaptered 7/10/23)** Provides the methodology and direction for the allocation of $1.1 billion in flexible funding to support current local homelessness programs, includes additional reporting elements and requires a coordinated regional homelessness plan, establishes a narrow exemption to the Surplus Lands Act for disposal of land acquired by a local agency (Chula Vista), requires a developer to provide notice that all contractors and subcontractors on a project are registered with the Department of Industrial Relations, among other changes.
AB 130	**Labor and Employment (Chaptered 7/10/23)** Pays down pension debt by $1.7 billion in accordance with Proposition 2, makes the Domestic Workers and Employers Education and Outreach Program permanent, and clarifies contractor registration and provides enforcement tools related to the payment of prevailing wage on certain housing projects.
SB 131	**Revenue and Taxation (Chaptered 7/10/23)** Expands eligibility within the New Employment Tax Credit program to include semi-conductor, electric airplane and lithium production and manufacturing companies, excludes from gross income any amounts received in settlements associated with either the 2019 Kincade Fire or the 2020 Zogg Fire**,** include the income of an incomplete non-grantor trust for state income tax purposes, requires the Franchise Tax Board to make the Middle Class Tax Refund payment to each qualified recipient no later than September 30, 2023, among other changes.
SB 132	**Film Tax Credit (Chaptered 7/10/23)** Provides authority to extend the Film and TV Tax Credit program and the California Soundstage program until June 30, 2030, and makes the tax credit refundable, a state precedent, and establishes the Safety on Productions Pilot Program, among other changes.

SB 133	**Courts (Chaptered 6/30/23)** Makes "temporary" civil court fee increases permanent. Establishes a loan repayment assistance program for legal aid attorneys. Extends the authorization for courts to allow remote proceedings. Delays implementation of lactation room access for court users. Establishes minimum training standards for appointed counsel for claims brought pursuant to the Racial Justice Act of 2020.
AB 134	**Public Safety (Chaptered 7/10/23)** Expedites the Governor's plan to convert San Quentin State Prison to an inmate rehabilitation center by renaming it the “San Quentin Rehabilitation Center”, exempting related capital outlay projects from the California Environmental Quality Act, and authorizing CDCR to use the progressive design-build project delivery method. Facilitates the June 30, 2023 closure of the Division of Juvenile Justice. Eliminates certain criminal administrative fees. Shields from public disclosure peace officer records in the possession of the Commission on Peace Officer Standards and Training as part of an investigation. Delays implementation of certain criminal history records relief. Streamlines visitation for family members of prison inmates.

Appendix 3: End-of-Session Budget and Trailer Bills

Bill	Subject (Date Enrolled or Chaptered)
SB 104	**Budget Bill Junior #2 for 2023 (Chaptered September 13, 2023)** Redirects funds from community colleges to UC for student housing. Raises licensing fees on substance use treatment providers by 75% over three years. Skips public contract review for IHSS collective bargaining analysis funding. Adds $20M to the flawed California Dream for All program, totaling $220M for 2023-24.
SB 105	**Budget Bill Junior #3 for 2023 (Chaptered October 13, 2023)** Removes $3M for Industrial Welfare Commission revival. Allocates $133M in federal funds for programs like summer learning and Energy Commission R&D. Corrects error to stockpile $2M in abortion drugs. Updates budget with limited Republican input.
AB 126	**Vehicular air pollution (Chaptered October 7, 2023)** Extends the sunset on taxes on motor vehicles and vessels to fund the Clean Transportation Program (CTP) from January 1, 2024 to July 1, 2035. This bill also refocuses the CTP exclusively on zero-emission vehicles rather than "alternative fuels" and modifies the Enhanced Fleet Modernization Program and the Air Quality Improvement Program, and requires additional reporting on hydrogen and electric vehicle charging infrastructure.
SB 135	**Public Safety (Chaptered September 13, 2023)** Authorizes the Department of Justice to administratively increase the ammunition transaction fee as needed. Waives virtually all oversight requirements for the Department of Corrections and Rehabilitation's community correctional reentry center contracts.
SB 137	**Health Omnibus (Chaptered September 13, 2023)** Allows the state to annually raise licensing fees on substance use treatment providers without legislative approval. Delays a requirement that firms engaging in lead-related construction work hold a health and safety training certificate.
SB 138	**Human Services (Chaptered September 13, 2023)** Implements customer service-oriented improvements at the Department of Developmental Services.
SB 140	**Early childcare and Education (Chaptered September 13, 2023)** Ratifies the Memorandum of Understanding (MOU) between the state and Child Care Providers United, who are not state employees, with a cost of approximately $2.4 billion over two years. Provisions of the MOU include extending the hold harmless policies, establishing a retirement trust, changing the definition of full-time, and furthering the implementation of an alternative rate methodology.
SB 141	**Education Finance (Chaptered September 13, 2023)** Makes a number of clarifying and technical adjustments, including providing an exemption for Paradise Unified from a fiscal penalty due to excessive administrative employees, extending the authorization for substitute teachers to serve up to 60 days on one assignment, appropriating $1.5 million for Holocaust and Genocide education, and providing schools with fiscal penalty exemptions during emergencies.

SB 142	**Higher Education (Chaptered September 13, 2023)** (1) Shifts student housing bond authority from three community colleges to UC campuses; (2) continues the policy of clawing back some housing funds previously allocated to community colleges; and (3) states intent to work toward a statewide bond for community college student housing projects, which could offset the returned funds.
SB 143	**General Government (Chaptered September 13, 2023)** Makes various changes, including among others, a temporary extension of a monthly minimum wage for goat herders, provisions to allow portability of professional licenses for military families, evaluation of options for additional funding for the California Dream for All program, and a new alternative fee rate for hazardous waste generation and handling.
SB 148	**State Employment: Multiple Bargaining Unit Contract (Chaptered September 22, 2023)** Approves the Memoranda of Understanding for 14 bargaining units, including engineers, some law enforcement personnel, and physicians. These changes include significant pay increases, among other specified benefits.
SB 151	**State Employment: Prison Guard Contract (Chaptered September 13, 2023)** Approves the Memorandum of Understanding with Bargaining Unit 6, represented by the California Correctional Peace Officers Association. This includes significant compensation increases for correctional peace officers, among other specified benefits. This agreement will be retroactively effective from July 3, 2023 through July 2, 2025.
SB 152	**Background Checks And Fingerprinting (Chaptered September 13, 2023)** Makes technical changes to various state statutes governing criminal history background checks that are necessary to maintain compliance with Federal Bureau of Investigation requirements for accessing federal-level criminal history information. These changes are necessary to enable various state agencies to continue receiving federal criminal history information as they conduct background checks of prospective employees, volunteers, and contractors.

Senate Republican Fiscal Staff Assignments

Kirk Feely, Fiscal Director

Contact Number: (916) 651-1501

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

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