

GOVERNOR'S BUDGET SUMMARY

Gavin Newsom, Governor
State of California



2023-24

This page intentionally blank to facilitate double-sided printing.



GOVERNOR
Gavin Newsom

January 10, 2023

To the members of the Senate and the Assembly of the California Legislature:

Over the last four years, we have come together to pass state budgets that reflect California's values and invest in California's future, expanding childcare, universal transitional kindergarten for all four-year-olds and making healthcare affordable and accessible to all, regardless of immigration status. At the same time, these budgets recognized the need to ensure that our state would be well-positioned to withstand annual fluctuations in state revenues.

Revenues for the coming fiscal year are significantly lower than previously anticipated—mainly due to declines in withholding and capital gains taxes, which are inherently volatile. But with careful planning and your partnership, we find ourselves in a strong position to withstand this dip in revenues while maintaining funding for programs and services that are relied on by millions of Californians.

I am so proud of what we have accomplished together—keeping our state safe during a deadly pandemic, passing the largest economic relief and recovery package in the nation, providing short-term support to millions of Californians and making billions in longer-term investments that will benefit workers, businesses and families decades into the future.

We made historic investments to protect against the escalating impacts of a changed climate, preparing for extreme weather, the more severe droughts, floods and wildfires that come with it, while increasing support for first responders on the front lines. All while ensuring our state was prepared for a downturn in revenues by building historic reserves and limiting state spending obligations in future years.

The resilience we have built into previous budgets will help us weather the current storm, and continue to make progress on our most-stubborn challenges: addressing homelessness, building more housing and driving down costs for the nearly 40 million people who call California home.

In addition to the tens of billions in the state rainy day fund, we set aside billions in early debt repayments and multi-year investments that can easily be delayed or preempted to address this year's shortfall without dramatic cuts in the services and programs Californians value most.

I am confident that with our continued partnership, we will continue our work together to build a better California.

With respect,

/s/ Gavin Newsom

Gavin Newsom

TABLE OF CONTENTS

Introduction	1
Summary Charts	9
K-12 Education	15
Higher Education	27
Climate Change	39
Health and Human Services	57
Housing and Homelessness	73
Judicial Branch	79
Criminal Justice	83
Labor and Workforce Development	95
General Government and Statewide Issues	99
Economic Outlook	119
Revenue Estimates	131
Demographic Information	145
Staff Assignments	147

This page intentionally blank to facilitate double-sided printing.

INTRODUCTION

Investments over the last few budgets reflect California's values and priorities. Together with the Legislature, the Administration is making healthcare affordable and accessible to all, regardless of immigration status; expanding child care and universal transitional kindergarten for all 4-year-olds; and enabling more people to graduate from college without crippling debt. The state has also made historic investments to protect Californians against the impacts of climate change and keep them safe during the COVID-19 Pandemic. These investments over the past four years are continuing to improve both the quality of life and the long-term outlook for all Californians.

At the same time, California has recognized the importance of being able to withstand annual fluctuations in state revenues. As 2023 begins, risks to the state's economic and revenue outlook highlighted in the 2022 Budget have been realized—continued high inflation, multiple federal reserve bank interest rate increases, and further stock market declines. This last risk is particularly important to California, as market-based compensation—including stock options and bonus payments—greatly influences the incomes of high-income Californians. Combined with a progressive income tax structure, this can have an outsized effect, both good and bad, on state revenues.

Given these developments, the revenue outlook is substantially different than seen in the last two years. Prior to accounting for solutions, the Governor's Budget forecasts General Fund revenues will be \$29.5 billion lower than at the 2022 Budget Act projections, and California now faces an estimated budget gap of \$22.5 billion in the 2023-24 fiscal year.

Fortunately, through prudent planning and budget resilience built into previous budgets, the state is in its best fiscal position in recent memory to address this slowdown. By using the bulk of the recent surplus to boost the state's budget reserves and pay down prior debts, by focusing on one-time and near-term spending instead of costly long-term obligations, and by tying or "triggering" a handful of new ongoing programs to sufficient revenue availability in 2024-25, the state does not have to propose the kind of deep reductions to priority programs that marked the budget shortfalls over the past two decades. It will, however, require the state to delay or forego some spending in the near term.

Part of the state's planning has included building up the state's budget reserves. To offset the significant swings in revenue caused in large part by market volatility, voters in 2014 passed Proposition 2, which created new requirements for deposits into the Budget Stabilization Account or "Rainy Day Fund." In order to make a withdrawal from this account, the Governor must first declare a fiscal emergency, and no more than 50 percent of the balance can be withdrawn in any single fiscal year.

The Budget reflects \$35.6 billion in total budgetary reserves. These reserves include \$22.4 billion in the Budget Stabilization Account, which fulfills the constitutional maximum mandatory deposit limit of 10 percent of General Fund tax proceeds. The reserve total also includes:

- \$8.5 billion in the Public School System Stabilization Account,
- \$900 million in the Safety Net Reserve, and
- \$3.8 billion in the state's operating reserve – the Special Fund for Economic Uncertainties.

As the Budget Stabilization Account balance is at its constitutional maximum amount, a total of \$951 million is required to be dedicated for infrastructure investments in 2023-24.

The Budget accelerates the paydown of state retirement liabilities as required by Proposition 2, with \$1.9 billion in additional payments in 2023-24 and approximately \$5.3 billion projected to be paid over the next three years.

A BALANCED PLAN TO CLOSE THE BUDGET GAP

Because of the multiple uncertainties regarding the overall economic and revenue outlook in the near term, the Governor's Budget reflects a balanced plan of funding

delays, reductions and pullbacks, fund shifts, trigger reductions, and limited revenue generation and borrowing to address the budget problem. To preserve the state's ability to respond to any potentially significant negative changes to the outlook in early 2023, the Governor's Budget does not propose to draw from the state's reserve accounts to close the budget gap.

The Governor's Budget economic forecast does not project a recession. If economic and revenue conditions deteriorate in the spring, then the Administration may propose withdrawals from reserve accounts, as well as additional program reductions. Conversely, if conditions improve, then the Administration would not have to propose reserve withdrawals, and would also reconsider proposed spending delays and reductions.

The balanced plan reflected in the Governor's Budget to close the projected shortfall includes:

- **Funding Delays—\$7.4 billion.** The Budget delays funding for multiple items across the 2021-22 through 2023-24 fiscal years, and spreads it across the multi-year without reducing the total amount of funding through the multi-year.
- **Reductions/Pullbacks—\$5.7 billion.** The Budget reduces spending for various items across the 2021-22 through 2023-24 fiscal years, and pulls back certain items that were included in the 2022 Budget Act to provide additional budget resilience. Significant items in this category include the \$3 billion included in the 2022 Budget as an inflationary adjustment, and a \$750 million Unemployment Trust Fund payment in the 2023-24 fiscal year.
- **Fund Shifts—\$4.3 billion.** The Budget shifts certain expenditures in the 2022-23 and 2023-24 fiscal years from the General Fund to other funds. These include (1) shifting various California State University (CSU) capital outlay projects to CSU issued debt with the state providing support for the underlying debt service, (2) reverting certain bonds to cash projects from the 2022 Budget Act back to bonds, and (3) shifting certain Zero Emission Vehicle commitments to the Greenhouse Gas Reduction Fund.
- **Trigger Reductions—\$3.9 billion.** The Budget reduces funding for certain items in the 2020-21 through 2023-24 fiscal years and places them in a "trigger" that would restore the reductions at the 2024 Governor's Budget if it is determined that sufficient funds will be available to cover certain commitments. These commitments include: baseline adjustments, enrollment, caseload, and population adjustments, constitutional obligations, as well as the cost of funding all of the items included in the trigger. These items are primarily in the areas of Climate and Transportation

(\$3.1 billion), Housing (\$600 million), Parks (\$106 million) and Workforce Training (\$55 million).

- **Limited Revenue Generation and Borrowing—\$1.2 billion.** The Budget augments General Fund resources in the 2023-24 fiscal year. The majority of the funds in this category are derived from loans from special funds and from the renewal of the Managed Care Organization Tax.

In addition to solving the \$22.5 billion shortfall, the Budget utilizes a number of the resiliency measures in the 2022 Budget Act to close shortfalls projected in the coming years. These include:

- **Future Inflationary Adjustments Withdrawn**—In addition to the \$3 billion referenced above for the 2023-24 fiscal year, \$7 billion to address inflationary adjustments, which were scheduled over 2024-25 and 2025-26, are now withdrawn.
- **General Obligation Bond Liability**—\$1.7 billion in General Fund, which had been scheduled in 2024-25 to reduce General Obligation bond liability through the redemption of callable bonds, is now withdrawn.
- **Lease Revenue Bonds Liability**—\$2.1 billion in General Fund had been scheduled to reduce lease revenue bond liability in 2022-23 through 2025-26. This amount is reverted back to lease revenue bond funds to pay for capital projects.
- **Supplemental Deposits to Budget Stabilization Account**—\$4 billion in supplemental deposits to this reserve account had been scheduled over 2024-25 and 2025-26. These are now withdrawn.
- **Additional Safety Net Reserve Deposits**—\$4 billion in additional deposits to the Safety Net Reserve had been scheduled in 2024-25 and 2025-26. These are now withdrawn.

SUSTAINING KEY INVESTMENTS WHILE CLOSING THE BUDGET GAP

Even with the decisions necessary to close the budget gap in 2023-24, the Governor's Budget sustains key investments in recent budgets to advance the shared priorities of the Governor and the Legislature.

- **Implementing Transitional Kindergarten**—The 2022 Budget Act included funds for the first year of expanded eligibility for transitional kindergarten, which covers the shift from all children turning five-years-old between September 2 and December 2 to all children turning five-years-old between September 2 and February 2. Building upon

these first-year investments, the Budget includes \$690 million to implement the second year of transitional kindergarten expansion, which will increase access to the program to all children turning five-years-old between September 2 and April 2 (approximately 46,000 children) and \$165 million to support the addition of one additional certificated or classified staff person in transitional kindergarten classrooms serving these students. Full implementation of universal transitional kindergarten is expected in 2025-26.

- **Child Care Availability and Affordability**—The Budget sustains over \$2 billion annualized to expand subsidized child care slot availability.
- **Universal School Meals**—In 2020, the U.S. Department of Agriculture allowed states to apply for a waiver of certain requirements connected to the National School Lunch Program and School Breakfast Program. The Budget protects the funding for universal access to subsidized school meals and the additional enhanced meal rate. California will spend over \$1.4 billion to reimburse school meals and ensure all students who want a meal will have access to two free meals each day.
- **Maintaining Higher Education Compacts and Roadmap**—The Budget sustains the second year of the multi-year compacts with the University of California (UC) and the California State University (CSU), and a multi-year roadmap with the California Community Colleges (CCCs). Despite the state's fiscal climate, the Administration remains committed to the shared goals of increasing access to the UC and CSU, improving student success while advancing equity, increasing the affordability of higher education, increasing intersegmental collaboration to benefit students, and supporting workforce preparedness and high-demand career pipelines.
- **Advancing the Climate Agenda**—The 2021 and 2022 Budget Acts allocated approximately \$54 billion over five years to advance the state's climate agenda. The Budget maintains 89 percent of these investments (approximately \$48 billion) and continues to prioritize equity and investments in populations facing disproportionate harm from pollution and the climate crisis. Given the projected decline in General Fund revenues, the Budget includes reductions across several climate programs, which are partially offset by shifts to other fund sources. Additionally, the state will pursue additional federal funding through the Inflation Reduction Act and the Infrastructure Investment and Jobs Act. Most of the climate reductions are included in the trigger so if there is sufficient General Fund in January 2024, these reductions will be restored.
- **Expanding Health Care Access and Health Care Delivery Transformation**—The Budget maintains continued funding to expand full-scope Medi-Cal eligibility to all

income-eligible Californians, regardless of immigration status. Additionally, the Budget sustains approximately \$10 billion in total funds commitment to continue transforming the state's health care delivery system through California Advancing and innovating Medi-Cal.

- **Greater Assistance For California's Most Vulnerable**—The Budget includes over \$1 billion General Fund annually to provide increased cash assistance to individuals with disabilities and older adults in the Supplemental Security Income/State Supplementary Payment program, and low-income children and families in the CalWORKs program.
- **Expanding the Behavioral Health Continuum**—The Budget sustains over \$8 billion total funds across various multiple Health and Human Services departments to expand the continuum of behavioral health treatment and infrastructure capacity and transform the system for providing behavioral health services to children and youth.
- **Improving Services for the Developmentally Disabled**—The Budget sustains an estimated annual \$1.2 billion General Fund by 2024-25 to fully implement service provider rate reform with a focus on improving outcomes and quality of services.
- **Reproductive Health Services**—The Budget maintains the over \$200 million investments to protect the right to safe and accessible reproductive health care, including grants to health care providers to offset the cost of care to uninsured or underinsured individuals, for clinical infrastructure, and to provide scholarships and loan repayments to providers that commit to providing reproductive health care services. Further, the Budget adds \$200 million (\$15 million General Fund) in 2024-25 for a grant program focused on supporting access to family planning and related services, system transformation, capacity, and sustainability of California's safety net.
- **Investments in Infrastructure**—The Budget sustains a multi-year commitment of \$44 billion in state funds for various statewide infrastructure investments. This includes funding to accelerate the transition to zero-emission vehicles, modernize the state's transportation system, promote energy innovation and reliability, provide greater access to broadband connectivity, advance the state's housing goals, reduce wildfire risk to communities, and to support drought resiliency and response.
- **Investments in Housing**—Given the scale of California's housing backlog and need, the state has invested billions in the past two years for housing production incentives, with 2021 and 2022 Budget Act housing packages totaling \$21.5 billion combined. Importantly, the state has continued to deploy a comprehensive set of

strategies, including improving existing state financing programs, targeting housing investments, providing technical assistance to rural, tribal, and urban areas, and leveraging land use tools. The Budget includes \$350 million in General Fund reductions related to housing programs that were included as part of the 2022 Budget Act. Even with these reductions, funding for these housing programs would remain at approximately 88 percent of the allocations made in 2022-23 and 2023-24 (\$2.85 billion). These reductions are included in the trigger, so if there is sufficient General Fund in January 2024, these reductions will be restored.

- ***Investments in Homelessness***—The 2022 Budget Act allocated \$10.2 billion, in addition to the \$7.3 billion provided in 2021, signifying a continued priority in providing investments to support the state's comprehensive homelessness strategy, including resources to provide long-term permanent housing options, services, and supports for individuals experiencing homelessness, or who are at risk of experiencing homelessness. The Budget maintains these investments.
- ***Continuing Workforce Development***—The 2022 Budget invested approximately \$2.2 billion General Fund to create additional apprenticeships; provide training to mitigate the effects of climate change; provide job training and other assistance to the justice-involved population; and create more innovative and accessible opportunities to recruit, train, hire, and advance an ethnically and culturally inclusive health and human services workforce. The Budget reduces \$55 million of these investments. However, these reductions are included in the trigger, so if there is sufficient General Fund in January 2024, they will be restored.
- ***Combatting Organized Retail Theft and Other Crimes***—The Budget sustains \$564.4 million General Fund over three years to bolster local law enforcement efforts to address retail theft and other crimes. These investments help local law enforcement agencies implement anti-theft task forces, improve prosecution, expand Department of Justice and California Highway Patrol anti-crime and retail theft taskforces, expand drug interdiction and combat fentanyl prevalence, improve emergency response times, combat human trafficking and child sexual exploitation, support programs to remove and dispose of firearms and provides resources to research to inform policies that address the ever-evolving firearms market.

CONCLUSION

Through strong fiscal planning, California's Budget can protect core programs and still build a California for today and the future. Due to the work that the Governor and the Legislature have done to plan for a revenue shortfall such as this one, the Budget is able to maintain the majority of recent commitments, including continuing to build upon programs and services that the most vulnerable populations rely even more heavily upon during economic downturns.

However, considerable risks to the economy remain. In particular, if the economy slips into a recession in the coming months, there will be more difficult decisions ahead. The Administration has taken steps in this Budget, such as not using the state's reserves, to ensure there is additional capacity to protect the programs and services that California residents rely upon, AND build a California for the future that continues to be a national and world leader in combating the effects of climate change, elevating diversity and inclusion, improving innovation, and protecting the rights of all of our residents. That is the California way.

SUMMARY CHARTS

This section provides various statewide budget charts and tables.

2023-24 Governor's Budget
General Fund Budget Summary
(Dollars in Millions)

	2022-23	2023-24
Prior Year Balance	\$52,713	\$21,521
Revenues and Transfers	\$208,884	\$210,174
Total Resources Available	\$261,597	\$231,695
Non-Proposition 98 Expenditures	\$160,973	\$143,060
Proposition 98 Expenditures	\$79,103	\$80,554
Total Expenditures	\$240,076	\$223,614
Fund Balance	\$21,521	\$8,081
Reserve for Liquidation of Encumbrances	\$4,276	\$4,276
Special Fund for Economic Uncertainties	\$17,245	\$3,805
Public School System Stabilization Account	\$8,108	\$8,473
Safety Net Reserve	\$900	\$900
Budget Stabilization Account/Rainy Day Fund	\$21,487	\$22,398

Note: Numbers may not add due to rounding.

General Fund Expenditures by Agency

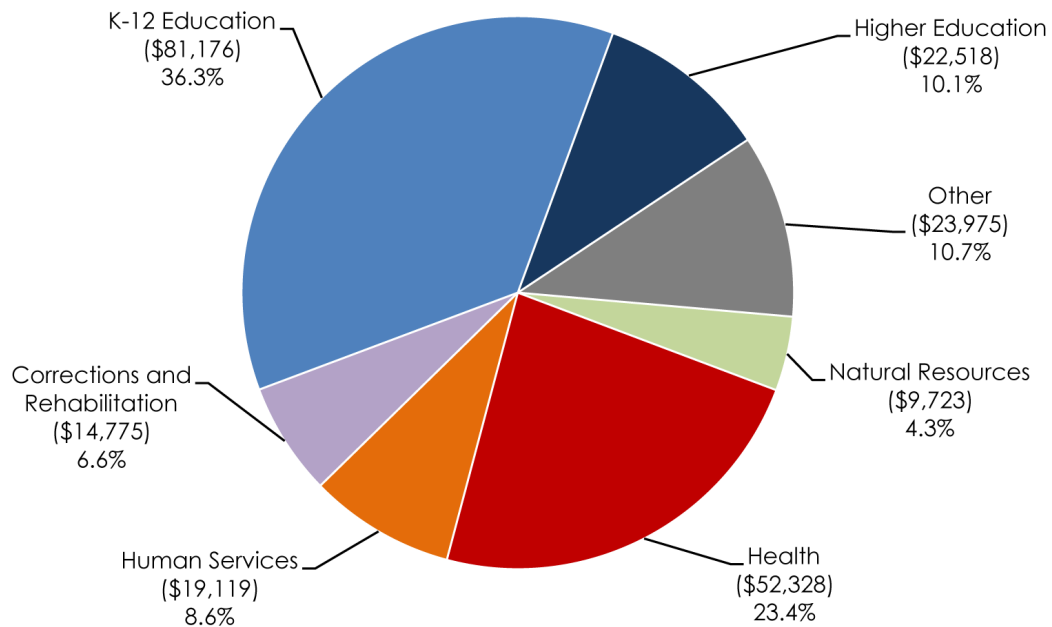
(Dollars in Millions)

	2022-23	2023-24	Change from 2022-23	
			Dollar Change	Percent Change
Legislative, Judicial, Executive	\$19,636	\$11,852	-\$7,784	-39.6%
Business, Consumer Services & Housing	4,062	1,472	-2,590	-63.8%
Transportation	1,725	2,191	466	27.0%
Natural Resources	15,437	9,723	-5,714	-37.0%
Environmental Protection	2,133	1,989	-144	-6.8%
Health and Human Services	64,790	71,447	6,657	10.3%
Corrections and Rehabilitation	15,822	14,775	-1,047	-6.6%
K-12 Education	78,505	81,176	2,671	3.4%
Higher Education	23,043	22,518	-525	-2.3%
Labor and Workforce Development	1,234	1,638	404	32.7%
Government Operations	6,795	3,847	-2,948	-43.4%
General Government:				
Non-Agency Departments	2,791	3,562	771	27.6%
Tax Relief/Local Government	678	558	-120	-17.7%
Statewide Expenditures	3,425	-3,134	-6,559	-191.5%
Total	\$240,076	\$223,614	-\$16,462	-6.9%

Note: Numbers may not add due to rounding.

2023-24 General Fund Expenditures

(Dollars in Millions)

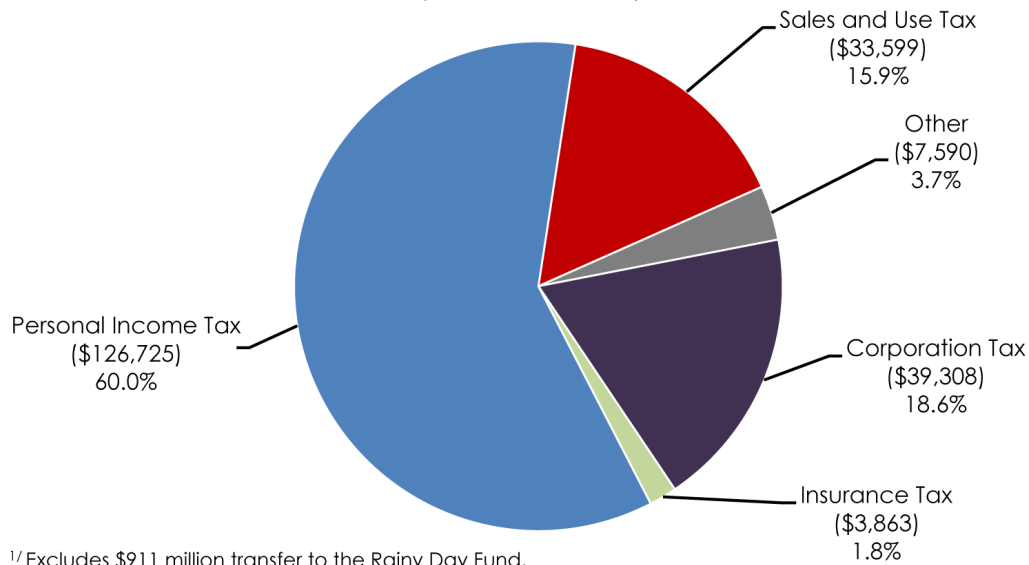


General Fund Revenue Sources (Dollars in Millions)

	2022-23	2023-24	Change from 2022-23	
			Dollar Change	Percent Change
Personal Income Tax	\$128,905	\$126,725	-\$2,180	-1.7%
Sales and Use Tax	32,851	33,599	748	2.3%
Corporation Tax	38,482	39,308	826	2.1%
Insurance Tax	3,641	3,863	222	6.1%
Alcoholic Beverage Taxes and Fees	436	441	5	1.1%
Cigarette Tax	49	45	-4	-8.2%
Motor Vehicle Fees	37	37	0	0.0%
Other	6,102	7,067	965	15.8%
Subtotal	\$210,503	\$211,085	\$582	0.3%
Transfer to the Budget Stabilization Account/Rainy Day Fund	-1,620	-911	709	-43.8%
Total	\$208,883	\$210,174	\$1,291	0.6%

Note: Numbers may not add due to rounding.

2023-24 General Fund Revenues and Transfers^{1/} (Dollars in Millions)



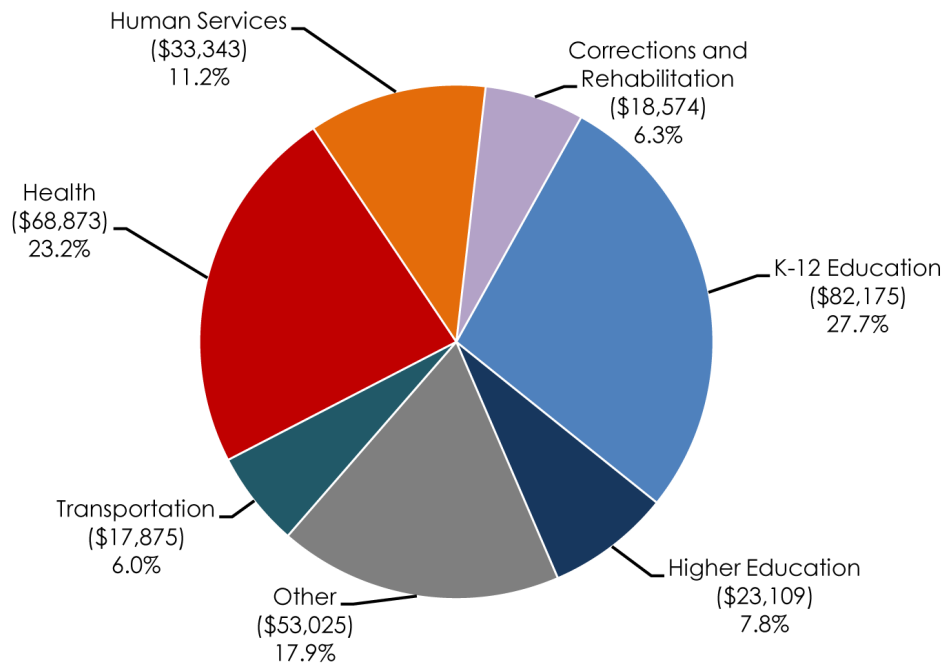
2023-24 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$11,852	\$3,678	\$262	\$15,792
Business, Consumer Services & Housing	1,472	1,217	936	3,625
Transportation	2,191	15,602	82	17,875
Natural Resources	9,723	2,019	585	12,327
Environmental Protection	1,989	3,935	14	5,938
Health and Human Services	71,447	30,769	-	102,216
Corrections and Rehabilitation	14,775	3,799	-	18,574
K-12 Education	81,176	370	629	82,175
Higher Education	22,518	133	458	23,109
Labor and Workforce Development	1,638	1,056	-	2,694
Government Operations	3,847	251	7	4,105
General Government:				
Non-Agency Departments	3,562	1,837	2	5,401
Tax Relief/Local Government	558	3,523	-	4,081
Statewide Expenditures	-3,134	2,196	-	-938
Total	\$223,614	\$70,385	\$2,975	\$296,974

Note: Numbers may not add due to rounding.

2023-24
Total State Expenditures
(Including Selected Bond Funds)
(Dollars in Millions)



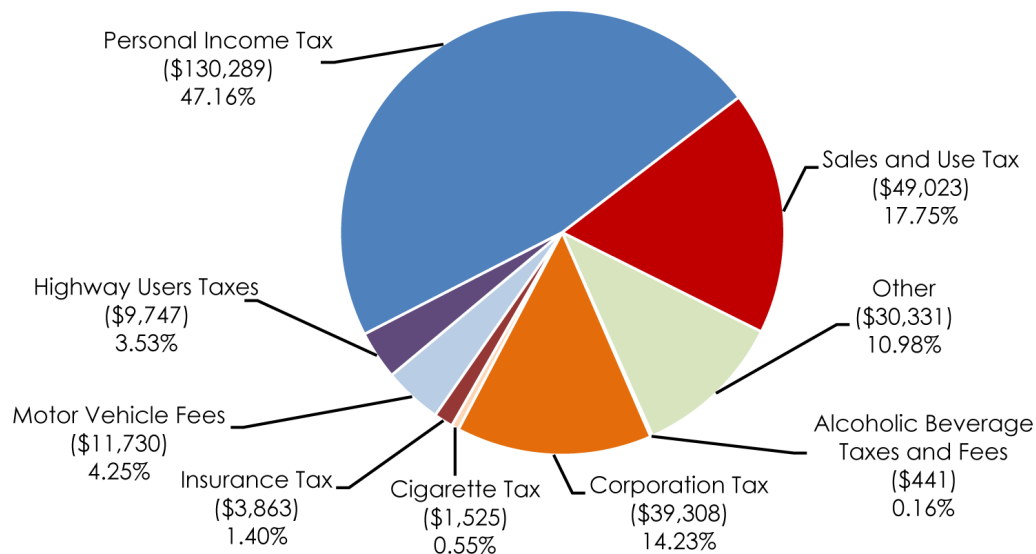
2023-24 Revenue Sources

(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2022-23
Personal Income Tax	\$126,725	\$3,564	\$130,289	-\$2,247
Sales and Use Tax	33,599	15,424	49,023	847
Corporation Tax	39,308	-	39,308	826
Highway Users Taxes	-	9,747	9,747	788
Insurance Tax	3,863	-	3,863	222
Alcoholic Beverage Taxes and Fees	441	-	441	5
Cigarette Tax	45	1,480	1,525	-143
Motor Vehicle Fees	37	11,693	11,730	481
Other	7,067	23,264	30,331	-1,745
Subtotal	\$211,085	\$65,172	\$276,257	-\$966
Transfer to the Budget Stabilization Account/Rainy Day Fund	-911	911	-	-
Total	\$210,174	\$66,083	\$276,257	-\$966

Note: Numbers may not add due to rounding.

2023-24
Total Revenues and Transfers
(Dollars in Millions)



K-12 EDUCATION

California provides academic instruction and support services to nearly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, approximately 1,000 local school districts, and more than 1,200 charter schools provide instruction in English, mathematics, history, science, and other core competencies to provide students with the skills they will need upon graduation to either enter the workforce or pursue higher education.

MAINTAINING STRONG SUPPORT FOR SCHOOLS

The fiscally prudent approaches of the past two K-12 education budgets, combined with a modest adjustment in the funding for the Arts, Music, and Instructional Materials Block Grant, will enable the state to support and maintain critical education investments without requiring a discretionary withdrawal from the Public School System Stabilization Account (PSSSA). This stability is critical to the ongoing implementation of the California for All Kids plan—a whole child framework to close opportunity gaps by accelerating learning and investing in the educator workforce while providing universal access to early learning, before and after school care, and comprehensive nutrition services. The plan also provides for high-poverty communities having access to community schools that enable family and community engagement in the provision of a wide range of academic, health, and social services that support students' learning.

Recent comprehensive student data from the 2022 California School Dashboard underscores the importance of this commitment to equitable opportunities. English language arts and math achievement data from the Dashboard, as well as non-academic factors such as chronic absenteeism rates, reflect the COVID-19 Pandemic's significant impacts on students, while also providing early indicators of where California's early and intensive efforts to address student needs are starting to make an impact. The Budget reflects the Administration's continued focus on providing equitable pre-K-12 educational opportunities by including ongoing support for a Local Control Funding Formula Equity Multiplier and further investment to support literacy coaches in high-need elementary schools.

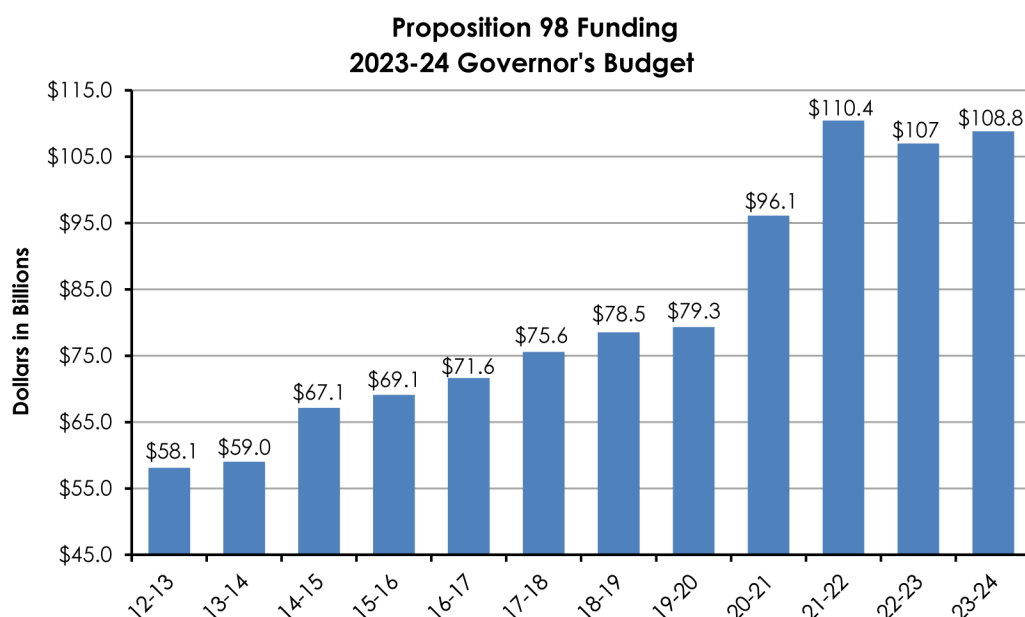
PROPOSITION 98

Proposition 98 is a voter-approved constitutional amendment that guarantees minimum funding levels for K-12 schools and community colleges (collectively referred to as K-14 schools). The Guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline. The LCFF is the primary mechanism for distributing these funds to support all students attending K-12 public schools in California.

The revised estimates of General Fund revenues modestly reduce the Proposition 98 Guarantee. Proposition 98 funding for K-12 schools and community colleges for 2023-24 is \$108.8 billion. This represents a decrease of approximately \$1.5 billion relative to the 2022 Budget Act.

The Guarantee continues to be in a Test 1 for all years 2021-22 through 2023-24. This means that the funding level of the Guarantee is equal to roughly 38 percent of General Fund revenues, plus local property tax revenues. Pursuant to the Proposition 98 formula, this percentage of General Fund revenues is not reduced to reflect declining enrollment, which further increases per pupil funding. The Proposition 98 minimum Guarantee is "rebenched" to reflect the continued implementation of Universal Transitional Kindergarten. To accommodate enrollment increases related to the continued expansion of transitional kindergarten, the Test 1 percentage is "rebenched" to increase the percentage of General Fund revenues due to the Guarantee, from 38.3 percent to 38.6 percent. Additionally, commencing in 2024-25, the Proposition 98 Guarantee will be "rebenched" pursuant to the requirements of the Arts and Music in Schools—Funding Guarantee and Accountability Act.

The decrease in the Proposition 98 Guarantee, when combined with other base adjustments, formula-driven reductions in deposits to the Proposition 98 Rainy Day Fund, inclusion of funds available for reappropriation or from the reversion account, one-time solutions, and availability of other one-time funds, results in available Proposition 98 resources of approximately \$5.9 billion. Proposition 98 is estimated to be \$110.4 billion in 2021-22, \$106.9 billion in 2022-23, and \$108.8 billion in 2023-24, representing a three-year decrease in the minimum Guarantee of \$4.7 billion over the level funded in the 2022 Budget Act.



The Budget includes total funding of \$128.5 billion (\$78.7 billion General Fund and \$49.8 billion other funds) for all K-12 education programs. K-12 per-pupil funding totals \$17,519 Proposition 98 General Fund—its highest level ever—and \$23,723 per pupil when accounting for all funding sources.

PROPOSITION 98 RAINY DAY FUND

The 2022 Budget Act projected a total balance of \$9.5 billion in the Public School System Stabilization Account (PSSSA). The Budget reflects revised 2021-22 and 2022-23 payments, and a 2023-24 payment of \$3.7 billion, \$1.1 billion, and \$365 million, respectively, into the PSSSA, for a total revised account balance of more than \$8.5 billion at the end of 2022-23. Under current law, there is a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the PSSSA is equal to or greater than 3 percent of the total K-12 share of the

Proposition 98 Guarantee. The balance of \$8.1 billion in 2022-23 continues to trigger school district reserve caps in 2023-24.

LOCAL CONTROL FUNDING FORMULA (LCFF)

The Budget includes a LCFF cost-of-living adjustment of 8.13 percent, the highest cost-of-living adjustment in recent memory. When combined with growth adjustments, this increase will result in \$4.2 billion in additional discretionary funds for local educational agencies. To fully fund this increase and to maintain the level of current year LCFF apportionments, the Budget provides approximately \$613 million in one-time resources to support the ongoing cost of LCFF in 2022-23 and approximately \$1.4 billion in one-time resources to support the ongoing cost of LCFF in 2023-24.

LOCAL CONTROL FUNDING FORMULA EQUITY MULTIPLIER AND ACCOUNTABILITY IMPROVEMENTS

While California has made significant investments in equitable funding models over the past decade, student outcome data underscore why it is imperative to take further steps to address the needs of all students, and in particular, the demonstrated needs of youth in foster care, homeless students, low-income students, English language learners, students with disabilities, students of color, and student groups with persistent disparities in educational outcomes. For example, while in 2021-22, 47 percent of all students met or exceeded standards in English language arts (ELA) and 33.4 percent met or exceeded standards in mathematics, for African American students only 30.3 percent met or exceeded standards in ELA and 15.9 percent met or exceeded standards in mathematics; and for youth in foster care, only 20.6 percent met or exceeded standards in ELA and 10.3 percent met or exceeded standards in mathematics.

To accelerate learning gains and close opportunity gaps, the Budget includes \$300 million ongoing Proposition 98 General Fund to establish an equity multiplier as an add-on to the LCFF. These funds will be allocated to local educational agencies based on school-site eligibility, using a more targeted methodology than the existing supplemental grant eligibility. The funds are intended to augment resources to support the highest-needs schools in the state, and highlight the importance of equitable allocation of resources by local educational agencies.

In conjunction with the proposed equity multiplier, the Budget proposes a comprehensive package of amendments to the K-12 accountability and continuous

improvement system intended to ensure significant student group or school-level equity gaps within a local educational agency are identified and addressed effectively through the Local Control and Accountability Plan and Differentiated Assistance processes. The proposed amendments draw from formal evaluations, research studies and experience during the first ten years of implementation of these LCFF-based systems, seeking to build on its successful foundation.

EARLY EDUCATION

TRANSITIONAL KINDERGARTEN (TK)

Access to high-quality, evidence-based early education can support and accelerate the learning of young children and provide pre-elementary students with the skills and tools needed to succeed in school. To this end, the 2022 Budget Act provided \$614 million to support the first year of expanded eligibility for transitional kindergarten, which covers the shift from all children turning five-years-old between September 2 and December 2 to all children turning five-years-old between September 2 and February 2. Additionally, the 2022 Budget provided \$383 million to add one additional certificated or classified staff person to every transitional kindergarten class, reducing student-to-adult ratios to more closely align with the California State Preschool Program.

The Budget revises estimates for the first-year investment from \$614 million to approximately \$604 million to expand access to all children turning five-years-old between September 2 and February 2 and revises the first-year investment to add one additional certificated or classified staff person to every transitional kindergarten class from \$383 million to approximately \$337 million. These revisions reflect updated enrollment and attendance data. Building upon these first-year investments, the Budget includes \$690 million to implement the second year of transitional kindergarten expansion, which will increase access to the program to all children turning five-years-old between September 2 and April 2 (approximately 46,000 children) and \$165 million to support the addition of one additional certificated or classified staff person in transitional kindergarten classrooms serving these students. Full implementation of universal transitional kindergarten is expected in 2025-26.

CALIFORNIA STATE PRESCHOOL PROGRAM

The California State Preschool Program provides access to subsidized preschool for the state's income-eligible three- and four-year-olds. As part of the state's Universal Pre-Kindergarten initiative, families of four-year-old children may choose to access one year of high-quality, subsidized preschool through either the State Preschool Program, Head Start, or another state- or federally-subsidized program (if they are income-eligible), or through transitional kindergarten.

The 2022 Budget Act included \$312.7 million Proposition 98 General Fund and \$172.3 million General Fund to increase State Preschool Program adjustment factors for students with disabilities, dual language learners, and childhood mental health and added an adjustment factor for three-year-olds. These increases were coupled with requirements for State Preschool providers to: (1) incrementally ramp up to serving at least 10 percent students with disabilities by July 1, 2024, and (2) provide additional supportive services for dual language learners.

Consistent with the 2022 Budget Act, the Budget includes \$64.5 million Proposition 98 General Fund and \$51.8 million General Fund to continue a multi-year plan to ramp up the inclusivity adjustments for the State Preschool Program. The 2023-24 year will be the second year of the three-year ramp up process, and students with disabilities will be required to make up at least 7.5 percent of State Preschool Program providers' enrollment.

To support reimbursement rate increases previously supported by available one-time federal stimulus funding, the Budget includes \$152.7 million General Fund. These resources are in addition to approximately \$63.3 million General Fund and \$112 million Proposition 98 General Fund to support an 8.13 percent statutory cost-of-living adjustment. The Budget also includes an increase of \$763,000 Proposition 98 General Fund to support the preschool Classroom Assessment Scoring System.

CALIFORNIA PRESCHOOL, TRANSITIONAL KINDERGARTEN AND FULL-DAY KINDERGARTEN FACILITIES GRANT PROGRAM (FDK PROGRAM)

The 2022 Budget Act included \$100 million one-time General Fund and reflected an additional \$550 million in 2023-24 to support the FDK Program. The FDK program supports the construction of new school facilities or retrofitting existing school facilities for the purpose of providing transitional kindergarten, full-day kindergarten, or preschool

classrooms. The Budget delays the 2023-24 planned \$550 million FDK Program investment to 2024-25.

LITERACY

To improve achievement in literacy, California has built a cohesive structure of support for educators and students that reflects a focus on equity, inclusion, and high-quality professional learning in support of evidence-based instruction. Since 2019, this has included significant resources and targeted policy changes to improve student literacy outcomes. Recent investments to improve literacy achievement include:

- \$7.9 billion one-time for the Learning Recovery Emergency Block Grant, which supports, among other things, closing learning gaps through the implementation, expansion, or enhancement of learning supports, such as expanded instructional time, tutoring or other one-on-one or small group learning supports, and learning recovery programs.
- \$1.5 billion one-time for the Educator Effectiveness Block Grant to train classified, certificated, and administrative school staff in high-need topics, including literacy.
- \$250 million one-time for literacy coaches and reading specialists.
- \$50 million one-time for professional development for educators on learning acceleration in mathematics, literacy and language development.
- \$15.2 million General Fund for dyslexia research and screening tool pilot projects through the University of California.
- \$15 million one-time to support 6,000 teachers to receive their supplementary state certification in reading and literacy.
- \$10 million one-time to train educators in evidence-based literacy instruction, literacy interventions, and executive functioning skills.
- \$10 million one-time General Fund to support the University of California (UC) San Francisco Dyslexia Center.
- \$4 million to fund the California Dyslexia Initiative to support the piloting of the UC San Francisco dyslexia screener and provide professional learning to educators to support the instructional needs of students with specific learning disabilities, including dyslexia.

- \$3.5 million for a dyslexia early intervention pilot program operated by UC San Francisco.

Skillful use of proven instructional strategies is the key factor in student academic success. To further strengthen educator practice in core subjects in the highest-need schools (where student needs are acute and teachers are often new to the profession and/or underprepared), the Budget includes an additional \$250 million one-time Proposition 98 General Fund to build upon the existing Literacy Coaches and Reading Specialists Grant Program. This program funds high-poverty schools to train, using evidence-based practices, and hire literacy coaches and reading specialists for one-on-one and small group intervention for struggling readers. This allocation will allow several hundred more schools in high-poverty areas to hire these coaches and specialists and improve the quality of reading instruction for thousands of additional students.

Using the array of available resources, guidance, and supports, school leaders should be able to select and implement effective models of practice that reflect the needs of the school community. Accordingly, the Budget includes \$1 million one-time General Fund to create a Literacy Roadmap to help educators navigate these resources and effectively and efficiently use them in their classrooms.

SPECIAL EDUCATION

It is an Administration priority to address the significant achievement gap for children with disabilities—about one in eight students, with a range of mild to severe disabilities. Children receiving special education services are disproportionately English learners, come from low-income families, and/or are served by the foster care system, compounding equity challenges that have been exacerbated by the COVID-19 Pandemic. Over the last four years, the Administration has worked with the Legislature to augment special education funding by more than \$3.6 billion, including nearly \$2 billion in ongoing Proposition 98 General Fund. Beyond additional budgetary investments, the Administration has supported special education programmatic improvements that: (1) better enable schools to grow their educator workforce, (2) increase budgetary transparency, (3) improve services provided to students and parents, and (4) support inclusive local planning and cohesion between special education and general education. Nevertheless, the state's special education system remains administratively complex and would benefit from continued programmatic reforms.

To further recent reform efforts, the Budget reflects the following programmatic changes:

- Limiting the amount of additional funding that Special Education Local Plan Areas (SELPA) are allowed to retain for non-direct student services before allocating special education base funding to their member local educational agencies.
- Stabilizing current SELPA membership by extending the moratorium on the creation of new single-district SELPAs by two years from June 30, 2024, to June 30, 2026.
- Increasing fiscal transparency by requiring the California Department of Education to post each SELPA's annual local plan, including their governance, budget and services plans, on its website.

EDUCATOR WORKFORCE

Educator shortages across the state undermine efforts to accelerate learning. It is critical that the state maintain and continue to implement recent investments in increasing the number of well-prepared teachers, administrators, and classified staff. To this end, the 2021 and 2022 Budget Acts included several multi-year investments to better prepare, train, recruit, and retain a diverse, expert workforce of administrative, credentialed, and classified staff in California's K-12 schools. These investments have begun to increase the number of fully prepared teachers graduating from California teacher education programs and entering the state educator workforce, and to reduce the number of teachers who are hired on substandard credentials. Specifically, the key multi-year investments reflected in the 2021 and 2022 Budget Acts included:

- \$1.5 billion one-time Proposition 98 General Fund over five years to provide local educational agencies with training resources for classified, certificated, paraprofessional, and administrative school staff in specified high-need topics, including accelerated learning, re-engaging students, restorative practices, and implicit bias training through the Educator Effectiveness Block Grant. Funds were fully apportioned in the 2021-22 school year and are available for expenditure until June 30, 2026.
- \$500 million one-time General Fund over five years for the Golden State Teacher Grant Program to support teacher credential candidates who commit to teach at a priority school, in a high-need subject matter area, for four years. Funds are available for expenditure until the 2025-26 fiscal year.

- \$125 million one-time Proposition 98 General Fund over five years for the Classified School Employee Teacher Credential Program to expand the capacity of the existing program, which funds efforts to recruit and support current classified staff who already hold an associate or higher degree to complete a bachelor's degree and earn a teaching credential. Funds are available for expenditure until the 2025-26 fiscal year.
- A total of \$600 million one-time Proposition 98 General Fund over five years to establish new school counselor residency programs or add them to existing teacher residency programs to support the preparation of teachers and school counselors. Funds are available for expenditure until the 2025-26 fiscal year.
- \$250 million one-time General Fund over five years for the National Board Certification Incentive Program to provide grants to school districts for the purpose of providing incentives to teachers who have attained certification from the National Board for Professional Teaching Standards and agree to teach at a high-priority school for at least five years.
- \$24 million one-time General Fund to waive certain teacher examination fees in the 2023-24 fiscal year.

The Administration remains committed to the thoughtful implementation and administration of these programs in the coming year.

ARTS AND CULTURAL ENRICHMENT

Beginning in 2023-24, the Arts and Music in Schools—Funding Guarantee and Accountability Act (approved by voters in November 2022 as Proposition 28), requires an amount equal to one percent of the Proposition 98 Guarantee to be allocated to schools to increase arts instruction and/or arts programs in public education. As a result, the Budget includes approximately \$941 million to fund Proposition 28. Given this investment and the need for one-time funds to cover the costs of the LCFF in 2022-23 and 2023-24, the Budget reflects a reduction of approximately \$1.2 billion Proposition 98 General Fund from the Arts, Music, and Instructional Materials Discretionary Block Grant included in the 2022 Budget Act, taking this one-time allocation from approximately \$3.5 billion Proposition 98 General Fund to approximately \$2.3 billion Proposition 98 General Fund.

To further increase students' engagement with cultural arts and museums in a way that directly benefits students, cultural arts institutions and museums, the Budget includes

\$100 million one-time Proposition 98 General Fund—or roughly \$200 per 12th grade student enrolled in California public schools—to enable local educational agencies to provide high school seniors with access to cultural enrichment experiences across the state by facilitating museum visits, access to theatrical performances, or other participation in extracurricular art enrichment activities.

OTHER K-12 BUDGET ADJUSTMENTS

Other significant adjustments include:

- **Local Property Tax Adjustments**—A decrease of \$153 million Proposition 98 General Fund for school districts and county offices of education in 2022-23, and a decrease of \$1.3 billion ongoing Proposition 98 General Fund for school districts and county offices of education in 2023-24, as a result of increased offsetting property taxes.
- **Cost-of-Living Adjustments**—An increase of \$669 million ongoing Proposition 98 General Fund to reflect an 8.13 percent cost-of-living adjustment for categorical programs that remain outside of the LCFF, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- **School Facility Program**—A decrease of \$100 million General Fund in planned support for the School Facility Program, taking the planned allocation in 2023-24 from approximately \$2.1 billion to approximately \$2.0 billion.
- **County Offices of Education**—An increase of \$51.7 million ongoing Proposition 98 General Fund to reflect an 8.13 percent cost-of-living adjustment and ADA changes applicable to the LCFF.
- **Charter School Facility Grant Program**—Consistent with the 2022 Budget Act agreement, a one-time investment of \$30 million Proposition 98 General Fund.
- **Commercial Dishwasher Grants**—The Budget proposes to set-aside \$15 million of the \$600 million one-time Proposition 98 General Fund appropriated in the 2022 Budget Act to support school kitchen infrastructure related investments to specifically support a local educational agency's acquisition and installation of a commercial dishwasher.

- **Student Friendly Services**—An increase of \$3.9 million ongoing Proposition 98 General Fund to support the California College Guidance Initiative.
- **K-12 High Speed Network**—An increase of \$3.8 million ongoing Proposition 98 General Fund to support the K-12 High Speed Network program.
- **Reversing Opioid Overdoses**—An increase of \$3.5 million ongoing Proposition 98 General Fund for all middle and high school sites to maintain at least two doses of naloxone hydrochloride or another medication to reverse an opioid overdose on campus for emergency aid.
- **Data Support**—An increase of \$2.5 million non-Proposition 98 General Fund and 15 positions for the California Department of Education to meet state and federal data and accountability reporting requirements, support data exchanges with other agencies, and to quickly respond to emergent needs for data both internally and externally.
- **Fiscal Crisis and Management Assistance Team**—An increase of \$750,000 ongoing Proposition 98 General Fund to support the professional development of local educational agencies' Chief Budget Officers through mentorship programming by the Fiscal Crisis and Management Assistance Team.

HIGHER EDUCATION

The Budget reflects the second year of the multi-year compacts with the University of California (UC) and the California State University (CSU), and a multi-year roadmap with the California Community Colleges (CCC), that focus on shared priorities benefitting students. Despite the state's fiscal condition, the Administration remains committed to the shared goals of increasing access to the UC and CSU, improving student success while advancing equity, increasing the affordability of higher education, increasing intersegmental collaboration, and supporting workforce preparedness and high-demand career pipelines.

The Budget proposes total funding of \$40.3 billion (\$27.3 billion General Fund and local property tax and \$13 billion other funds) for the three higher education segments and the California Student Aid Commission. The figure on Higher Education Expenditures displays additional detail about funding for higher education.

Higher Education Expenditures

(Dollars in Millions)

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

^{1/} These totals include tuition and fee revenues and other funds the universities report as discretionary.

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

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

UNIVERSITY OF CALIFORNIA

The UC offers formal undergraduate and graduate education, is the public segment authorized to independently award doctoral degrees, and is designated as the state's primary academic agency for research. Its ten campuses enroll nearly 290,000 students and the UC extension centers register an additional 500,000 participants in continuing education programs. In 2020-21, the UC awarded more than 84,000 degrees, including roughly 63,000 undergraduate degrees.

The Budget maintains the multi-year compact that includes substantial and sustained funding increases for the UC, in exchange for clear commitments to expand student access, equity, and affordability, and to create pathways to high-demand career opportunities. The UC recently submitted its required annual report describing its plans to advance the goals of the compacts. The Administration will continue to monitor the UC's actions toward meeting the goals.

NOTABLE ONGOING INVESTMENTS FOR THE UC INCLUDE:

- **Base Growth**—An increase of approximately \$215.5 million ongoing General Fund for operating costs, representing a five-percent base increase in ongoing General Fund resources. This will also support one-percent growth in undergraduate enrollment.
- **Resident Undergraduate Enrollment Growth**—Consistent with the 2021-22 Budget and section 68 of Chapter 68 of the Statutes of 2021, an increase of \$30 million ongoing General Fund to offset revenue reductions associated with the replacement of 902 nonresident undergraduate students enrolled at three campuses with an equivalent number of California resident undergraduate students at these campuses in 2023-24. This investment builds on the previous \$31 million ongoing General Fund provided in the 2022 Budget Act that supported a shift of 902 nonresident students for California residents.
- **Graduate Medical Education Backfill**—An increase of \$4 million ongoing General Fund to offset declining Proposition 56 revenue for a statewide grant program and maintain \$40 million in total ongoing for graduate medical residency slots.
- **Medical School Project at UC Riverside**—Consistent with the 2019 Budget, an increase of \$6.5 million ongoing General Fund to support the Medical School Project at UC Riverside. Consistent with the 2019 Budget, the Administration's fiscal plan also includes an additional \$14.5 million ongoing General Fund to support the Medical School Project at UC Merced beginning in 2024-25.

NOTABLE ONE-TIME INVESTMENTS FOR THE UC INCLUDE:

- **Delayed Capital Outlay Support**—The Budget proposal delays support for three projects in the 2022 Budget Act as follows: (1) delay \$200 million (\$100 million in 2022-23 and \$100 million in 2023-24) of the support for the construction of an Institute for Immunology and Immunotherapy at the University of California, Los Angeles (UCLA) to fiscal year 2024-25; (2) delay \$83 million to support the UC Berkeley Clean Energy Campus project currently planned for fiscal year 2023-24 to 2024-25, and (3) delay \$83 million to support campus expansion projects at UC Riverside and UC Merced currently planned for fiscal year 2023-24 to 2024-25.

UNIVERSITY OF CALIFORNIA, LOS ANGELES

- **Transfer Admissions Guarantee**—As a condition of receiving a specified amount of state General Fund through the UC campus allocation model, the Budget proposes requiring UCLA to participate in the UC Transfer Admissions Guarantee Program to further facilitate students' ability to transfer to UCLA.
- **Associate Degree for Transfer**—As a condition of receiving a specified amount of state General Fund through the UC campus allocation model, the Budget proposes requiring UCLA to offer Associate Degree for Transfer program pathways to students seeking to transfer from a California Community College to UCLA.

CALIFORNIA STATE UNIVERSITY

The CSU provides undergraduate and graduate instruction generally up to the master's degree. Its 23 campuses enroll more than 468,000 students. In 2021-22, the CSU awarded more than 132,000 degrees. The CSU also provides opportunities for residents to enroll in professional and continuing education programs. The CSU strives to further fulfill its mission through the Graduation Initiative 2025, which aims to increase four-year graduation rates, increase two-year transfer graduation rates, and eliminate equity gaps. The CSU is an important institution for providing four-year education in some of the most underserved regions of the state, including the Far North, the Central Valley, and the Inland Empire.

The Budget maintains the multi-year compact reflecting substantial and sustained funding increases for the CSU, in exchange for clear commitments to expand student access, equity, and affordability, and to create pathways to high-demand career opportunities. The CSU recently submitted its required annual report providing baseline data to inform future goal-setting efforts and progress reports toward meeting the goals of the compacts.

NOTABLE ONGOING INVESTMENTS FOR THE CSU INCLUDE:

- **Base Growth**—An increase of \$227.3 million ongoing General Fund to support a 5-percent base increase as part of the second year of the multi-year compact agreement for CSU's continuing commitment towards student access, equity, and affordability, and creating pathways to high-demand career pathways.

- **Shift in Capital Support Funding**—The Budget proposes shifting \$404.8 million appropriated for the upfront support of various capital projects on CSU campuses to being supported by CSU-issued bonds. The Budget includes \$27 million ongoing General Fund to support the underlying debt service on those bonds.

CALIFORNIA COMMUNITY COLLEGES

The CCCs are the largest system of higher education in the country, serving roughly one out of every four of the nation's community college students, or approximately 1.8 million students. The CCCs provide basic skills, vocational, and undergraduate transfer education with 73 districts, 116 campuses, and 78 educational centers. In 2021-22, the CCCs awarded over 110,000 certificates and 198,000 degrees and transferred over 107,000 students to four-year institutions.

The Budget reflects a continued focus on the CCC multi-year roadmap, which focuses on equity, student success, and enhancing the system's ability to prepare students for California's future.

MONITORING COMMUNITY COLLEGE ENROLLMENT

Enrollment at the CCCs has dropped by over 16 percent in headcount enrollment since the beginning of the COVID-19 Pandemic, mirroring a national trend of declining enrollment for higher education institutions, which has been particularly acute for the nation's community colleges. Local community colleges must continue outreach, recruitment, reengagement, and retention efforts. To address recent enrollment declines, the Budget includes an additional \$200 million one-time Proposition 98 General Fund to continue to support community college efforts and focused strategies to increase student retention rates and enrollment.

In addition to responding to enrollment declines in recent years, the Administration has provided significant financial support to the community colleges, including for student financial aid and basic needs, as well as for community college operations. This includes providing a funding floor for the Student-Centered Funding Formula's hold harmless provision beginning in fiscal year 2025-26. To this end, the Administration will be monitoring district-level enrollment trends as we move past the COVID-19 Pandemic. It is imperative that districts begin to regain some of the enrollment lost during the COVID-19 pandemic. As such, the Administration will work with stakeholders to consider

options to adjust district budgets should a district not display that they are regaining enrollment lost during the COVID-19 Pandemic entering the 2024-25 academic year.

PROVIDING FLEXIBILITY FOR DISTRICTS MEETING CCC ROADMAP GOALS

To support a continued focus toward the goals of the multi-year roadmap, the Administration intends to introduce a mechanism as part of the May Revision to provide community college districts that are making progress toward the CCC roadmap goals with additional categorical program spending flexibilities and the ability to consolidate reporting requirements across specified and to be determined categorical programs, provided the goals of the categorical programs and overall progress toward the roadmap goals continue to be met. Under the proposal, districts making progress would have the opportunity to submit a streamlined report for the specified programs, as well as spend funds more flexibly across the programs.

PROVIDING SERVICE-LEARNING OPPORTUNITIES THROUGH DUAL ENROLLMENT

In furtherance of the CCC roadmap and compacts with the UC and CSU, the Administration requests community colleges establish dual enrollment agreements with all applicable local educational agencies within their community college districts' service area, if they have not done so already. Further, the Administration requests that all community colleges develop and offer a one-unit service-learning course that all high school students would have the ability to access through dual enrollment opportunities. These service-learning opportunities would serve to encourage and enable high school students to volunteer in their local communities and to participate in civic engagement.

NOTABLE INVESTMENTS AND ADJUSTMENTS FOR THE CCCs INCLUDE:

- **CCC Apportionments**—An increase of \$652.6 million ongoing Proposition 98 General Fund to provide an 8.13-percent cost-of-living adjustment (COLA) for Student Centered Funding Formula apportionments and \$28.8 million ongoing Proposition 98 General Fund for 0.5-percent enrollment growth.
- **CCC Categorical Program COLA**—An increase of \$92.5 million ongoing Proposition 98 General Fund to provide an 8.13-percent COLA for select categorical programs and the Adult Education Program.

- **Student Enrollment and Retention**—An increase of \$200 million one-time Proposition 98 General Fund to continue to support community college efforts and focused strategies to increase student retention rates and enrollment, building on an investment of \$150 million one-time Proposition 98 General Fund and \$120 million one-time Proposition 98 General Fund for student enrollment and retention in the 2022 and 2021 Budget Acts, respectively.
- **Workforce Training Grants**—An increase of \$14 million one-time Proposition 98 General Fund to support the administration of workforce training grants in collaboration with the California Department of Forestry and Fire Protection.
- **Chief Business Officer Mentorship Program**—An increase of \$275,000 Proposition 98 General Fund, of which \$200,000 is ongoing, to develop a community college chief business officer professional learning program run through the Fiscal Crisis and Management Assistance Team to improve community college district leadership capacity and fiscal accountability.
- **Deferred Maintenance**—A decrease of approximately \$213 million one-time Proposition 98 General Fund for deferred maintenance needs.

STUDENT HOUSING

The 2021 Budget Act established the Higher Education Student Housing Grant Program to provide grants for the CCCs, CSU, and UC to construct student housing or to acquire and renovate commercial properties into student housing for low-income students. In addition to \$2 billion one-time General Fund set-aside by the 2021 Budget (\$500 million in 2021-22, \$750 million in 2022-23, and \$750 million in 2023-24), the 2022 Budget Act provided \$200 million one-time General Fund for this program, bringing the total allotment to \$2.2 billion for student housing grants over the three-year period. The Budget proposes delaying \$250 million of the anticipated 2023-24 support for affordable student housing projects to the 2024-25 fiscal year.

The 2022 Budget Act also included intent language to provide \$1.8 billion one-time General Fund over a two-year period in 2023-24 and 2024-25, to establish a student housing revolving loan program for the UC, the CSU, and the CCCs. The Budget proposes delaying \$900 million planned in 2023-24 to the 2025-26 fiscal year and delaying \$250 million from the 2024-25 fiscal year to the 2025-26 fiscal year. This delay would result in \$650 million in 2024-25 and \$1.15 billion in 2025-26 being available for the program.

CALIFORNIA STUDENT AID COMMISSION

Administered by the California Student Aid Commission, the state's primary financial aid program is the Cal Grant Program. This entitlement program provides financial aid awards to students who meet specified eligibility criteria, and who attend one of the state's qualifying public institutions or independent and private institutions. Students who are ineligible for the Cal Grant entitlement program can compete for financial aid awards available through the Cal Grant competitive program.

The Budget assumes total financial aid expenditures of \$3.3 billion, of which \$2.3 billion supports the Cal Grant Program, and \$859 million supports the Middle Class Scholarship program. In 2021-22, approximately 174,000 students received new Cal Grant awards, and approximately 221,000 students received renewal awards. Funding provided to students through the Middle Class Scholarship Program and through programs that support the construction of affordable student housing are intended to help facilitate students' access toward a debt free college pathway.

The state's Cal Grant entitlement program is estimated to provide over 377,000 financial aid awards to students who meet specified eligibility criteria in 2023-24. Students who demonstrate financial need, but do not meet all of the criteria for entitlement awards, may qualify for one of 13,000 proposed competitive Cal Grant awards. The majority of these awards provide a stipend to cover some living expenses, such as housing, food, and transportation.

CAL GRANT REFORM

The Administration remains attentive to the 2022 Budget Act's provisions regarding the fiscal conditions upon which the Cal Grant Reform Act may be implemented and will continue to work closely with the Legislature, the Commission, and others as that time draws closer. The Cal Grant Reform Act would make significant changes to the state's largest financial aid program, replacing the existing Cal Grant program with a new version of the program that provides a Cal Grant 2 for eligible CCC students with financial need, and provides a Cal Grant 4 for eligible four-year university students with financial need.

DETAILED BUDGET INVESTMENTS

- **Middle Class Scholarship**—Pursuant to the 2022 Budget, 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.
- **Cybersecurity**—An increase of \$1.4 million one-time General Fund, \$469,000 of which is ongoing, to assess the California Student Aid Commission's current information technology system, address cybersecurity issues, and support 2 positions.
- **Financial Aid Programs**—A increase of \$241,000 ongoing for 1 position at the Commission to support human resources and to distribute toolkits to high schools to help students complete their financial aid applications.
- **Golden State Education and Training Grant Program Expenditure Shift**—The Budget proposal assumes, consistent with estimated program expenditures, that \$100 million General Fund provided for this program that was previously assumed to be spent in 2021-22 will be spent in 2024-25 and that \$200 million, \$100 million, and \$100 million would be expended in fiscal years 2024-25, 2025-26, and 2026-27, respectively.

SCHOLARSHARE INVESTMENT BOARD

The ScholarShare Investment Board administers the Golden State ScholarShare College Savings Trust Program (ScholarShare 529), the California Memorial Scholarship Program (CMS), and the California Kids Investment and Development Savings Program (CalKIDS).

CHILD SAVINGS ACCOUNTS

CalKIDS funds college savings accounts targeted to low-income and underrepresented public-school students, in addition to establishing college savings accounts for all newborns. The Budget utilizes available resources within the CalKIDS program, created by reduced cost estimates in the program, to increase incentive payments to parents choosing to open accounts for their newborn child from \$25 to \$100.

DETAILED BUDGET INVESTMENTS

- **CalKIDS Program Marketing**—An increase of \$1 million one-time General Fund to support marketing efforts to increase participation in the CalKIDS child savings accounts program, which seeks to help more California students afford higher education.

COLLEGE OF THE LAW, SAN FRANCISCO

College of the Law, San Francisco is affiliated with the UC system, but is governed by its own Board of Directors. Located in San Francisco, it primarily serves students seeking a Juris Doctor degree, but also offers programs leading to Master of Laws; Master of Studies in Law; and Master of Science, Health Policy and Law degrees. In 2021-22, UC College of the Law, San Francisco enrolled 1,101 full-time equivalent students. Of these, 1,065 were Juris Doctor students.

DETAILED BUDGET INVESTMENTS

- **Base Growth**—An increase of \$2.2 million ongoing General Fund to support operating costs. This represents a 3-percent increase base augmentation.
- **Safety Program, Urban Alchemy**—An increase of \$3 million, available over three years, to continue supporting a campus safety program that employs formerly incarcerated individuals and/or those who have experienced homelessness.

CALIFORNIA STATE LIBRARY

The California State Library serves as the central reference and research library for the Governor and the Legislature. The Library collects, preserves, generates, and disseminates information, and provides critical assistance to libraries across the state. The Library administers programs funded by state and federal funds to support local and public library programs.

DETAILED BUDGET INVESTMENTS

- **Support for Local Library Infrastructure**—The 2021 Budget Act provided \$439 million one-time General Fund to support local library infrastructure projects. The 2022 Budget Act provided an additional \$50 million and assumed an additional

\$100 million in 2023-24 to support local library infrastructure projects. The Budget proposes delaying the \$100 million to the 2024-25 (\$33 million), 2025-26 (\$33 million), and 2026-27 (\$34 million) fiscal years.

- **Support for Law Library**—An increase of \$462,000 ongoing General Fund to support and expand the Witkin State Law Library and its personnel.
- **California History Room**—An increase of \$597,000 General Fund, \$357,000 of which is ongoing, to expand the California History Room Special Collections and provide personnel support.
- **Internal Audit**—An increase of \$168,000 ongoing General Fund to support a State Library Audit Program.

This page intentionally blank to facilitate double-sided printing.

CLIMATE CHANGE

California is on the frontline of the global climate crisis with record-breaking heat, historic drought, extreme flooding, and devastating wildfires impacting communities across the state. In 2022, California enacted world-leading, aggressive measures to cut carbon pollution, accelerate the state's efforts on clean energy and clean transportation, and protect Californians from harmful oil drilling.

The 2022 Budget Act delivered a climate and opportunity agenda to fully integrate climate solutions with equity and economic opportunity. With critical investments in health, education and jobs, the state's climate agenda is simultaneously confronting the crisis while building a more resilient, just, and equitable future for all Californians.

The 2021 and 2022 Budget Acts allocated approximately \$54 billion over five years to advance the state's climate agenda. The Budget maintains approximately \$48 billion (89 percent) of these investments and continues to prioritize equity and investments in priority populations, which face disproportionate harm from pollution and the climate crisis. Given the projected decline in General Fund revenues, the Budget includes reductions across several climate programs, which are partially offset by shifts to other fund sources. If there is sufficient General Fund in January 2024, most of these reductions will be restored. See the Introduction Chapter for further information on this trigger.

Further, the Administration will continue to pursue available federal funding, including the Inflation Reduction Act (IRA) and the Infrastructure Investment and Jobs Act (IIJA), to offset the decrease of state funds for these climate-related programs. The

Administration will also engage the Legislature to explore a bond. The Budget includes additional resources to continue to advance the climate and opportunity agenda.

CLIMATE PILLAR LEGISLATION IMPLEMENTATION

In 2022, California enacted landmark climate legislation to advance the Administration's climate goals of cutting pollution, advancing carbon neutrality, protecting Californians from polluters, developing a carbon removal target date for natural and working lands, and accelerating the state's transition to clean energy. The Administration has begun these initiatives and the Budget includes resources to continue implementation.

- **Protecting Communities from Impacts of Oil Drilling**—Chapter 365, Statutes of 2022 (SB 1137) protects communities and the environment from the harmful impacts of oil and gas production by establishing a setback distance of 3,200 feet between any new oil wells and homes, schools, parks or businesses open to the public and provides comprehensive pollution controls for existing oil wells within 3,200 feet of these facilities. The Budget includes \$14.6 million Oil, Gas, and Geothermal Administrative Fund in 2023-24, \$20 million in 2024-25 and \$19.6 million ongoing across several departments to implement this legislation.
- **Nature-Based Solutions**—Chapter 341, Statutes of 2022 (AB 1757) outlined a comprehensive portfolio of new initiatives that include setting targets, quantifying and reporting progress, updating the state strategy, and engaging with experts, to develop an ambitious range of carbon removal targets for natural and working lands. The Budget includes \$7.6 million General Fund and Cost of Implementation Account in 2023-24 and \$5 million ongoing to support implementation.
- **Clean Electric Grid**—Chapter 361, Statutes of 2022 (SB 1020) advances new interim clean energy targets for California while increasing community engagement. The bill requires eligible renewable energy resources and zero-carbon resources supply 90 percent of all retail sales of electricity to California end-use customers by December 31, 2035; 95 percent of all retail sales of electricity to California end-use customers by December 31, 2040; and 100 percent of electricity procured to serve all state agencies by December 31, 2035. SB 1020 accelerates Chapter 312, Statutes of 2018 (SB 100) requirements for state agencies by ten years. The Budget includes \$4 million from various funds (General Fund, Cost of Implementation Account, Greenhouse Gas Reduction Fund, and Public Utilities Commission Utilities

Reimbursement Account) in 2023-24, and additional ongoing funds, across multiple agencies to support implementation.

The Administration is continuing to assess the implementation needs of Chapter 359, Statutes of 2022 (SB 905), which establishes a regulatory framework for carbon removal and carbon capture, utilization, and sequestration, and bans the practice of injecting carbon dioxide for the purpose of enhanced oil recovery and intends to submit a proposal in the Spring. The Administration also continues to evaluate the implementation needs of Chapter, 337 Statutes of 2022 (AB 1279), which codifies the statewide carbon neutrality goal to dramatically reduce climate pollution.

KLAMATH DAMS REMOVAL: LARGEST RIVER RESTORATION PROJECT IN AMERICAN HISTORY

This spring, work begins to remove dams, improve river health, address declines in fish populations and support communities in the Klamath Basin. Removal of the four hydroelectric dams in California and Oregon will restore access to hundreds of miles of habitat unreachable for salmon and steelhead for more than a century and revitalize tribal communities and lifeways for generations to come.

The Klamath Hydroelectric Settlement Agreement, signed by both Oregon and California governors in 2010 and amended in 2016, contemplated dam removal to achieve free-flowing conditions for fish passage, restoration, and transfer of project lands for recreation, restoration, and further Tribal partnerships. In November 2022, the Federal Energy Commission gave final approval for a plan to remove the dams in California and Oregon.

The Budget includes \$2 million General Fund in 2023-24 and \$1.3 million ongoing and five permanent positions for the Department of Fish and Wildlife to establish two new programs to support the protection and management of fish and wildlife, recreational opportunities, and collaborative Tribal partnerships before, during, and after dam removal.

CLIMATE INVESTMENTS

TRANSPORTATION AND CLIMATE

Responsible for more than half of the state's climate emissions, the transportation sector generates air pollution, with a disproportionate impact to low-income and underrepresented communities. Climate investments in this area will deliver opportunities for affected communities, accelerating job-creating clean technologies, advancing environmental justice, and reducing emissions from the transportation system.

ZERO-EMISSION VEHICLES (ZEV) ACCELERATION

With nearly half of the nation's ZEVs and clear mandates for moving to clean trucks and buses, California is leading the world towards a zero-emission transportation future. The 2021 and 2022 Budget Acts committed \$10 billion over five years in investments to the state's ZEV agenda—ranging from cleaning up drayage trucks and school buses to accelerating equitable electrification of passenger vehicles—coupled with infrastructure and incentives for in-state manufacturing.

The Budget maintains \$8.9 billion (89 percent) of ZEV investments with a focus on communities that are the most affected. This includes targeted investments in disadvantaged and low-income communities by increasing access to the benefits of clean transportation and by continuing to decarbonize California's transportation sector and improve public health.

The Budget includes \$2.5 billion of General Fund reductions across various ZEV programs, which are partially offset by approximately \$1.4 billion in fund shifts to Cap and Trade funds. Further, the Administration will pursue additional federal funding to help offset the decrease in state funds. For example, the federal IRA includes \$100 billion to states for clean energy and climate investments. The Administration will continue to aggressively pursue this federal funding. The Budget also includes a mechanism to allocate any additional discretionary Cap and Trade auction proceeds towards ZEV programs. Additionally, the Administration will work with the Legislature to reauthorize Chapter 401, Statutes of 2013 (AB 8) to provide continued funding for clean transportation programs.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Equitable Zero-Emission Vehicles and Infrastructure**—A reduction of \$745 million General Fund, which is partially offset by a shift of \$535 million to the Greenhouse Gas Reduction Fund. This maintains approximately \$2.1 billion (91 percent) for programs that expand affordable and convenient ZEV infrastructure access in low-income neighborhoods.
- **Heavy-Duty Zero-Emission Vehicles and Supporting Infrastructure**—A reduction of \$1.5 billion General Fund, which is partially offset by a shift of \$839 million to the Greenhouse Gas Reduction Fund. This maintains approximately \$5.3 billion (89 percent) for programs that support drayage, transit and school busses, and port ZEVs and infrastructure.
- **Zero-Emission Mobility**—A reduction of \$184 million General Fund, which is partially offset by a shift of \$25 million to the Greenhouse Gas Reduction Fund. This maintains approximately \$180 million (53 percent) for sustainable community-based transportation equity projects that increase access to zero-emission mobility in low-income communities.
- **Emerging Opportunities and Federal Programs**—A reduction of \$133 million General Fund, which is partially offset by a shift of \$40 million to the Greenhouse Gas Reduction Fund. This maintains approximately \$1.3 billion (93 percent) to invest in demonstration and pilot projects in high carbon-emitting sectors, such as maritime, aviation, rail, and other off-road applications, as well as support for hydrogen infrastructure, and vehicle grid integration at scale.

TRANSPORTATION

The Budget demonstrates a continued commitment to address transportation-related climate issues. As the largest contributor of California's greenhouse gas emissions, the transportation sector must align project delivery with climate change solutions. The state must continue to move toward a multi-modal, zero-emission transportation future to reduce carbon emissions and improve health benefits, while supporting safety, equity, and economic growth.

Through the implementation of the Climate Action Plan for Transportation Infrastructure (CAPTI), California is making significant progress toward these goals, prioritizing state and federal funding for sustainable transportation projects, and

leveraging billions of dollars for transportation infrastructure to reduce greenhouse gas emissions.

More specifically, state investments are:

- Reducing millions of metric tons of carbon dioxide from the environment.
- Advancing projects statewide to improve rail and transit connectivity between state and local/regional services—including advancement of the nation’s first truly high-speed rail project.
- Enhancing safety and access for bicyclists and pedestrians, and targeting critical highway/rail grade separations and grade crossing improvements on key corridors throughout the state to reduce fatalities and injuries on the transportation system.
- Supporting climate resiliency and reducing risks from climate impacts.
- Removing historic barriers and connecting disadvantaged communities, increasing access to opportunity.
- Delivering transportation projects that support the development of compact or infill housing to help California meet its housing goals and reducing vehicle miles traveled.
- Moving the state away from fossil fuel-based technologies and toward cleaner transportation technologies, including zero-emission vehicles and clean infrastructure.

The 2022 Budget Act included \$13.8 billion for transportation programs and projects that align with the state's climate goals. Given the projected decline in General Fund revenues, the Budget includes \$2.7 billion in General Fund reductions, partially mitigated by an additional \$500 million from state transportation funds, to maintain \$11.6 billion (84 percent) of these investments. This considerable level of investment will position the state to continue pursuing significant federal funding through the IIJA and other federal programs by leveraging funding from both state and local sources. To date, California has secured \$38 billion in IIJA formula funding for highway and transit programs and could receive billions more in additional competitive federal transportation grants over the five years of IIJA implementation.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Transit Intercity Rail Capital Program**—A reduction of planned funding in 2023 and 2024 from \$2 billion each year to \$1 billion in 2023-24 and \$500 million in each of 2024-25 and 2025-26. These funds are set to be allocated proportionally, by region, based on population. This maintains approximately \$5.7 billion (74 percent) of the original \$7.7 billion planned additional funds for local transit capital infrastructure projects. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.
- **Active Transportation Program**—A reduction of \$500 million General Fund, with \$300 million of the reduction being restored from State Highway Account funds, for a net reduction of \$200 million. This will allow the program to sustain all of the programming capacity approved in the 2023 programming cycle. This maintains approximately \$850 million (81 percent) of the original \$1.05 billion of additional funds for projects that increase the proportion of trips accomplished by walking or biking and increase the safety and mobility of non-motorized users.
- **Climate Adaptation Program**—A shift of \$200 million General Fund with \$200 million State Highway Account funding, leaving unaffected the project funding that supports climate resiliency and reduces infrastructure risk.
- **Safety Grade Separations**—A delay of \$350 million of funding originally planned to be available in 2023-24, which will instead be made available in 2025-26. Given the multi-year nature of these types of projects, this shift should not significantly impact the ability to deliver the same number of originally planned projects that improve safety for people walking, biking, and driving at rail crossings.

ENERGY

California is building the clean, reliable, affordable and safe energy system of the future to provide reliable power to the public, and combat climate change and the stresses it poses to the grid. The 2022 Budget Act provided a total of \$7.9 billion in energy budget investments and legislative actions to expedite the state's transition to clean energy and funded important reliability programs that provided critical support to the grid during a record-breaking September 2022 heat event. In addition, Chapter 239, Statutes of 2022 (SB 846) proposed \$1 billion over three years beginning in 2023-24 for a Clean Energy Reliability Investment Plan, subject to later appropriation.

The Budget maintains \$7 billion (89 percent) of last year's investments, and proposes an initial allocation of the \$100 million in 2023-24 from SB 846 Clean Energy Reliability Investment Plan funds for reliability and enabling investments that will accelerate the clean energy transition.

Now and in the future, the state will continue to prioritize affordability, reliability and safety as the state encourages efforts to decarbonize the grid and scale deployment of clean energy generation and storage. The state stepped up support for these energy priorities with the financial assistance and investments in 2022, using General Fund to support reliability, development and deployment of critical technologies. The Administration continues to evaluate actions while considering ratepayer impacts and has tasked the state's energy agencies with focusing both General Fund and ratepayer dollars on the most critical investments to achieve the state's energy and climate goals.

SIGNIFICANT BUDGET ADJUSTMENTS

The 2023-24 Governor's Budget proposes \$897 million General Fund in reductions and \$370 million General Fund in delays to future years. If there is sufficient General Fund in January 2024, up to \$410 million of these reductions will be restored. See the Introduction Chapter for further information on this trigger.

- **California Arrearage Payment Program**—The Budget reverts \$400 million in California Emergency Relief Funds in 2022-23 to the General Fund, for savings from the California Arrearage Payment Program, based on actual applications received and approved for funding. This program addressed residential utility arrearages accrued during the COVID-19 Pandemic.
- **Residential Solar and Storage**—A reduction of \$270 million in 2023-24 from the Residential Solar and Storage program at the Public Utilities Commission. This maintains approximately \$630 million (70 percent) for solar and storage incentives for low-income utility customers.
- **Long Duration Energy Storage**—A reduction of \$50 million in 2023-24 from the Long Duration Energy Storage Program at the California Energy Commission (CEC). This maintains approximately \$330 million (87 percent) for support of long duration energy storage projects that will help with the state's energy transition.
- **Carbon Removal**—A reduction of \$25 million in 2023-24 from the Carbon Removal Program at the CEC. This maintains approximately \$75 million (75 percent) for projects that support the removal of carbon.

- **Transmission Financing**—A reduction of \$25 million in 2023-24 from the Transmission Financing Program at the California Infrastructure Bank. This maintains approximately \$225 million (90 percent) for financing support of new energy transmission projects.
- **Accelerating Adoption of Low Global Warming Pollutant Refrigerants**—A reduction of \$20 million in 2023-24 from the Air Resources Board Equitable Building Decarbonization program to Accelerate Adoption of Low Global Warming Pollutant Refrigerants. This maintains approximately \$20 million (50 percent) for support of businesses adopting technologies with low global warming pollutant refrigerants.
- **Food Production Investment Program**—A reduction of \$10 million in 2023-24 from the Food Production Investment Program at the CEC. This maintains approximately \$65 million (87 percent) for support of projects that help with the decarbonization of the food production process.
- **Industrial Grid Support and Decarbonization**—A reduction of \$10 million in 2022-23 from the Industrial Grid Support and Decarbonization at the CEC. This maintains approximately \$90 million (90 percent) for projects that support decarbonization of the industrial sector and provide grid support.
- **Equitable Building Decarbonization**—A delay of \$370 million of funds in the current year and the budget year to future years for the Equitable Building Decarbonization Program at the CEC. In addition, a reduction of \$87 million is planned for 2025-26 for this program. This maintains approximately \$835 million (91 percent) for support of projects reducing greenhouse gas emissions in homes and advancing energy equity.

OTHER ENERGY-RELATED BUDGET ADJUSTMENTS

- **Climate Innovation Program**—A delay of \$150 million of funds in the current year and the budget year to 2026-27 for the Climate Innovation Program at the CEC.

WILDFIRE AND FOREST RESILIENCE

The ongoing impact of climate change on California's wildlands continues to drive critically dry fuel conditions and longer, more severe fire seasons. The 2021 and 2022 Budget Acts committed \$2.8 billion over four years to continue strengthening forest and wildfire resilience statewide.

The Budget maintains \$2.7 billion (97 percent) of funding to advance critical investments in forest health and fire prevention to continue to reduce the risk of catastrophic wildfires, as well as resources for fire protection in the state's wildfire response. The Budget includes \$91 million in General Fund reductions across various programs, which are partially offset by a \$14 million shift to Proposition 98. If there is sufficient General Fund in January 2024, reductions not otherwise offset by other funds will be restored. See the Introduction Chapter for further information on this trigger.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Climate Catalyst Fund**—A reduction of \$10 million General Fund in 2020-21 and \$31 million in 2021-22. This maintains approximately \$8 million (16 percent) to support the Climate Catalyst Fund.
- **Stewardship of State-Owned Lands**—A reduction of \$10 million General Fund in 2022-23 and \$15 million in 2023-24. This maintains approximately \$280 million (92 percent) for resilient forests and landscapes on state-owned lands.
- **Defensible Space Inspections**—A reduction of \$5 million General Fund in 2023-24. This maintains approximately \$20 million (80 percent) to support defensible space inspections.
- **Monitoring and Research**—A reduction of \$5 million General Fund in 2023-24. This maintains approximately \$33 million (87 percent) to support monitoring and research.
- **Workforce Training**—A reduction of \$15 million General Fund in 2023-24, which is partially offset by a shift of \$14 million to Proposition 98 for similar purposes. This maintains approximately \$53 million (98 percent) to support workforce training.

DROUGHT RESPONSE AND WATER RESILIENCE

California is experiencing large swings between drought and flood, and due to climate change, those swings are becoming more severe. Last year, water project operators made only minimal deliveries to farms and cities, and wildlife managers took extraordinary action to protect fish and wildlife.

The three-year period from 2020 to 2022 is now the driest on record going back to 1896. The recent winter storms have provided the best start to California's snowpack in over a decade. However, as seen last winter, a wet December led to above average snowfall but was followed by the driest January, February, and March on record.

In August 2022, Governor Newsom announced "California's Water Supply Strategy, Adapting to a Hotter, Drier Future," which lays out California's strategy and priority actions to adapt and protect water supplies in an era of rising temperatures. It calls for investing in new sources of water supply, accelerating projects, and modernizing how the state manages water through new technology. As California continues to experience weather swings that deliver temporary boosts to the snowpack, there is intensifying flood risk, even during drought. The new normal extreme weather patterns place a heightened importance on flood preparedness and response.

The 2021 and 2022 Budget Acts committed \$8.7 billion over multiple years to support drought resilience and response designed to help communities and fish and wildlife avoid immediate negative impacts as a result of extreme drought, while continuing to advance projects and programs that prepare the state to be more resilient to future droughts and floods.

The Budget maintains \$8.6 billion (98 percent) of previously committed funding to minimize the immediate economic and environmental damage from the current drought and support hundreds of local water projects to prepare for and be more resilient to future droughts. The Budget includes \$194 million in General Fund reductions across various programs. If there is sufficient General Fund in January 2024, reductions not otherwise delayed will be restored. See the Introduction Chapter for further information on this trigger.

In addition, the Budget also includes new strategic investments to continue supporting the state's drought response, accelerate implementation of the state's water supply strategy, and increase flood preparedness and response.

SIGNIFICANT BUDGET ADJUSTMENTS

NEW INVESTMENTS

- **Urban Flood Risk Reduction**—\$135.5 million General Fund over two years to support local agencies working to reduce urban flood risk.
- **Delta Levees**—\$40.6 million General Fund for ongoing Delta projects that reduce risk of levee failure and flooding, provide habitat benefits, and reduce the risk of saltwater intrusion contaminating water supplies.
- **Central Valley Flood Protection**—\$25 million General Fund to support projects that will reduce the risk of flooding for Central Valley communities while contributing to ecosystem restoration and agricultural sustainability.

- **2023 Drought Contingency**—\$125 million General Fund one-time as a drought contingency set-aside to be allocated as part of the spring budget process, when additional water data will be available to inform future drought needs.
- **Planning and Permitting for New Water Supplies**—\$4.7 million Waste Discharge Permit Fund in 2023-24, and \$5.7 million Waste Discharge Permit Fund and \$408,000 Safe Drinking Water Account ongoing to support planning and permitting for projects that produce new water supplies.
- **Modernizing Water Rights**—\$31.5 million General Fund one-time in 2023-24 to continue development of the Updating Water Rights Data for California Project to enhance California's water management capabilities.
- **Urban Water Use Objectives**—\$7 million General Fund over four years to implement Chapter 679, Statutes of 2022, (SB 1157), which established a new foundation for long-term improvements in water conservation and drought planning to adapt to climate change and the resulting longer and more intense droughts. This approach is based on water use efficiency standards for certain categories of water use, including indoor residential water use.
- **San Joaquin River Basin Groundwater Recharge: Water Availability Analysis and Technical Assistance**—\$4.9 million General Fund over five years to continue to provide local water districts methodologies and tools to conduct water availability analyses, which will help facilitate groundwater recharge, one of the core pillars of the Water Supply Strategy.
- **Stream Gages**—\$4.7 million General Fund over two years to begin reactivation of historical stream gages, consistent with the SB 19 Stream Gaging Prioritization Plan and as called for in the Water Supply Strategy.

ADDRESSING THE BUDGET PROBLEM

- **Watershed Resilience Programs**—A reduction of \$24 million General Fund in 2023-24 and a delay of an additional \$270 million General Fund to 2024-25. This maintains approximately \$470 million (95 percent) across various watershed resilience programs.
- **Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS) Cleanup**—A reduction of \$70 million General Fund in 2023-24 and a delay of an additional \$30 million General Fund to 2024-25. This maintains approximately \$130 million (65 percent) of PFAS cleanup resources.

- **Water Recycling**—A reduction of \$40 million General Fund in 2023-24. This maintains approximately \$760 million (95 percent) to support water recycling and groundwater clean-up.
- **State Water Efficiency and Enhancement Program**—A reduction of \$40 million General Fund in 2022-23. This maintains approximately \$120 million (75 percent) to support farm water use efficiency projects.
- **Aqueduct Solar Panels**—A reduction of \$15 million General Fund in 2021-22. This maintains approximately \$20 million (57 percent) to support aqueduct solar panel pilot studies.
- **Water Refilling Stations at Schools**—A reduction of \$5 million General Fund in 2022-23, which eliminates funding for this purpose.

EXTREME HEAT AND COMMUNITY RESILIENCE

Communities are at the center of California's climate agenda. The 2021 and 2022 Budget Acts committed \$649 million for extreme heat and \$1.9 billion for community resilience investments over multiple years to advance climate resilience in low-income and underrepresented communities. These include programs that align economic resilience with the state's climate agenda, advance environmental justice, and empower regional, tribal and local communities. These investments are particularly significant in the area of extreme heat, which poses disproportionate consequences for the most vulnerable populations, including tribal nations, low-income neighborhoods, communities of color, and older and disabled adults.

The Budget maintains \$444 million (68 percent) of extreme heat funding and \$1.6 billion (85 percent) of community resilience funding over several years to reduce urgent risks and build long-term climate resilience, including to address the impacts of extreme heat across California. The Budget includes \$735 million of General Fund reductions across various programs, which are partially offset by a \$250 million fund shift to Cap and Trade funds. If there is sufficient General Fund in January 2024, reductions not otherwise delayed will be restored. See the Introduction Chapter for further information on this trigger.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Urban Greening Program**—A reduction of \$100 million General Fund in 2023-24. This maintains approximately \$150 million (60 percent) for this program.

- **Extreme Heat and Community Resilience Program**—A reduction of \$25 million General Fund in 2022-23 and \$50 million in 2023-24. This maintains approximately \$100 million (57 percent) for this program.
- **Urban Forestry Program**—A reduction of \$20 million General Fund in 2022-23 and \$10 million in 2023-24. This maintains approximately \$80 million (73 percent) for this program.
- **Community Resilience Centers**—A delay of \$85 million General Fund to 2024-25. This program remains fully funded, but the funds would be provided later than initially allocated.
- **Regional Climate Resilience**—A reduction of \$25 million General Fund in 2022-23 and \$100 million in 2023-24. This maintains approximately \$125 million (50 percent) for this program.
- **Transformative Climate Communities Program**—A reduction of \$65 million General Fund in 2022-23 and \$40 million in 2023-24. This maintains approximately \$315 million (75 percent) for this program.
- **Community Air Protection Program**—A reduction of \$50 million in 2023-24 for this program, which includes a shift of \$250 million to the Greenhouse Gas Reduction Fund. This maintains approximately \$560 million (92 percent) for this program.

NATURE-BASED SOLUTIONS AND COASTAL RESILIENCE

California's natural and working lands are essential to combating the climate crisis and protecting the state's world-renowned biodiversity. In 2022, over 190 countries joined the 30x30 Initiative, following California's lead in committing to conserve 30 percent of our lands and coastal water by 2023 to protect biodiversity, expand equitable access to nature and its benefits, combat climate change, and build resilience to climate impacts. Additionally, the state's coastal and ocean ecosystems are critical to building resilience to sea level rise and flooding. The 2021 and 2022 Budget Acts committed \$1.6 billion for nature-based solutions and \$1.3 billion for coastal resilience over multiple years.

The Budget maintains \$1.3 billion (86 percent) of nature-based solutions funding and \$734 million (57 percent) of coastal resilience funding. The Budget includes \$779 million in General Fund reductions across various programs. If there is sufficient General Fund in January 2024, reductions not otherwise delayed will be restored. See the Introduction Chapter for further information on this trigger.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Protecting Fish and Wildlife from Changing Climate**—A reduction of \$35 million General Fund in 2023-24. This maintains approximately \$318 million (90 percent) for this purpose.
- **State Conservancy Nature-Based Solutions**—A reduction of \$100 million General Fund in 2023-24. This maintains approximately \$130 million (57 percent) of state conservancy nature-based solutions funding and \$662 million (87 percent) of all state conservancy funding within other areas of the budget.
- **Natural Community Conservation Program Planning and Land Acquisition**—A reduction of \$6 million General Fund in 2022-23. This maintains approximately \$30 million (83 percent) of program funding.
- **Climate Smart Land Management Program**—A reduction of \$4 million General Fund in 2022-23. This maintains approximately \$16 million (80 percent) of program funding.
- **Local and Tribal Nature-Based Solutions Corps**—A reduction of \$12.5 million General Fund in 2022-23 and \$11 million in 2023-24. This maintains approximately \$25.5 million (52 percent) of program funding.
- **San Joaquin Valley Flood Plain Restoration**—A reduction of \$40 million General Fund in 2023-24, which eliminates funding for this purpose.
- **San Francisco Bay Wetlands Support**—A reduction of \$10.4 million General Fund in 2022-23, which eliminates funding for this purpose.
- **Ocean Protection**—A reduction of \$69 million in 2023-24 and \$10 million in 2024-25 across various ocean protection programs administered by the Ocean Protection Council. This maintains approximately \$139 million (64 percent) for this purpose.
- **Coastal Protection and Adaptation**—A reduction of \$175 million in 2022-23, \$297 million in 2023-24 and \$9 million in 2024-25 across various coastal protection and adaptation programs administered by the State Coastal Conservancy. This maintains approximately \$582 million (55 percent) for this purpose.

CLIMATE SMART AGRICULTURE

California's agricultural output is where unrivaled innovation meets world-renowned output. In the face of mounting climate change-driven challenges like drought and extreme heat, California's farmers continue to produce food that improves nutritional

outcomes in historically underserved communities and feeds households across this state and around the world. California agriculture is also on the frontline of fighting climate change by pioneering climate smart agriculture that fosters innovation in carbon sequestration, emissions reduction, and ecosystem resilience improvements. The 2021 and 2022 Budget Acts committed \$1.1 billion over multiple years for climate smart agriculture investments and to help foster a healthy, resilient, and equitable food system.

The Budget maintains \$1 billion (89 percent) of sustainable agriculture investments. The Budget includes \$128 million in General Fund reductions across various programs. If there is sufficient General Fund in January 2024, reductions will be restored. See the Introduction Chapter for further information on this trigger.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Healthy, Resilient, and Equitable Food Systems Investment**—A reduction of \$20.6 million General Fund in 2021-22 and \$8.9 million in 2022-23 across the Urban Agriculture Program, Healthy Refrigeration Grant Program, and Farm to Community Food Hubs Program. This maintains approximately \$98 million (77 percent) for healthy, resilient, and equitable food system programs.
- **Climate Smart Agriculture Programs**—A reduction of \$8.5 million General Fund in 2021-22 and \$85.7 million in 2022-23 across various programs including Healthy Soils Program, Sustainable Cannabis Pilot Program, Pollinator Habitat Program, Conservation Agriculture Planning Grant Program, greenhouse gas reduction research, Invasive Species Council, and Climate Catalyst Fund. This maintains approximately \$867 million (90 percent) for climate smart agriculture programs.
- **Economic Recovery and High-Road Job Growth**—A reduction of \$4.7 million General Fund in 2022-23 for the New and Beginning Farmer Training and Farm Manager Apprenticeships Program. This maintains approximately \$5 million (50 percent) for this program.

CIRCULAR ECONOMY

Building the circular economy will help California combat climate change and move to a carbon neutral future by reducing methane pollution and plastic waste. The 2021 and 2022 Budget Acts included \$468 million over two years for programs support of a circular economy that recognizes waste as a resource, shifting the state's focus to a more resilient and renewable economy in California.

The Budget maintains \$443 million (95 percent) of investments to support implementation of goals to reduce short-lived climate pollutants and advancing organic waste infrastructure. The Budget includes \$24 million in General Fund reductions across several programs. If there is sufficient General Fund in January 2024, reductions will be restored. See the Introduction Chapter for further information on this trigger.

Successfully building California's circular economy will require innovative solutions and approaches to waste. The Budget includes \$2.3 million from various special funds for the Department of Resource Recycling and Recovery to develop a zero waste plan that develops a roadmap for the transition to a true circular economy that reduces use of natural resources, brings new remanufacturing industries and jobs to the state, and enhances the ability of Californians to recycle.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Composting Opportunities**—A reduction of \$4.8 million General Fund in 2021-22. This maintains approximately \$7.8 million (62 percent) for composting programs.
- **Recycling Feasibility Grant**—A reduction of \$2 million General Fund in 2021-22 and \$13 million in 2022-23, eliminating funding for this program.
- **Recycling Market Development Zone Loan Program**—A reduction of \$4.5 million General Fund in 2022-23. This maintains approximately \$45.5 million (91 percent) for this program.

CLIMATE HEALTH

Climate change affects the health of every Californian, but some communities experience disproportionate public health impacts from climate change more than others. The 2022 Budget allocated \$346 million General Fund over multiple years for investments to address the health impacts of climate change.

The Budget maintains \$321 million (93 percent) of these investments in recognition of the continuing statewide goal of mitigating the health impacts of climate change. If there is sufficient General Fund in January 2024, reductions not otherwise offset by other funds or delayed will be restored. See the Introduction Chapter for further information on this trigger.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Community Health Workers Program**—Delays \$130 million General Fund in 2023-24 for the California 25x25 Initiative (Community Health Worker Initiative Grants in Health Care Access and Information) into out years. This program remains fully funded, but the funds would be provided later than initially anticipated including \$65 million in both 2024-25 and 2025-26.
- **Climate and Health Resilience Planning**—A reduction of \$25 million General Fund in 2022-23 for Climate and Health Resilience Planning Grants, which eliminates funding for this purpose.

HEALTH AND HUMAN SERVICES

The Health and Human Services Agency (CalHHS) oversees departments and state entities that provide health and social services to the most vulnerable and at-risk Californians while providing public health services to all Californians. The Governor's Budget includes \$230.5 billion (\$71.5 billion General Fund) for all health and human services programs in 2023-24.

In the last two Budget Acts, unprecedented investments have been made to improve the lives of all Californians, with a focus on the state's most vulnerable communities. This included significant investments to advance health care affordability and the master plan for aging; improve outcomes; expand access to care and benefits; address homelessness; and strengthen the behavioral health continuum, health and human services workforce, and public health infrastructure. Because of past fiscal prudence and planning and despite the decline in General Fund revenues, the Budget continues to advance the health and well-being of all Californians and maintains most of the investments made in recent years.

RECENT SIGNIFICANT INVESTMENTS AND ACTIONS

- **Expanding Health Care Access and Delivery System Transformation**—The Budget maintains \$844.5 million (\$635.3 million General Fund) in 2023-24, \$2.1 billion (\$1.6 billion General Fund) in 2024-25, and approximately \$2.5 billion (\$2 billion General Fund) ongoing, inclusive of In-Home Supportive Services costs, to expand full-scope Medi-Cal eligibility to all income-eligible adults ages 26 to 49 regardless of

immigration status on January 1, 2024. Additionally, the Budget maintains the approximately \$10 billion total funds commitment to continue transforming the health care delivery system through California Advancing and Innovating Medi-Cal (CalAIM).

- **Behavioral Health Continuum**—The Budget maintains over \$8 billion total funds across various Health and Human Services departments to expand the continuum of behavioral health treatment and infrastructure capacity and transform the system for providing behavioral health services to children and youth.
- **Community Assistance, Recovery & Empowerment (CARE) Act**—The Budget maintains \$88.3 million General Fund for county start up and state implementation and proposes additional funding for ongoing costs.
- **Child Care**—The state reached an historic agreement with Child Care Providers United – California to collectively bargain reimbursement rate increases. The Budget maintains over \$2 billion annually to expand subsidized child care slot availability.
- **Developmental Services Provider Rate Reform**—The Budget maintains an estimated annual \$1.2 billion General Fund by 2024-25 to fully implement service provider rate reform with a focus on improving outcomes and quality of services, and to address disparities within the system.
- **Increased Cash Assistance**—The Budget maintains over \$1 billion General Fund annually to provide increased cash assistance to individuals with disabilities and older adults in the Supplemental Security Income/State Supplementary Payment program, and low-income children and families in the CalWORKs program.
- **Incompetent to Stand Trial Waitlist Solutions**—The Budget maintains \$535.5 million General Fund in 2022-23, increasing to \$638 million in 2025-26 and ongoing for the Department of State Hospitals to implement solutions focused on Early Stabilization, Community Care Coordination, and Expanding Diversion and Community-Based Restoration Capacity for the Incompetent to Stand Trial (IST) population. Over four years, this funding will establish 5,000 beds to support felony ISTs. From January to December 2022, the waitlist has declined from a high of 1,953 to 1,473 as a result of these solutions and increased operational efficiencies.
- **Public Health Infrastructure Investment**—The Budget maintains \$300 million ongoing General Fund to modernize state and local public health infrastructure and transition to a resilient public health system. Of this amount, \$100 million General Fund supports increased state public health capacity in foundational public health areas such as emergency preparedness and response and workforce development

and training. The remaining \$200 million General Fund is for local health jurisdictions to expand public health staffing and reduce health disparities.

- **Healthcare Workforce**—The Budget maintains over \$1 billion General Fund to the Department of Health Care Access and Information (HCAI) to strengthen and expand the state's health and human services workforce. These investments include funding for increasing nurses, community health workers and social workers, and supporting new individuals coming into the workforce in behavioral health, primary care and reproductive health. This commitment will be fulfilled, but over more time due to declining General Fund revenues. Please see the General Government and Statewide Issues and Climate Change Chapters for more information.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health care program that provides comprehensive health care services at no or low cost for low-income individuals. The federal government mandates that a range of basic services be included in the program and the state provides additional optional benefits. The Department also oversees county-operated community mental health and substance use disorder programs, the California Children's Services and the Primary and Rural Health Programs. The Medi-Cal budget includes \$137.7 billion (\$32.3 billion General Fund) in 2022-23 and \$138.9 billion (\$38.7 billion General Fund) in 2023-24. Medi-Cal is projected to cover approximately 15.2 million Californians in 2022-23 and 14.4 million in 2023-24—more than one-third of the state's population.

SIGNIFICANT BUDGET ADJUSTMENTS

- **California's Behavioral Health Community-Based Continuum Demonstration**—The Budget includes \$6.1 billion (\$314 million General Fund, \$175 million Mental Health Services Fund, \$2.1 billion Medi-Cal County Behavioral Health Fund, and \$3.5 billion federal funds) over five years for the Department of Health Care Services and the Department of Social Services to implement the Behavioral Health Community-Based Continuum Demonstration, effective January 1, 2024. A critical part of CalAIM, the Demonstration includes statewide and county opt-in components to expand behavioral health services and strengthen the continuum of mental health services for Medi-Cal beneficiaries living with serious mental illness and serious emotional disturbance, with a focus on children and youth, individuals

experiencing or at risk of homelessness, and justice-involved individuals. The Demonstration will improve integration of medical, behavioral health and social services for foster children and youth, strengthen community-based services, clarify coverage for evidence-based therapies and home-based services for children and families, add critical treatment and supports, and build statewide centers of excellence to support practice transformations. Additionally, the Demonstration will allow counties to cover certain community-based services, such as supportive employment and rent and temporary housing for up to six months for certain high-need beneficiaries.

- **Managed Care Organization Tax**—The Budget proposes the renewal of the Managed Care Organization (MCO) Tax effective January 1, 2024, through December 31, 2026, to help maintain Medi-Cal program funding for the Medi-Cal expansion to all income eligible individuals and minimize the need for reductions to the program. This tax renewal maintains the structure from the prior MCO Tax authorized in Assembly Bill 1115 (Chapter 348, Statutes of 2019) as approved by the federal government with minor modifications and data updates. The Budget includes \$1.3 billion (\$317 million in reduced General Fund spending) in 2023-24 and the MCO Tax is estimated to offset \$6.5 billion in General Fund spending over the three years. The Administration will explore opportunities over the next few months to increase the MCO Tax to provide support for the Medi-Cal program.
- **Designated State Health Program and Rate Increases**—The Budget reflects \$40.4 million General Fund savings in 2022-23 and \$161.6 million General Fund savings in 2023-24 through 2026-27, for total General Fund savings of \$646.4 million, from the anticipated federal reauthorization of Designated State Health Program funding to cover the costs of the Providing Access and Transforming Health and CalAIM Justice Initiative. As a condition of approval of Designated State Health Program funding, DHCS is required to demonstrate compliance with minimum reimbursement levels for specific service categories. The Budget includes \$22.7 million (\$8.6 million General Fund) in 2023-24 and \$57.1 million (\$21.7 million General Fund) ongoing for primary care and obstetric care provider increases. The Administration will continue to evaluate the need for additional targeted provider rate increases at the May Revision.
- **Reproductive Health Services 1115 Waiver**—The Budget includes \$200 million (\$15 million General Fund) in 2024-25 for a grant program through an 1115 federal demonstration waiver focused on supporting access to family planning and related services, system transformation, capacity, and sustainability of California's safety net. This funding builds on the 2022 Budget Act investments for reproductive health

services and continues California's progress to provide comprehensive family planning and related services as California grapples with the effects of recent federal actions.

- **CalAIM Transitional Rent Waiver Amendment**—The Budget includes \$17.9 million (\$6.3 million General Fund) in 2025-26 increasing to \$116.6 million (\$40.8 million General Fund) at full implementation to allow up to six months of rent or temporary housing to eligible individuals experiencing homelessness or at risk of homelessness and transitioning out of institutional levels of care, a correctional facility, or the foster care system and who are at risk of inpatient hospitalization or emergency department visits.
- **Community Assistance, Recovery & Empowerment (CARE) Act**—The Budget includes \$16.5 million General Fund in 2023-24, \$66.5 million General Fund in 2024-25, \$108.5 million in 2025-26 and annually thereafter to support estimated county behavioral health department costs for the CARE Act (Chapter 319, Statutes of 2022). The Act requires Cohort I counties to implement the CARE program beginning October 2023 and Cohort II counties beginning December 2024. The Administration will continue to work with counties and stakeholders to refine the ongoing program cost estimate. For Judicial Branch and legal services funding, see the Judicial Branch Chapter.
- **Behavioral Health Bridge Housing Program**—The Budget delays \$250 million General Fund of the total \$1.5 billion General Fund to 2024-25 for the Behavioral Health Bridge Housing Program. The Budget maintains \$1 billion General Fund in 2022-23 and \$250 million General Fund in 2023-24 for this program.
- **Behavioral Health Continuum Infrastructure Program**—The Budget delays the last round of behavioral health continuum capacity funding of \$480.7 million General Fund appropriated in the 2022 Budget Act for 2022-23 to \$240.4 million in 2024-25 and \$240.3 million in 2025-26. A total of \$1.2 billion has been awarded to date, and the Budget maintains \$480 million General Fund for crisis and behavioral health continuum grant funding to be awarded in 2022-23.
- **Two-Week Checkwrite Hold Buyback**—The Budget delays the elimination of the two-week checkwrite hold buyback that was planned for 2022-23 to 2024-25, reducing 2022-23 costs by \$1.1 billion (\$377.7 million General Fund).
- **2022-23 Budget Update**—The Budget reflects lower Medi-Cal expenditures of approximately \$4.2 billion General Fund in 2022-23 compared to the 2022 Budget Act. The decrease is due primarily to the shifting of certain repayments to the federal government related to state-only populations into 2023-24, and net savings

from the assumed extension of the federal COVID-19 Public Health Emergency through mid-April 2023.

- **Year-Over-Year Comparison**—The Budget projects Medi-Cal expenditures of \$38.7 billion General Fund in 2023-24, an increase of \$6.4 billion General Fund compared with the revised 2022-23 expenditures. A majority of the increase is attributable to shifting of repayments to the federal government related to state-only populations from 2022-23 and the assumed loss of increased federal funding consistent with the end of the federal Public Health Emergency while costs for caseload persist through the year. These costs are partially offset by one-time expenditures budgeted in 2022-23 that are not continuing into 2023-24.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Department's major programs include CalWORKs, CalFresh, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare Services, Community Care Licensing, Disability Determination Services, and child care and nutrition. The Budget includes \$43.8 billion (\$18.4 billion General Fund) for DSS programs in 2023-24.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The CalWORKs program, California's version of the federal Temporary Assistance for Needy Families (TANF) program, provides temporary cash assistance to low-income families with children to meet basic needs. It also provides welfare-to-work services so that families may become self-sufficient. Eligibility requirements and benefit levels are established by the state. Counties have flexibility in program design, services, and funding to meet local needs. Total TANF expenditures are \$9 billion (state, local, and federal funds) in 2023-24. The amount budgeted includes \$7.4 billion for CalWORKs program expenditures and \$1.6 billion for other programs such as Child Welfare Services, Foster Care, Department of Developmental Services programs, the Statewide Automated Welfare System, California Community Colleges Child Care and Education Services, Cal Grants, and the Department of Child Support Services. The average monthly CalWORKs caseload is estimated to be 360,000 families in 2023-24.

SIGNIFICANT ADJUSTMENT

- **CalWORKs Grant Increase**—The Budget projects a 2.9-percent increase to CalWORKs Maximum Aid Payment levels, with an estimated cost of \$87 million in 2023-24. These increased costs are funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the 1991 Local Revenue Fund and will be updated at the May Revision. This increase is on top of an 11-percent statutory increase for 2022-23.

IN-HOME SUPPORTIVE SERVICES

The IHSS program provides domestic and related services such as housework, meal preparation, and personal care services to eligible low-income individuals with disabilities, including children and adults, and low-income individuals who are ages 65 and over. These services are provided to assist individuals to remain safely in their homes and prevent more costly institutionalization. The Budget includes \$20.5 billion (\$7.8 billion General Fund) for the IHSS program in 2023-24. Average monthly caseload in this program is estimated to be 642,000 recipients in 2023-24.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT (SSI/SSP)

The federal SSI program provides a monthly cash benefit to individuals with disabilities, including children and adults, and individuals who are ages 65 and over who meet the program's income and resource requirements. In California, the SSI payment is augmented with an SSP grant. These cash grants help recipients meet their basic needs and living expenses. The federal Social Security Administration administers the SSI/SSP program, making eligibility determinations, computing grants, and issuing combined monthly checks to recipients. The state-only Cash Assistance Program for Immigrants (CAPI) provides monthly cash benefits to aged, blind, and disabled individuals who are ineligible for SSI/SSP due solely to their immigration status.

The Budget includes \$3.5 billion General Fund in 2023-24 for the SSI/SSP program, including CAPI. The average monthly caseload in this program is estimated to be 1.1 million recipients in 2023-24. An 8.7-percent federal SSI cost-of-living adjustment and 10.3-percent SSP increase took effect on January 1, 2023, bringing the maximum SSI/SSP grant levels to \$1,134 per month for individuals and \$1,928 per month for couples. CAPI benefits are equivalent to SSI/SSP benefits.

SIGNIFICANT ADJUSTMENT

- **SSP Increase**—The Budget reflects \$146 million General Fund in 2023-24 and \$292 million ongoing for an additional SSP increase of approximately 8.6 percent, effective January 1, 2024.

CHILDREN'S PROGRAMS

Child Welfare Services include family support and maltreatment prevention services, child protective services, foster care services, and adoptions. California's child welfare system provides a continuum of services to children who are either at risk of or have suffered abuse and neglect. Program success is measured in terms of improving the safety, permanence, and well-being of children and families served. The Budget includes \$884.9 million General Fund in 2023-24 for services to children and families in these programs. When federal and 1991 and 2011 Realignment funds are included, total funding for children's programs is in excess of \$9.2 billion in 2023-24.

CHILD CARE AND DEVELOPMENT

DSS administers child care programs including CalWORKs Stages One, Two, and Three; the Emergency Child Care Bridge Program; Alternative Payment Programs; Migrant Child Care; General Child Care; Child Care for Children with Disabilities; and a variety of local supports for these programs, such as Resource and Referral and Local Child Care Planning Councils, in addition to quality improvement projects and the Child and Adult Care Food Program. Families can access child care subsidies through centers that contract directly with DSS, local educational agencies, or vouchers from county welfare departments and Alternative Payment Programs. The Budget includes \$6.6 billion (\$2.7 billion General Fund) for child care programs.

Consistent with the current memorandum of understanding between the state and Child Care Providers United – California (CCPU) and the requirements of Chapter 116, Statutes of 2021 (AB 131), a Joint Labor Management Committee (JLMC) consisting of the state and CCPU presented a single rate reimbursement structure to the Department of Finance on November 14, 2022. The JLMC's joint presentation was informed by a stakeholder workgroup convened by DSS, in consultation with the California Department of Education, in the summer and fall of 2022. The presented approach toward a future single rate structure consists of (1) an alternative methodology that considers a cost estimation model; (2) base rates; (3) incentives/enhancement

rate-setting metrics; and (4) evaluation of the rate structure. The state will rely on the presented approach as it continues to develop a single rate structure. Additionally, the state will continue to work with CCPU to negotiate a successor agreement to the current agreement expiring June 30, 2023.

SIGNIFICANT ADJUSTMENTS

- **Cost-of-Living Adjustment (COLA)**—The Budget includes \$301.7 million General Fund for Child Care and Development Programs and \$1.5 million for the Child and Adult Care Food Program to reflect an estimated statutory COLA of 8.13 percent.
- **Child Care Slot Expansion Timing**—The Budget maintains the commitment initiated as part of the 2021 Budget Act to continue funding 110,500 new subsidized child care slots added in 2021-22 and another 36,000 new slots added in 2022-23, with the goal of eventually funding over 200,000 expanded slots. However, thousands of newly available slots since 2021-22 have not yet been filled. To accommodate the time necessary to utilize recent slot expansions, the Budget assumes that 20,000 new slots that would have been funded in 2023-24 will instead be funded in 2024-25.

OTHER DEPARTMENT OF SOCIAL SERVICES SIGNIFICANT ADJUSTMENTS

- **California Food Assistance Program (CFAP) Expansion Timing**—The Budget reflects updated timing of the CFAP expansion to all income-eligible noncitizens 55 years of age or older, consistent with the necessary completion of the California Statewide Automated Welfare System migration. Benefit distribution is estimated to begin January 1, 2027.
- **Electronic Benefit Transfer (EBT) Fraud Mitigation**—California, and states across the nation, have seen substantial increases in EBT theft of CalWORKs and CalFresh benefits via electronic means. Cash benefit theft has increased from less than one percent of total cash benefits distributed in 2019-20 to a projected 1.7 percent in 2022-23. To protect clients and prevent theft of EBT benefits, DSS will pursue security upgrades and EBT card technology enhancements. California will be the first state in the nation to use these enhanced security features for EBT to safeguard CalWORKs and CalFresh clients' access to benefits. The Budget includes \$50 million (\$17.1 million General Fund) in 2023-24, \$23 million (\$7.9 million General Fund) in 2024-25, and \$3.5 million (\$1.2 million General Fund) in 2025-26 for this purpose.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) provides individuals with intellectual and developmental disabilities a variety of services, as an entitlement, that allow them to live and work independently or in supported environments. The Budget includes \$14.2 billion (\$8.6 billion General Fund) and estimates that approximately 421,000 individuals will receive services in 2023-24.

SIGNIFICANT ADJUSTMENTS

- **Safety Net Plan Update**—The Budget includes \$28.7 million (\$22.1 million General Fund) to expand safety net services to further support individuals with complex needs. The updated Safety Net Plan includes the development of a residential program in the community for adolescents and adults with high-intensity co-occurring developmental disabilities and mental health diagnoses, conversion of two Stabilization Training Assistance Reintegration homes to Intermediate-Care-Facility-licensed homes, adjustments to Crisis Assessment Stabilization Teams staffing, expansion of supports for foster youth who are eligible for regional center services, and establishment of an Autism Services Branch to support a statewide focus on addressing the needs of the growing population of individuals with autism spectrum disorder. These additional resources further support the continuum of safety net services.
- **Preschool Inclusion Grants**—The Budget delays for two years, from 2022-23 to 2024-25, the implementation of an annual \$10 million General Fund grant program to support preschool inclusion efforts such as facility modifications or staff training. The Budget maintains the grant program on an ongoing basis beginning in 2024-25.

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health (DPH) is charged with protecting and promoting the health and well-being of the people of California. The Budget includes \$5.5 billion (\$1 billion General Fund) in 2023-24 for the Department.

SIGNIFICANT ADJUSTMENTS

- **Emergency Response and SMARTER Plan Implementation**—The Budget reflects \$176.6 million General Fund in 2023-24 to continue the state's efforts to protect the public's health against COVID-19, consistent with the Administration's SMARTER Plan,

and maintain significant information technology systems, including the California COVID Reporting System for laboratory data management and CalCONNECT for case and outbreak investigation.

- **Current Year 2022-23 COVID-19 Response**—The Budget assumes reduced COVID-19 direct response expenditures of approximately \$614 million California Emergency Relief Fund in 2022-23 compared to the 2022 Budget Act. The decrease is driven in part by reduced response activities since the peak of the COVID-19 Pandemic.
- **Public Health Climate and Health Resilience Planning**—The Budget reduces \$25 million General Fund in 2022-23 for Climate and Health Resilience Planning Grants. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction and Climate Change Chapters for further information.
- **Partial Public Health Workforce Reductions**—The Budget reduces funding for various public health workforce training and development programs by \$49.8 million General Fund over four years to help address the budgetary problem. The Budget maintains \$47.7 million General Fund over four years for community-based clinical education rotations for dental students and public health incumbent workforce upskilling and training.

DEPARTMENT OF STATE HOSPITALS

The Department of State Hospitals (DSH) administers the state mental health hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed patients. The Budget includes \$3.2 billion (\$3 billion General Fund) in 2023-24 to support the Department. The patient population is expected to reach 9,289 by the end of 2023-24, including patients receiving competency treatment in jail-based settings and community-based settings.

SIGNIFICANT ADJUSTMENTS

- **Electronic Health Records (EHR) Implementation**—The Budget includes \$21.5 million General Fund in 2023-24 and \$22.3 million General Fund ongoing to complete the planning phase and begin implementation of the enterprise Continuum Electronic Health Records project.

- **COVID-19 Impacts**—The Budget includes \$51.3 million General Fund in 2023-24 to protect patients and staff from COVID-19 and other infectious diseases.
- **Fund Shift**—The Budget shifts \$29.4 million one-time from the General Fund to the Mental Health Facilities Fund (reimbursements in 2022-23) from available reserves for state operations.

DEPARTMENT OF HEALTH CARE ACCESS AND INFORMATION

The Department of Health Care Access and Information (HCAI) is committed to expanding equitable access to health care for all Californians—improving the health workforce, ensuring health care facilities are safe and reliable, and analyzing health information that can help make care more effective and affordable. The Budget includes \$338 million (\$186 million General Fund) in 2023-24 to support the Department.

SIGNIFICANT ADJUSTMENT

- **Healthcare Workforce Grants**—Funding for some HCAI workforce grants will be released later than originally planned. See the General Government and Statewide Issues and Climate Change Chapters for more information.

COVERED CALIFORNIA

Covered California increases the number of insured Californians, improves health care equity, lowers costs, and reduces health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value.

Improving the affordability of and access to health care continues to be a top priority for the Administration. Last year, the Budget provided a contingency in case federal subsidies were not extended. Federal subsidies were extended until 2025, so the contingency was placed in the Health Care Affordability Reserve Fund (HCARF) to ensure that state-only premium subsidies are available again in the future when they are most needed.

SIGNIFICANT ADJUSTMENT

- **Temporarily Use Available Reserves**—Due to declining General Fund revenues, the Budget transfers the available HCARF balance of \$333.4 million to the General Fund. These funds will be returned after federal subsidies end, which is scheduled in 2025-26.

OTHER HEALTH AND HUMAN SERVICES SIGNIFICANT ADJUSTMENTS

- **Opioid and Fentanyl Response**—Building on the 2022 Budget Act opioid response investments, the Budget includes an additional \$93 million in Opioid Settlement Fund over four years beginning in 2023-24 to support youth- and fentanyl-focused investments for the Department of Health Care Services and for the Department of Public Health as follows:
 - \$79 million for the Naloxone Distribution Project to increase distribution to first responders, law enforcement, community-based organizations, and county agencies.
 - \$10 million for fentanyl program grants to increase local efforts in education, testing, recovery, and support services to implement Chapter 783, Statutes of 2022 (AB 2365).
 - \$4 million to support innovative approaches to make fentanyl test strips and naloxone more widely available.

The Administration anticipates receiving additional funds from new settlements with opioid retailers. Once the settlement funds are secured, the Administration will update the spending plan for the settlement funds in the May Revision with a focus on opioid overdose medication distribution such as naloxone.

The Budget also includes \$3.5 million ongoing Proposition 98 General Fund to provide all middle and high school sites at least two doses of naloxone hydrochloride or another medication to reverse an opioid overdose on campus. See the K-12 Education Chapter for more information.

- **Federal Public Health Emergency Extension**—The Budget assumes a two-quarter extension of the federal Public Health Emergency through mid-April 2023 and enhanced federal funding through the end of the 2022-23 fiscal year. The Budget continues to reflect significant fiscal impact related to COVID-19 across various

Health and Human Services departments. Additionally, the Budget does not reflect the impact of the recently signed federal Consolidated Appropriations Act. The May Revision will reflect the impact of required changes related to Health and Human Services programs such as the timing of Medi-Cal eligibility redeterminations and phasing out of enhanced federal funding at the end of the federal COVID-19 Public Health Emergency.

- **Home- and Community-Based Services (HCBS) Spending Plan**—The Budget includes adjustments to the HCBS spending plan based on revised claiming of the enhanced federal funding and expenditure estimates to \$2.8 billion, a \$60 million reduction compared to the 2022 Budget Act. The Budget assumes that all HCBS spending plan funding will be expended by March 2024, and California will not use the additional optional year to spend the enhanced federal funding. The 2021 Budget Act appropriated funding made available pursuant to the American Rescue Plan Act of 2021 to enhance, expand, and strengthen Home and Community-Based Services for 26 initiatives across six Health and Human Services departments.
- **Health and Human Services Innovation Accelerator Initiative**—An important approach to addressing the health of all Californians is to focus research and development on tools that directly address health disparities and ensure innovations are quickly accessible to all. This Initiative will seed a new entity and provide an initial investment so that researchers and developers can create solutions to the greatest health challenges facing Californians, such as targeting diabetes-related morbidity and mortality, addressing disparities in maternal and infant mortality faced by women and their babies, and preventing and mitigating infectious disease. This program will also create a State Innovation Transition Team within government to enhance innovation within safety-net programs. Funding for this initiative will be refined over the next few months and included in the May Revision.
- **Mello-Granlund Older Californians Act Modernization Pilot Program**—The Budget includes \$37.2 million annually across five years starting in 2022-23 for pilot programs supporting community-based services programs, senior nutrition support, family and caregiver supports, senior volunteer development, and/or aging in place. This reflects \$186 million General Fund spent over five years instead of across three years as originally planned in the 2022 Budget Act.

1991 AND 2011 REALIGNMENT

Realignment shifted administrative and fiscal responsibility to counties for a variety of programs, along with a dedicated source of funding. 1991 Realignment provides funding for social and health programs and 2011 Realignment provides funding for local public safety programs. Additionally, both 1991 and 2011 Realignment provide funding for mental health and child welfare programs. The programs for 1991 and 2011 Realignment are funded through two sources: state sales tax and vehicle license fees. These fund sources are projected to increase by 1.3 percent from 2021-22 to 2022-23 and by 1.6 percent from 2022-23 to 2023-24.

MIGRATION AND BORDER COMMUNITIES

Since 2019, California has supported humanitarian services for migrants released from short-term federal custody in the border region. These services were expanded in 2021 given changing federal policies and public health needs related to COVID-19. California's national model of care and community partnership provides screening, support services, temporary shelter and onward travel coordination for migrants so they may safely continue with their immigration proceedings at their destination in the U.S. The California model prioritizes the state's border communities and the well-being of migrants.

No state has invested more than California in these humanitarian efforts. However, California cannot continue to fund these efforts at scale without significant support from Congress. The federal government is responsible for immigration policies and processing, and Congress must invest in policies and sustainable infrastructure that ensures the right to asylum for those fleeing violence and persecution while supporting their safe passage through border regions and onto their destinations within the U.S. Local jurisdictions, including immigrant affairs offices and non-governmental organizations, are important partners in supporting the delivery of services.

In the coming months, the Administration will continue to work with the federal government, including Congress, to leverage additional federal resources and assess operational needs to inform a 2023-24 investment in these humanitarian efforts, which will be included as part of the May Revision.

This page intentionally blank to facilitate double-sided printing.

HOUSING AND HOMELESSNESS

HOUSING

Rising housing costs and housing supply challenges in California and across the nation limit opportunity, equity, and economic stability for millions of households of all incomes, and disproportionately impact low-income renter households that spend more than half of their income on housing.

California continues to take actions to help limit the effects of these housing challenges while jurisdictions across the state plan for and are held accountable for their fair share of housing. However, to tackle these issues immediately and make lasting change, the state needs each level of government to prioritize housing preservation and production; allocate additional resources; and continue to collaborate across sectors to meet shared housing, transportation, infrastructure, and climate goals. To assist local governments with these goals and the implementation of recently enacted housing laws, the Governor's Budget includes resources for the Office of Planning and Research to update the General Plan guidelines.

Given the scale of California's housing shortfall, the state has invested billions of dollars in the past two years for housing production incentives, with 2021 and 2022 Budget Act housing packages totaling \$21.5 billion combined. Importantly, the state has continued to deploy a comprehensive set of strategies, including improving existing housing financing programs; targeting housing investments; providing technical assistance to rural, tribal, and urban communities; and leveraging land use tools. These efforts will

only be effective when there are corresponding actions at the local level that facilitate housing production that meets the urgency of the need and is reinforced using the state's housing accountability authority. The Administration remains committed to working with the Legislature to develop policies that strengthen state housing law and strategically leverage existing resources and lower per-unit costs. Accordingly, the Administration puts forth the following policy principles of accountability and innovation.

ACCOUNTABILITY

To meet the housing needs of all Californians, cities and counties must plan for more than 2.5 million homes over the next eight years, and continue zoning for and permitting housing to serve all household income levels. Without sustained efforts and resolve from cities and counties, they run the risk of violating state housing laws and failing to deliver housing opportunities across their communities and across our state. To that end, the state will continue providing a range of technical assistance to support local jurisdictions in complying with applicable housing laws.

INNOVATION

Innovation The state remains focused on using new tools and scaling existing efforts that unlock residential and community development in alignment with the state's climate goals. This includes practical innovations in land use, construction, and finance that can lower housing production costs. The Administration will continue identifying administrative or statutory barriers that delay housing production and increase housing costs, with a priority on removing barriers for extremely-low-income housing and permanent supportive housing. The state will continue pursuing federal resources that support housing construction and rental assistance to make units affordable to low-income households, and explore opportunities to increase voucher utilization rates and maximize federal funding for rental assistance.

SIGNIFICANT BUDGET ADJUSTMENTS

The 2022 Budget Act included a housing package of \$11.2 billion over multiple years with a focus on affordable housing production and homeownership opportunities. With interest rates fluctuating and homeownership inventory low, the state is approaching homeownership programs with additional care to safeguard opportunities for first-time homebuyers while not putting them into an untenable and unaffordable situation.

Due to declining General Fund revenues, the Budget includes \$350 million in reductions related to housing programs that were included as part of the 2022 Budget Act. Even with these reductions, funding for these housing programs remains at approximately 88 percent of the allocations made in 2022-23 and proposed for 2023-24 (\$2.85 billion). If there is sufficient General Fund in January 2024, these reductions will be restored. See the Introduction Chapter for further information on this trigger.

- **Dream For All**—The 2022 Budget Act included \$500 million one-time General Fund to the California Housing Finance Agency for the Dream for All program, to provide shared-appreciation loans to help low- and moderate-income first-time homebuyers achieve homeownership. The Budget proposes to revert \$200 million of the \$500 million one-time General Fund in 2023-24. This proposal will not impact the Administration's commitment or timeline for implementing the program.
- **CalHome**—The 2022 Budget Act included \$350 million one-time General Fund (\$250 million in the 2022 Budget Act and \$100 million committed for 2023-24) for the Department of Housing and Community Development's CalHome program, to provide local agencies and nonprofits grants to assist low- and very-low-income first-time homebuyers with housing assistance, counseling and technical assistance. The Budget proposes to remove \$100 million one-time General Fund in 2023-24.
- **Accessory Dwelling Unit Program**—The 2022 Budget Act included \$50 million one-time General Fund for the California Housing Finance Agency's Accessory Dwelling Unit program. The Budget proposes to revert \$50 million one-time General Fund in 2022-23.

HOMELESSNESS

California continues to face the consequences of persistent increases in the number of people experiencing homelessness, particularly unsheltered individuals. The 2022 Budget Act allocated \$10.2 billion, in addition to the \$7.3 billion provided in 2021, for homelessness solutions. This signifies a continued priority in providing investments to support the state's comprehensive homelessness strategy, including resources to provide long-term permanent housing options, services, and supports for individuals experiencing homelessness, or who are at risk of experiencing homelessness.

Despite unprecedented resources from the state and record numbers of people being served by the homelessness response system, the population of unhoused individuals grows faster than the population exiting homelessness. Additionally, homelessness

disproportionately affects people of color, LGBTQ+, individuals with disabilities and other marginalized groups.

To reverse these trends, cities and counties must work together to increase affordable housing options, continue to deliver behavioral health services, resolve encampments, and work across systems to focus on prevention strategies. Given the clear nexus between housing affordability and homelessness, the state's housing efforts—including the focus on accountability—cannot be distinct from the strategies to prevent and end homelessness.

LOCAL HOMELESSNESS ACTION PLANS AND ACCOUNTABILITY

The California Interagency Council on Homelessness (Cal ICH) is charged with advancing California's coordinated response to the homelessness crisis, including holding grantees accountable for effectively expending state homelessness resources. The Administration has provided \$3 billion to local governments through four rounds of the Homeless Housing, Assistance and Prevention (HHAP) Program. A newly enacted requirement within HHAP requires local governments to submit local action plans that reflect outcome goals that grantees commit to achieving over the specified funding period. The first iteration of these plans made clear that more ambition is required—and more direction from the state is necessary. Accordingly, the Administration plans to work with the Legislature this year to advance homeless accountability legislation.

Pending further discussion with the Legislature to meaningfully increase outcomes and accountability on local HHAP spending, the Administration intends to focus HHAP on highest priority needs, especially reducing unsheltered homelessness. As such, the Administration intends to pursue statutory changes to the HHAP program to prioritize spending on activities such as encampment resolution, Homekey operating sustainability, and Community Assistance, Recovery and Empowerment (CARE) Act housing supports. This focus may also be accompanied by expanded housing streamlining provisions.

In addition, the Administration will seek to condition eligibility for any future homeless-related grants and competitive programs through the Business, Consumer Services and Housing Agency and the Health and Human Services Agency, on compliance with state housing law. Jurisdictions that are not compliant with their legal responsibilities will be disqualified from receiving specified homelessness funding, and instead, other overlapping jurisdictions, such as cities, counties, or administrative entities, such as Continuums of Care, will be eligible to receive those funds and provide those

services in the respective community. If local jurisdictions fail to adhere to state housing law, it calls into question whether they have the intention or capacity to address homelessness in a comprehensive and efficient manner.

SIGNIFICANT BUDGET ADJUSTMENTS

The Budget includes \$3.4 billion General Fund in 2023-24 to maintain the state's efforts to address homelessness, as committed to in prior budgets. This includes \$400 million for a third round of encampment resolution grants and \$1 billion for a fifth round of HHAP grants, conditional on proposed statutory changes requiring greater accountability in the planning and expenditure of these critical homelessness resources. The Budget also includes funding to allow up to six months of rent or temporary housing to eligible individuals experiencing homelessness or at risk of homelessness and maintains funding for the Behavioral Health Bridge Housing Program (for more information, see the Health and Human Services Chapter).

This page intentionally blank to facilitate double-sided printing.

JUDICIAL BRANCH

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, the Habeas Corpus Resource Center, and the Judicial Council. The Judicial Council is responsible for managing the resources of the Judicial Branch. The trial courts are funded with a combination of General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. Other levels of the Judicial Branch receive most of their funding from the General Fund. The Budget includes total funding of \$5.1 billion (\$3.2 billion General Fund and \$1.9 billion other funds) in 2023-24 for the Judicial Branch, of which \$2.9 billion is provided to support trial court operations.

TRIAL COURT INVESTMENTS TO EXPAND ACCESS TO JUSTICE

In recent years, the state has sought to expand access to justice with a number of key investments. The 2022 Budget Act included \$42.6 million General Fund in 2022-23 and \$42.3 million ongoing for 23 additional superior court judgeships allocated based on the Judicial Council's 2020 Judicial Needs Assessment. With this investment, the Judicial Branch is fully funded to fill all judgeships authorized in statute. There have also been investments in technology innovations to modernize court operations. These investments include the creation of the Judicial Branch Information Security Office to improve cyber security; and modernization of the appellate and Supreme Court information technology systems, including updating electronic filing and case management systems to enable timely and accurate data collection. Technology enhancements have been made to support remote access to courtroom proceedings by providing a publicly accessible audio stream in California trial courts.

REDUCING FINES AND FEES FOR ALL CALIFORNIANS

In recent decades, the state substantially increased fines, fees, assessments, and surcharges levied on individuals convicted of criminal offenses to generate funding for specific state and local programs and services. Recognizing the financial hardship these increased fines and fees have created for Californians, the state has implemented various statutory and budgetary changes in the past few years, which includes developing an Ability-to-Pay program to allow indigent and low-income individuals to apply online to have their fines and fees reduced in accordance with their ability to pay; eliminating the ability of state and local agencies to impose certain administrative fees for criminal offenses; and reducing civil assessment fees from a maximum of \$300 to \$100, among others.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Trial Court Operations**—\$74.1 million ongoing General Fund to support trial court operations. This is in addition to general increases provided in the 2021 and 2022 Budget Acts, which included \$72.2 million and \$84.2 million, respectively. The 2022 Budget Act also included \$100 million ongoing General Fund to promote fiscal equity among the trial courts and to improve existing service levels. Additionally, the 2021 Budget Act included \$60 million one-time General Fund to be spent over two years to address trial court backlogs and workload delays resulting from the COVID-19 Pandemic.
- **Community Assistance, Recovery, and Empowerment (CARE) Act**—The 2022 Budget Act included \$6.1 million in 2022-23 and \$37.7 million ongoing for the Judicial Branch to implement the CARE Act (Chapter 319, Statutes of 2022). The Budget reduces this funding by \$13.9 million General Fund in 2023-24 and increases funding by \$12.9 million in 2024-25, and \$30.9 million ongoing. In total, the Budget provides the Judicial Branch \$23.8 million General Fund in 2023-24, \$50.6 million in 2024-25, and \$68.5 million in 2025-26 and ongoing for the CARE Act. In addition, the Budget includes \$6.1 million General Fund in 2023-24, increasing to \$31.5 million annually beginning in 2025-26, to support public defender and legal services organizations who will provide legal counsel to CARE participants. For county behavioral health funding, see the Health and Human Services Chapter.
- **Juror Compensation (AB 1981)**—\$19 million General Fund in 2023-24, \$17.5 million in 2024-25, and \$4.2 million ongoing to expand juror mileage and public transit reimbursements, and to conduct a pilot program in at least six courts to study the

impact of increased juror compensation on juror diversity and participation, pursuant to Chapter 326, Statutes of 2021 (AB 1981).

- **State Court Facilities Construction Fund Backfill**—\$89.5 million General Fund in 2023-24, \$175.5 million in 2024-25, and \$174.5 million ongoing, to backfill a projected shortfall in the State Court Facilities Construction Fund and to maintain existing service levels.
- **Trial Court Trust Fund Backfill**—A total of \$109.3 million ongoing General Fund to continue backfilling the Trial Court Trust Fund for revenue declines expected in 2023-24.
- **Trial Court Employee Health Benefit and Retirement Costs**—\$19.6 million ongoing General Fund for trial court employee health benefit and retirement costs. The state began consistently funding the increased health benefit and retirement costs for the trial courts in 2014-15.
- **Deferred Maintenance**—The 2021 Budget Act included \$188 million one-time General Fund, available through June 30, 2024, to support deferred maintenance projects in trial courts and Courts of Appeal. The Budget proposes to remove \$49.5 million in 2022-23, reducing the total amount available to \$138.5 million. For additional information on deferred maintenance, see the General Government and Statewide Issues Chapter.
- **Court Appointed Special Advocate Program**—The 2022 Budget Act included a total of \$60 million one-time General Fund over three years (\$20 million in 2022-23, 2023-24, and 2024-25) to expand the Court Appointed Special Advocate (CASA) program. The Budget proposes to maintain \$20 million in 2022-23, which is available until June 30, 2024, and remove \$20 million General Fund in 2023-24 and 2024-25.

This page intentionally blank to facilitate double-sided printing.

CRIMINAL JUSTICE

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) incarcerates people convicted of the most serious and violent felonies, supervises those released to parole, and provides rehabilitation programs to help them reintegrate into the community. The Department strives to facilitate the successful reintegration of the individuals in its care back to their communities equipped with the tools to be drug-free, healthy, and employable members of society by providing education, treatment, and rehabilitative and restorative justice programs. The Budget includes total funding of \$14.5 billion (\$14.1 billion General Fund and \$374.9 million other funds) for CDCR in 2023-24. Of this amount, \$3.8 billion General Fund is for health care programs, which provide incarcerated individuals with access to mental health, medical, and dental care services that are consistent with the standards and scope of care appropriate within a custodial environment.

The average daily adult incarcerated population for 2022-23 is now projected to be 96,157, a decrease of 6.6 percent since spring 2022 projections. Fall projections indicate the adult incarcerated population will trend downward, decreasing by 2,761 individuals between 2022-23 and 2023-24, from 96,157 to 93,396, respectively. On January 1, 2020, prior to the COVID-19 Pandemic, the CDCR population was 123,977. The population is projected to continue its long-term downward trend, declining to 87,295 in 2025-26.

The overall parolee average daily population is projected to be 41,345 in 2023-24. In 2022-23, the average daily parolee population is projected to be 43,668. The parole population is projected to decline to 36,473 by June 30, 2027.

PRISON CAPACITY AND CLOSURE

The adult prison population has steadily declined in recent years, which has provided opportunities for CDCR to eliminate its reliance on contract prison capacity. CDCR terminated its final remaining contract to house incarcerated persons out-of-state in June 2019, and its final in-state contract community correctional facility in May 2021. In total, the termination of these contracts has saved the state hundreds of millions of dollars in annual expenditures.

In September 2021, CDCR closed the Deuel Vocational Institution in Tracy, achieving savings of \$150.3 million General Fund annually beginning in 2022-23. Beginning in November 2022, CDCR initiated the closure of a second prison, the California Correctional Center (CCC) in Susanville, which is expected to achieve an estimated \$142.8 million in annual ongoing savings.

On December 6, 2022, CDCR announced its plan to terminate the lease of the California City Correctional Facility, its last privately-owned prison facility, by March 2024, ending its use as a state prison. CDCR also announced the planned closure of Chuckawalla Valley State Prison (CVSP) in Blythe by March 2025. In addition, to continue the flexibility required to meet the needs of the incarcerated populations, CDCR announced the deactivation of specified facilities within six prisons by the end of 2023. The facilities are located within the California Rehabilitation Center, California Institution for Men, California Correctional Institution, Pelican Bay State Prison, the California Men's Colony, and the Folsom Women's Facility within Folsom State Prison. In total, CDCR estimates \$150 million in ongoing General Fund savings as a result of these facility deactivations.

The Administration remains committed to meeting the needs of staff and the incarcerated populations while right-sizing California's prison system to reflect the needs of the state as the prison population declines.

RECENT INVESTMENTS

In recent years, the state has invested in creating a safer and more rehabilitative-focused prison system, with the goal of improving post-release outcomes

for incarcerated individuals and reducing recidivism. This has included the following resources:

- **Integrated Substance Use Disorder Treatment Program**—The 2022 Budget Act augmented funding to support the Integrated Substance Use Disorder Treatment (ISUDT) Program, which is funded at approximately \$260 million in 2022-23. These resources were added to enhance the Department's ability to treat individuals with substance use disorders. As of December 31, 2022, the ISUDT Program had screened over 90,000 individuals for substance use disorders, was serving approximately 15,000 of those individuals with Medication-Assisted Treatment, and was providing approximately 9,000 individuals with Cognitive Behavioral Interventions.
- **Technology Improvements**—The 2021 and 2022 Budget Acts included \$37.6 million General Fund in 2021-22, \$112.3 million in 2022-23, \$28.4 million in 2023-24, and \$11.6 million ongoing to: (1) install and operate new fixed cameras and deploy body-worn cameras at certain institutions, and (2) begin an Enhanced Managed Access System to block contraband cell phone usage that can stop calls and texts on newer technologies. Additionally, the 2021 Budget Act added \$23.2 million General Fund in 2021-22, and \$18 million ongoing, to purchase and support the operation of laptop computers for use by academic program participants.
- **Expansion of Reentry Beds**—The 2022 Budget Act included \$40 million General Fund annually for three fiscal years (total of \$120 million) to support an expansion of CDCR's community reentry programs. These programs have demonstrated success in reducing recidivism by enabling incarcerated individuals to serve a portion of their sentence in a community-like setting, with the goal of facilitating their successful transition back into their communities following their release.
- **Various Rehabilitative, Restorative Justice, and Reentry Programming**—The 2022 Budget Act included over \$37 million one-time General Fund to support in-prison rehabilitation programs, including the creation of a veterans' hub at the Correctional Training Facility in Soledad and restorative justice programming to further support the incarcerated population in transforming their lives, better preparing them to reenter society.
- **Valley State Prison Enhancements**—The 2021 Budget Act included \$13.7 million General Fund in 2021-22, and \$3 million ongoing, to transform and create a rehabilitative environment within Valley State Prison that better prepares people for release and life outside of the institution.

- **Returning Home Well**—The 2022 Budget Act added \$10.6 million General Fund annually for three years (total of \$31.8 million) to continue the Returning Home Well Program. This program, initiated during the COVID-19 Pandemic, provides transitional housing to individuals who would otherwise be at risk of being unhoused at the time of their release, with the goal of supporting successful community reintegration.
- **Bachelor's Degree Program**—The 2022 Budget Act added \$5 million General Fund in 2022-23, and \$4.7 million ongoing, to permanently fund Bachelor's degree programs at seven institutions in collaboration with the California State University system to enable incarcerated individuals to further prepare to enter the workforce and find gainful employment upon their release from prison.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Free Voice Calling (SB 1008)**—An estimated \$5.6 million in 2022-23 and \$30.7 million ongoing General Fund to provide incarcerated individuals and their friends and family with free voice calling, consistent with Chapter 827, Statutes of 2022 (SB 1008).
- **Statewide Correctional Video Surveillance**—\$87.7 million one-time General Fund in 2023-24, and \$14.7 million ongoing, to install fixed cameras at the remaining institutions. Taken with investments included in the 2021 and 2022 Budget Acts, these resources will support the roll-out of fixed cameras at all prisons statewide, which will enhance CDCR's ability to monitor activity and maintain a safe environment for staff and the incarcerated population.
- **Facility Improvements**—\$1.5 million General Fund in 2023-24 and \$62 million one-time General Fund in 2024-25 for the Richard J. Donovan Correctional Facility roof replacement. This is part of a multi-year plan to address aging facility roofs.
- **COVID-19 Direct Expenditures**—\$141.8 million one-time General Fund in 2023-24 to enable CDCR to continue taking proactive measures and precautions to protect the incarcerated population and staff and mitigate the impacts of COVID-19 in state prisons. This includes resources to support staff and incarcerated individual testing (\$89.2 million), personnel services (\$37.5 million), and medical registry costs (\$15.1 million).
- **Comprehensive Employee Health Program**—\$22.7 million General Fund in 2023-24, and \$22.4 million ongoing, to continue CDCR's Employee Health Program, initiated during the COVID-19 Pandemic, to address current and emerging employee

health-related issues consistent with the SMARTER Plan, and to maintain compliance with state and federal regulations.

- **CDCR COVID-19 Worker's Compensation**—\$30.9 million General Fund annual reduction over four years to account for staff vacancy-related savings and to adjust funding consistent with existing need.
- **Deferred Maintenance**—\$30 million General Fund reduction to deferred maintenance funding. The 2021 Budget Act included one-time \$100 million General Fund, available through June 30, 2024, to address critical infrastructure needs, of which \$70 million General Fund has been either spent or encumbered. For additional information on deferred maintenance, see the General Government and Statewide Issues Chapter.

DIVISION OF JUVENILE JUSTICE

The Division of Juvenile Justice (DJJ) will close on June 30, 2023, pursuant to Chapter 18, Statutes of 2021 (SB 92). DJJ ceased intake of new youth on July 1, 2021, with limited exceptions, consistent with Chapter 337, Statutes of 2020 (SB 823).

The DJJ estimates that 360 youth will remain at the time of DJJ's closure. Youth who have not been released from DJJ at the time of closure will be transferred to the county probation department within their county of commitment. The 2022 Budget Act included \$100 million General Fund for grants to support improvements to county-operated juvenile facilities to make these locations more conducive to serving justice-involved youth with a wide range of needs, with a focus on supporting trauma-informed care, restorative justice, and rehabilitative programming.

The Budget reflects a decrease of \$95.8 million ongoing (\$93 million General Fund and \$2.8 various funds) associated with the closure of DJJ.

LOCAL PUBLIC SAFETY

CRIMINAL JUSTICE INVESTMENTS FOR SAFE AND SECURE COMMUNITIES

Multifaceted criminal justice investments have been added in recent years that increase the safety and security of our communities and the Administration is committed to maintaining those investments.

RECENT INVESTMENTS

In the last few years, the state provided resources for programs to create safer communities starting with a focus on positive policing strategies, including resources to support peace officer wellness and training. Additionally, the state has substantially invested in programs to reduce organized retail theft, gun violence, illegal drugs, and other crimes.

- **Combatting Organized Retail Theft and Other Crimes**—\$564.4 million General Fund was invested over three years to bolster local law enforcement efforts to address retail theft and other crimes. These investments are helping local law enforcement agencies implement anti-theft task forces, improve prosecution, expand Department of Justice and California Highway Patrol anti-crime and retail theft taskforces, expand drug interdiction and combat fentanyl prevalence, improve emergency response times, combat human trafficking and child sexual exploitation, support programs to remove and dispose of firearms, and provides resources to research to inform policies that address the ever-evolving firearms market.
- **Raising Awareness on Gun Violence Restraining Orders** —\$11 million one-time General Fund was allocated for the Office of Emergency Services (Cal OES) to facilitate education and training efforts related to gun violence restraining orders, including a public awareness campaign, grants to domestic violence groups to conduct outreach, and provide gun violence restraining order trainings to entities statewide.
- **California Internet Crimes Against Children Task Force**—\$15 million one-time General Fund was invested over three years to continue the existing level of funding for this program, which helps state and local law enforcement agencies develop an effective response to technology-facilitated child sexual exploitation and combatting underground child pornography rings.
- **Officer Wellness and Training**—\$65 million one-time General Fund was appropriated for research and grants to support peace officers' physical, mental, and emotional wellness, which is essential for creating safer communities. Additionally, a Use of Force and De-escalation Training pilot program was added to fortify positive policing strategies.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Proposition 47 Savings**—Proposition 47, passed in 2014, requires misdemeanor rather than felony sentencing for certain property and drug crimes and permits incarcerated persons previously sentenced for these reclassified crimes to petition for resentencing. Proposition 47 established a fund to invest savings from reduced prison utilization in prevention and support community programs. The Department of Finance estimates net General Fund savings of \$101 million in 2023-24. These funds are allocated according to the formula specified in the ballot measure, which requires 65 percent be allocated for grants to public agencies to support various recidivism reduction programs (such as mental health and substance use treatment services), 25 percent for grants to support truancy and dropout prevention programs, and 10 percent for grants for victims' services.
- **Post Release Community Supervision**—The Post Release Community Supervision Act of 2011 authorized CDCR to release certain incarcerated individuals to county supervision. The state provides funding to those counties. The Department of Finance estimates \$8.2 million General Fund will be allocated to counties for this purpose in 2023-24.
- **Community Corrections Performance Incentive Grant**—Consistent with the 2022 Budget Act, the Budget continues a total of \$123.8 million General Fund in 2023-24 to provide county probation departments with a consistent level of funding based on prior performance, so county probation departments are not unduly impacted by the lingering effects of the COVID-19 Pandemic on probation populations, law enforcement practices, or court processes. The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison.
- **Board of State and Community Corrections**—\$50 million one-time General Fund reduction to the Public Defender Pilot program in 2023-24, due to declining General Fund revenues. This still allows funding for two full years of the grant program and funding for the program evaluation, as planned.

VICTIM SERVICES

Crime victims and their families bear significant physical, emotional, and financial burdens. The Budget continues the state's commitment to both assist crime victims and their families in recovering from such traumas, and maintains investments that support

those who face a high risk of victimization. In addition, the 2022 Budget Act also commits to prioritizing changes to the victims compensation benefit program and for the elimination of the restitution fine, if a determination is made in the spring of 2024 that General Fund over the multiyear forecast is available to support this ongoing augmentation.

RECENT INVESTMENTS

- **California Violence Intervention and Prevention Grant Program**—\$200 million General Fund was provided over three years to expand violence prevention efforts within communities that focus on those at the highest risk of violence.
- **Trauma Recovery Centers**—\$23 million General Fund was provided over three years to support existing trauma recovery centers, and to establish an innovative pilot program to operate satellite offices in hard-to-reach and/or rural areas affiliated with a local organization and overseen by an existing trauma recovery center.
- **Expanded Victim Benefits**—\$14 million ongoing, including \$7 million Federal Trust Fund expenditure authority was added to reflect the Federal Victims of Crime Act reimbursement rate increase from 60 percent to 75 percent, which is being used in part to support an increase in benefit limits for crime scene cleanup costs, funeral/burial costs, and relocation claims; and \$7 million General Fund and statutory changes authorizing the California Victim Compensation Board to approve claims for incarcerated individuals who were falsely accused of crimes.
- **Supportive Services for Victims**—\$1.8 million ongoing General Fund was provided to deliver services to victims throughout CDCR's parole hearing process and to survivors of those killed in officer-involved shootings investigated by the Department of Justice.
- **Restitution Fund Backfill**—\$39.5 million ongoing General Fund was appropriated to backfill declining fine and fee revenues in the Restitution Fund, allowing the California Victim Compensation Board to continue operating at its current funding level.
- **Reparations for Victims of Forced Sterilization**—\$7.5 million one-time General Fund was provided to establish the Forced or Involuntary Sterilization Compensation Program to provide compensation to individuals who were sterilized pursuant to eugenics laws between 1909 and 1979, or sterilized while imprisoned after 1979.

- **Victims of Crime Act Supplemental Funding**—\$100 million one-time General Fund was authorized to supplement federal funding supporting a variety of services for domestic violence victims, enabling existing programs to continue, while building capacity to handle the increased need resulting from an increase in domestic violence during the pandemic.
- **Flexible Cash Assistance for Survivors of Crime**—\$50 million one-time General Fund was provided to support grants for community-based organizations to provide cash assistance for survivors of crime.
- **Nonprofit Security Grant Program**—\$100 million General Fund was appropriated to assist nonprofit organizations that have historically been targets of hate-motivated violence, providing them with resources to make physical security enhancements to nonprofit organizations that are at high risk of violence and hate crimes based on ideology and beliefs.
- **Domestic and Sexual Violence, Human Trafficking, and Children's Services**—\$15 million one-time General Fund was provided to expand domestic violence and sexual violence prevention efforts; \$6.7 million ongoing General Fund was provided to increase reimbursements to local law enforcement agencies to offset the cost of reimbursing qualified health care professionals, hospitals, or other emergency medical facilities for medical evidentiary examinations for all sexual assault victims; \$30 million one-time General Fund was provided over three years to expand human trafficking survivor support programs; and \$11 million one-time General Fund was provided to support the Family Justice Center Program providing services for victims and their children.
- **Media Outreach to Victims of Violent Crime**—\$3 million one-time Restitution Fund was appropriated to conduct an outreach campaign to raise awareness of statewide victim support services, while targeting hard-to-reach populations.

CALIFORNIA HIGHWAY PATROL

The California Highway Patrol provides uniform traffic law enforcement throughout the state and serves the public by assuring the safe, convenient and efficient transportation of people and goods on the state's highway system.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Body-Worn Cameras**—The Budget proposes \$9.8 million Motor Vehicle Account for the California Highway Patrol to implement a statewide body-worn camera program. Building on a pilot program in the Oakland and Stockton areas, the statewide body-worn camera program will enhance public safety transparency and accountability, and have a substantial positive impact on the successful prosecution of crimes.

DEPARTMENT OF JUSTICE

As chief law officer of the state, the Attorney General has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice (DOJ). The Department provides legal services on behalf of the people of California; serves as legal counsel to state agencies; provides oversight, enforcement, education, and regulation of California's firearms laws; provides evaluation and analysis of physical evidence; and supports the data needs of California's criminal justice community. The Budget includes total funding of approximately \$1.2 billion, including \$486 million General Fund, to support DOJ.

The state has continued to invest in DOJ's budget to enhance public safety. Among other things, the 2022 Budget Act included funding to maintain the DNA Identification Fund to support forensic activities on behalf of local law enforcement agencies, create a fentanyl enforcement program, combat organized retail theft, and continue coordination efforts that support various law enforcement task forces. Additionally, the Administration has demonstrated its commitment to strengthening gun violence protections by dedicating funds to enhance DOJ's firearms information technology systems, regulating the sale and transfer of firearm precursor parts, and supporting a gun violence reduction grant program.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Bureau of Forensic Services**—\$53.4 million ongoing General Fund to continue backfilling a decline in fine and fee revenue to the DNA Identification Fund. This is necessary to maintain current service levels related to processing forensic evidence, such as DNA, for local jurisdictions.

- **Unserialized Firearms (AB 1621)**—\$2.8 million General Fund in 2023-24, \$2.5 million in 2024-25, and \$1.2 million ongoing, to regulate the sale, transfer, possession, and manufacturing of unserialized firearm precursor parts pursuant to Chapter 76, Statutes of 2022.
- **Firearms: Dealer Inspections (AB 228)**—\$797,000 General Fund in 2023-24, and \$738,000 ongoing, to conduct firearms dealer inspections at least once every three years and increase audit sampling amounts during inspections pursuant to Chapter 138, Statutes of 2022.
- **Firearms: Civil Suits (AB 1594)**—\$648,000 General Fund in 2023-24, and \$631,000 ongoing, to provide legal guidance, expert testimony, and support general research and analytic workload in civil lawsuits pertaining to firearms pursuant to Chapter 98, Statutes of 2022.
- **Firearms: Dealer Requirements (SB 1384)**—\$177,000 Special Fund in 2023-24, and \$164,000 in 2024-25, to promulgate regulations and update existing procedures for operating a firearm dealer business pursuant to Chapter 995, Statutes of 2022.
- **Firearms: Gun Shows and Events (AB 2552)**—\$408,000 (\$12,000 General Fund and \$396,000 Special Fund) in 2023-24, decreasing to \$191,000 (\$12,000 General Fund and \$179,000 Special Fund) ongoing, to address increased gun show enforcement and related reporting requirements pursuant to Chapter 696, Statutes of 2022.
- **Firearms: Manufacturers (AB 2156)**—\$911,000 one-time General Fund to address increased workload to process firearm manufacturer applications and make changes to the Unique Serial Number Application process pursuant to Chapter 142, Statutes of 2022.
- **Police Practices Division (AB 1506)**—\$1.8 million ongoing General Fund to establish the Police Practices Division to review the use of deadly force policies and make best practice recommendations pursuant to Chapter 326, Statutes of 2020.
- **Domestic Violence: Death Review Teams (SB 863)**—\$1.5 million General Fund in 2023-24, and \$1.1 million ongoing, to collect data on near-death domestic violence cases and prepare an annual report pursuant to Chapter 986, Statutes of 2022.
- **Crimes: Race-Blind Charging (AB 2778)**—\$817,000 General Fund in 2023-24, and \$2.4 million ongoing, to collaborate with local jurisdictions, develop guidelines and policies for race-blind charging, perform document redaction, and review additional criminal cases pursuant to Chapter 806, Statutes of 2022.

- **Criminal Procedures: Discrimination (AB 256)**—\$2.2 million General Fund in 2023-24, \$2.1 million in 2024-25, and \$848,000 in 2025-26 and 2026-27, to address increased litigation-related workload associated with increased appeals for past convictions pursuant to Chapter 739, Statutes of 2022.
- **Fee Increase for Missing Persons DNA Program**—\$1.5 million Special Fund in 2023-24 and \$1.4 million ongoing to support the Missing Persons DNA Identification program. This program is funded by a fee assessed for each death certificate, and the Budget proposes to increase the fee from \$2 to \$3.63 to support the current service level.

LABOR AND WORKFORCE DEVELOPMENT

The Labor and Workforce Development Agency continues the Administration's commitment to supporting pathways to quality jobs and equity through workforce development strategies that include apprenticeship, High Road Training Partnerships, and other earn-and-learn strategies.

The 2022 Budget invested approximately \$2.2 billion General Fund to create additional apprenticeships; provide training to mitigate the effects of climate change; provide job training and other assistance to the justice-involved population; and create more innovative and accessible opportunities to recruit, train, hire, and advance an ethnically and culturally inclusive health and human services workforce. Even with the reductions noted below that are required to address the budget problem, the Budget maintains \$2.065 billion for these purposes.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Wage Claim Adjudication**—An additional \$11.7 million special funds and 42 positions in 2023-24 and \$6.5 million special funds ongoing for the Department of Industrial Relations to help address wage claim processing times by improving the efficiency of the claims intake and processing as well as automate portions of the claims processing activities within the Wage Claim Adjudication unit.
- **Electronic Adjudication Management System Modernization**—\$21.1 million special funds in 2023-24 for the Department of Industrial Relations to support the

replacement of the Division of Workers' Compensation's electronic case management and document storage system.

- **Various Department of Public Health Workforce Development Programs**—The 2022 Budget Act previously planned \$65.6 million over four years for various public health workforce development programs. The Budget proposes to reduce this investment to \$15.8 million to help address the projected revenue shortfall. See the Health and Human Services Chapter for additional information.
- **Apprenticeship Innovation Fund**—The 2022 Budget Act committed \$175 million General Fund over three years (\$55 million in 2022-23 and \$60 million in each 2023-24 and 2024-25) at the Department of Industrial Relations to invest in and expand non-traditional apprenticeships. The Budget proposes to withdraw \$40 million (\$20 million in each 2023-24 and 2024-25)—reducing the total three-year investment to \$135 million. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.
- **Women in Construction Unit**—The 2022 Budget Act committed \$15 million General Fund ongoing at the Department of Industrial Relations to promote and support women and non-binary individuals in skilled trade careers. The Budget proposes to pause this funding in 2023-24 and 2024-25—and resume funding of \$15 million General Fund ongoing in 2025-26. If there is sufficient General Fund in January 2024, this pause will be withdrawn. See the Introduction Chapter for further information on this trigger.
- **COVID Workplace Outreach Program**—The 2022 Budget Act committed \$50 million General Fund over two years (\$25 million in each 2022-23 and 2023-24) to the Department of Industrial Relations to partner with organizations to perform COVID outreach and education to workers and employers in high-risk industries. The Budget proposes the elimination of \$25 million in 2023-24.
- **Emergency Medical Technician Training**—The 2022 Budget Act committed \$60 million General Fund over three years (\$20 million in each 2022-23, 2023-24, and 2024-25) at the Employment Development Department to provide targeted emergency medical technician training. The Budget proposes to withdraw \$20 million (\$10 million in each 2023-24 and 2024-25)—reducing the total three-year investment to \$40 million. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.
- **California Youth Leadership Program**—The 2022 Budget Act committed \$60 million General Fund over three years (\$20 million in each 2022-23, 2023-24, and 2024-25) to

the California Workforce Development Board to invest in career pathway programs at community colleges. The Budget proposes to withdraw \$20 million (\$10 million in each 2023-24 and 2024-25)—reducing the total three-year investment to \$40 million. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.

- **Various Department of Health Care Access and Information (HCAI) Workforce**—The 2022 Budget Act committed over \$1.5 billion General Fund for healthcare and workforce development initiatives over multiple years. The Budget defers \$68 million in 2022-23 and \$329.4 million in 2023-24 for certain HCAI healthcare workforce programs. These programs remain fully funded, but these funds will be appropriated later than initially anticipated—\$198.7 million in both 2024-25 and 2025-26.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) has spent years preparing to modernize its benefits systems and continues to focus on enhancing its customer service. The 2022 Budget Act included \$136 million (\$68 million General Fund) in one-time resources for EDDNext, a five-year plan to modernize EDD. The 2022 Budget Act also included \$313.4 million over three years to continue to address fraud in the Unemployment Insurance (UI) and State Disability Insurance programs. The Governor's Budget proposes the continuation of these existing modernization efforts as well as reductions in other areas to address declining General Fund revenues, which will not disrupt important progress.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Unemployment Insurance Trust Fund Loan Interest**—\$279 million one-time General Fund to pay the annual interest payment on the state's Unemployment Insurance loan balance.
- **EDDNext**—\$198 million one-time in 2023-24 (\$99 million General Fund) to continue the planning and development of EDDNext, for the second year of a five-year plan to modernize EDD. The effort includes enhancements to EDD's benefits system—improving call centers, simplifying forms and notices, including user testing and engagement, developing data analysis tools to continue curbing fraudulent benefit claims, and training.

- **Fraud Prevention**—\$85 million one-time in 2023-24 (\$71 million General Fund) as part of a multi-year investment included in the 2022 Budget Act to combat fraud—including front-end technology to block foreign and suspicious Internet Protocol addresses, improvements to applicant identity verification, and services to screen and validate claim integrity.
- **Unemployment Insurance Debt Payment**—The 2022 Budget Act included \$1 billion (\$250 million federal funds in 2022-23 and \$750 million General Fund in 2023-24) to pay down a portion of the state's approximately \$18 billion Unemployment Insurance Trust Fund debt. The Budget proposes to withdraw the \$750 million one-time General Fund payment in 2023-24.
- **Unemployment Insurance Small Business Relief**—The Budget proposes to remove the \$500 million one-time General Fund commitment made as part of the 2022 Budget Act to offset the anticipated rising federal unemployment insurance tax rates resulting from the Unemployment Insurance Trust Fund insolvency.

GENERAL GOVERNMENT AND STATEWIDE ISSUES

This chapter describes items in the Budget that are statewide issues or related to various departments.

GOVERNMENT OPERATIONS AND EFFICIENCIES

Since 2019, the Administration has been transforming government services through improvements in service delivery and technology investments. Building upon past efforts and lessons learned from the COVID-19 Pandemic, the state continues greater operational efficiencies through the expansion of telework strategies, reconfiguring office space, reducing leased space, promoting flexible work schedules for employees, and reducing disparities and promoting equity and inclusion in the workplace, including efforts to:

- **Support Statewide Telework**—The Department of General Services (DGS) continues to be funded for oversight and administration of the State's Telework Policy for successful implementation and data capture metrics, and to provide strategic efficiencies.
- **Reduce and Reconfigure Office Space**—Progress continues in reducing the state's leased portfolio while prioritizing the largest leasing clients to gain the greatest efficiencies. DGS is currently working with 40 state departments to consolidate

space across 132 individual leases, resulting in 1.16 million square feet of office space relinquished and annual savings of approximately \$35 million.

- **Reduce Travel Costs**—DGS continues to work with state departments and agencies for opportunities to reduce statewide travel costs by purchasing non-refundable airline tickets in lieu of refundable tickets, to the extent possible. Through this effort, the state has achieved 90-percent compliance with this goal, saving over \$3.6 million since August 2021.
- **Establish Office of Data and Innovation**—\$17.3 million ongoing General Fund and 65 positions from the Government Operations Agency (GovOps) were invested to establish the Office of Data and Innovation (ODI) as a standalone department under GovOps. ODI partners with state agencies to improve the efficiency and effectiveness of services delivered to Californians by providing process improvement and data solutions that are easy to use across government.

The Administration continues to invest in technology to improve and modernize the way Californians interact with government. Modernizing technology solutions results in efficiencies by providing faster and better government services.

- **Digital Identification**—The California Department of Technology (CDT) continues progress on the Digital Identification project, creating a single digital identifier aimed at eliminating the need for California residents to provide their identity and manage multiple user IDs across various websites to obtain state services. CDT recently launched a pilot demonstration project with the California Department of Transportation, the California Integrated Travel Project, Monterey-Salinas Transit Agency, and U.S. General Services Administration's Login.gov, to provide an online tool for transit riders to verify their identity and eligibility to receive discounted fares using their bank card.
- **Modernizing the Department of Motor Vehicles**—The Department of Motor Vehicles (DMV) continues to make improvements towards its IT modernization efforts, and prior year investments have allowed the DMV to shift how the public conducts business with many workload transactions now processed online. DMV continues to advance toward more modern systems that allow more Californians to use the internet as a portal for conducting transactions electronically.

SIGNIFICANT BUDGET ADJUSTMENTS

The Administration maintains its commitment to advancing technology modernization and stabilization. However, due to the decline in General Fund revenues, the Budget includes some reductions in funding.

- **Technology Modernization**—The 2021 and 2022 Budget Acts provided \$50 million General Fund over multiple years to CDT to modernize IT solutions in a timely and efficient manner. Due to declining General Fund revenues, the Budget reduces this amount by \$21 million.
- **Technology Stabilization**—The 2022 Budget Act provided \$30 million General Fund over multiple years to stabilize critical digital services. These investments allowed CDT to conduct assessments of existing critical systems and identify technology solutions to mitigate the risk of potential failure of critical services. Due to declining General Fund revenues, the Budget reduces this amount by \$17.5 million.

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$487.5 million (\$130.6 million General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding contributions for active employees. Included in these costs are collectively bargained salary and benefit increases resulting from contract and side letter negotiations. Funding is also included for 2024 calendar year increases in health care and dental premiums and enrollment.

Collective bargaining negotiations will commence with 14 bargaining units including: Professional, Administrative, Financial and Staff Services; Professional Educators and Librarians; Office and Allied Employees; Engineering and Scientific Technicians; Printing and Allied Trades; Allied Services; Registered Nurses; Medical and Social Services; Educational Consultants and Library; Correctional Officers; Law Enforcement; Craft and Maintenance; Physicians, Dentists, and Psychologists; and Health and Social Services/Professionals, whose contracts expire in summer 2023.

PAYING DOWN UNFUNDED PENSION LIABILITIES

The Administration remains committed to the long-term sustainability of the state retirement systems and paying benefits to state employees during their retirement

years. Over the last decade, the state has taken significant steps toward addressing its retirement liabilities through public pension law reform, implementation of funding strategies to pay down unfunded pension and retiree health benefits, and the allocation of billions of dollars in supplemental funding beyond the state's required annual contributions to the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS). The Budget includes:

- **State Employees' Retirement Contributions**—\$8.5 billion (\$4.7 billion General Fund) for the statutorily required annual state contribution to CalPERS for state pension costs based on the CalPERS actuarial valuation projected contribution rates as of June 30, 2021. This is \$255 million (\$151 million General Fund) higher than the 2022 Budget Act due to payroll growth and the normal progression of amortization bases, including the 7.4-percent investment loss in 2021-22. Included in these costs are \$747 million General Fund for California State University retirement costs. Additionally, the Budget includes \$1.2 billion one-time Proposition 2 debt repayment funding as a supplemental payment toward the state plans' unfunded liabilities.
- **Teachers' Retirement Contributions**—\$3.9 billion General Fund for the statutorily required annual state contribution to CalSTRS. The roughly \$218 million increase from the 2022 Budget Act is due to higher-than-anticipated growth in creditable compensation from 2020-21 to 2021-22.
- **State Health Care Benefits**—\$390 million in one-time Proposition 2 debt repayment funding for the employer's share of contributions to pay for future retiree health benefits.

The State Retirement and Health Care Contributions figure provides a historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and health care benefits.

State Retirement and Health Care Contributions^{1/ 2/ 3/}

(Dollars in Millions)

	CalPERS	CSU CalPERS	CalSTRS	JRS	JRS II	LRS ^{5/}	Active Health & Dental ^{6/}	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding ^{7/}
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 ^{8/}
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	84	1	3,255	1,759	313	394
2019-20	5,946	716	3,323	242	91	1	3,371	1,844	326	562
2020-21	4,925	680	3,428 ^{4/}	225	84	1	3,398	1,938	339	600
2021-22	6,090	675	3,862	194	92	1	3,501	2,019	356	1,292 ^{9/}
2022-23	7,475	744	3,712	208	87	1	3,771	2,208	392	698
2023-24 ^{10/}	7,727	747	3,930	211	87	1	4,089	2,417	428	711

^{1/} The chart does not include contributions for University of California pension or retiree health care costs.

^{2/} The chart does not reflect the following pension payments: \$6 billion supplemental payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), additional payments to CalPERS and CalSTRS authorized in Chapter 33, Statutes of 2019 (SB 90), Chapter 859, Statutes of 2019 (AB 118), Chapter 78, Statutes of 2021 (AB 138), Chapter 67, Statutes of 2022 (SB 191), and Proposition 2 payments to CalPERS proposed in the 2023-24 Governor's Budget.

^{3/} In addition to the Executive Branch, this chart includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in the CalPERS column include statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

^{4/} As part of the 2020 Budget Act, the Teachers' Retirement Board's statutory authority to adjust the state contribution rate for fiscal year 2020-21 was suspended. The amount shown excludes the additional \$297 million in supplemental pension payment from Proposition 2 debt payment funding authorized in the 2021 Budget.

^{5/} The state continues to make employer contributions to the Legislators' Retirement System. CalPERS reported the estimated 2022-23 contribution amount is \$47,497.

^{6/} These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and the California State University (CSU).

^{7/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

^{8/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

^{9/} Amount includes \$616 million to help ensure full funding by 2046, which is provided by the employer on behalf of the employees, based on the actuarial liability for each bargaining unit, as employee prefunding contributions were suspended in 2020-21 due to the Personal Leave Program 2020.

^{10/} Estimated as of the 2023-24 Governor's Budget, contributions sourced from the General Fund are estimated to be \$3,973 million for CalPERS, \$747 million for CSU CalPERS, \$1,920.4 million for Active Health and Dental, and \$390 million for OPEB Prefunding. Fiscal year 2023-24 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are all General Fund costs.

HIGH SPEED INTERNET IMPLEMENTATION

California has made extraordinary investments in recent years to expand access to broadband for all Californians and close the digital divide across the state.

The 2021 Budget provided \$6 billion over three years as part of a statewide plan to expand broadband infrastructure, increase affordability, and enhance access. Of this

amount, \$3.25 billion was provided to the California Department of Technology (CDT) for the purpose of building an open-access middle-mile network in unserved and underserved areas of California. Estimates produced by CDT, the California Department of Transportation (Caltrans) and the California Public Utilities Commission (CPUC) indicate a need for approximately 10,000 miles of middle-mile broadband infrastructure for unserved and underserved communities.

To complement the middle-mile network, the 2021 Budget also provided for a \$2 billion allocation over multiple years for CPUC grants to build out last-mile infrastructure to help provide Californians with access to high-speed broadband service. The 2021 Budget also provided for \$750 million over multiple years for a Loan Loss Reserve Fund to support costs related to the financing of local broadband infrastructure development. Additionally, the 2022 Budget included \$300 million one-time General Fund in 2023-24 and \$250 million one-time General Fund in 2024-25, to CDT to further support the Broadband Middle-Mile Initiative.

SIGNIFICANT BUDGET ADJUSTMENTS

The Budget maintains the same level of funding for broadband middle-mile, last-mile and the Loan Loss Reserve Fund activities. However, to address the budget problem, the Budget proposes:

- Deferral of \$550 million at the CPUC for last-mile infrastructure grants in 2023-24 to future years (\$200 million in 2024-25, \$200 million in 2025-26, and \$150 million in 2026-27).
- Deferral of \$175 million from 2022-23 and \$400 million from 2023-24 for the Loan Loss Reserve Fund at the CPUC to future years (\$300 million in 2024-25 and \$275 million in 2025-26).

FEDERAL INFRASTRUCTURE INVESTMENT AND JOBS ACT (IIJA)

The federal Infrastructure Investment and Jobs Act (IIJA) authorized \$1.2 trillion for transportation and other infrastructure investments with more than \$550 million of that total going toward new investments and programs. This included a \$200 billion augmentation to existing and new transportation programs for highway, transit, highway safety, and rail programs over five years. California will receive an average increase of \$2.2 billion annually in federal road and transit formula funding through 2025-26, bringing California's total share of federal formula funding for transportation to

\$38 billion for the five-year period. The state's transportation infrastructure funding commitments will also help California potentially secure up to \$15 billion in additional federal funding, over and above these allocated formula funds, through competitive IIJA programs available to all states.

Since the IIJA's enactment, the state has employed an outreach and engagement process to creatively implement this federal legislation. At the year-one mark, the state has received over \$16.2 billion to modernize and create more resilient transportation, energy, broadband, and water systems, including \$1.3 billion in federal competitive grants for 219 transportation-related projects.

With the large influx of federal funding, California will continue to make major progress in rebuilding, revitalizing, and reimagining the state's infrastructure to create cleaner, safer, and more resilient infrastructure that benefits Californians.

TRANSPORTATION

To date, the state has written and published guidelines and solicitations to prepare California to secure billions of dollars in federal funding to match the state's investments. California is on track to award \$5 billion to support transit, supply chain, and port infrastructure projects and \$1.7 billion in active transportation projects by the end of 2022-23.

In addition to the federal investments and state matches, the Budget continues to prioritize investments in transportation infrastructure that are critical to reducing carbon emissions, supporting California's economic growth, and enhancing the state's ability to leverage and compete for federal funding. For additional information on transportation funding related to climate, please see the Climate Change Chapter.

While the Administration continues to prioritize transportation infrastructure, the budget problem makes reductions necessary to balance the state budget. As such, the Budget proposes a net reduction of \$2 billion over three years to future transit infrastructure funding. Despite the proposed reduction, California will continue to benefit from not only the large increase in federal funding, but the remaining \$5.7 billion augmentation to transit and rail infrastructure funding, maintaining California's ability to strongly compete for and leverage available federal funding and make significant improvements to transit and rail connectivity statewide. The Administration also continues to seek opportunities to streamline and accelerate project delivery.

GAS PRICE GOUGING PENALTY

In a special session in December, the Administration, working with the Legislature, introduced a policy proposal: a price gouging penalty on excess oil refiner profits as well as transparency and oversight measures to help prevent future price gouging in California. While this proposal will be developed outside of the budget process, it is an important tool to prevent gas price hikes in the state by making it unlawful for refineries to collect excessive profits. The amount of the maximum margin and the amount of the penalty will be determined through the legislative process. Although the goal of the price gouging penalty is to discourage price hikes from hitting Californians in the first place, any funds collected by the penalty will go to a Price Gouging Penalty Fund and then go back to Californians.

INFRASTRUCTURE AND BUDGET RESILIENCY

The Budget includes a multi-year commitment of \$44 billion in state funds for various statewide infrastructure investments. This includes funding to accelerate the transition to zero-emission vehicles, modernize the state's transportation system, promote energy innovation and reliability, provide greater access to broadband connectivity, advance the state's housing goals, reduce wildfire risk to communities, and support drought resiliency and response.

BONDS

To strengthen budget resiliency, the 2022 Budget included several multi-year proposals intended to contribute to a reduction in the state's long-term debt obligations. Capital projects with existing lease revenue bond financing authority, totaling approximately \$3.2 billion, were to be shifted to General Fund over three fiscal years. The 2022 Budget also included a proposal to redeem approximately \$1.7 billion in callable GO bonds in the 2024-25 fiscal year. These proposals used one-time funding to structure a multi-year approach to reducing the state's long-term bond debt obligations, and to provide budget resiliency in the event of an unexpected change in the state's fiscal condition.

The Budget maintains funding to support continuing critical capital outlay projects. However, to address the projected decline in General Fund revenue, the Budget proposes to shift funding for infrastructure projects from cash back to bond financing.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Capital Outlay Fund Shifts**—Approximately \$1.4 billion of the \$3.2 billion of capital projects proposed to be shifted to General Fund will instead retain the existing lease revenue bond authority. In addition, capital projects totaling approximately \$200 million currently authorized for General Fund, and another approximately \$480 million of capital projects proposed for General Fund in future years, will instead be financed with lease revenue bonds.
- **Project Deferrals**—Approximately \$850 million of new capital projects will be deferred to future years.
- **Elimination of GO Bond Redemption**—The scheduled redemption of callable GO bonds totaling approximately \$1.7 billion in 2024-25 is proposed to be withdrawn.

DEFERRED MAINTENANCE

Since 2019, approximately \$3.2 billion (\$2.6 billion General Fund, \$620 million Proposition 98 General Fund, and \$29 million Proposition 68 bond funds) has been allocated across departments to address the most critical statewide deferred maintenance needs. Because of these one-time investments, thousands of important infrastructure maintenance projects have been completed statewide.

SIGNIFICANT BUDGET ADJUSTMENTS

While the state will continue to address critical deferred maintenance, approximately \$216 million of unencumbered deferred maintenance funding will be reverted to the General Fund to address the projected decline in General Fund revenues, as follows:

- **Judicial Branch**—\$49.5 million
- **Department of Forestry and Fire Protection**—\$13 million
- **Department of Parks and Recreation**—\$31 million
- **Department of Corrections and Rehabilitation**—\$30 million
- **Department of General Services**—\$92.5 million

STATE PARKS

Since 2021, the Administration has committed \$1.36 billion over multiple years to support the safe, equitable, and enjoyable access to parks, open spaces, natural resources, and recreational amenities for all Californians.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Dos Rios Ranch State Park**—\$5.8 million one-time and \$3.3 million ongoing General Fund to establish and open Dos Rios Ranch as a new state park and create recreation opportunities and park access to historically underserved communities in the Central Valley. Funds initially appropriated for the acquisition of a new state park in the 2020 Budget Act will be used for planning and acquisition costs.
- **Natural Resources and Parks Preservation Fund**—A reversion of \$110 million from the Natural Resources and Parks Perseveration Fund to the General Fund. This reversion includes \$95 million for future phases of the California Indian Heritage Center project and \$15 million for unspecified future capital outlay projects. The Department of Parks and Recreation is currently in the preliminary plans phase of the California Indian Heritage Center project, including assessing and incorporating input from California Native American tribes and stakeholders. Funding for future phases of this project will be requested in the fiscal year in which the funding will be necessary, which is consistent with the standard budgeting approach for capital outlay projects. This reversion will have no impact on the project's schedule.
- **Statewide Parks Program**—A reduction of \$150 million General Fund for the Statewide Parks Program across 2022-23, 2023-24, and 2024-25. A total of \$230 million allocated to this program in previous budget acts will remain. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.

INVESTMENTS IN BUSINESSES AND INNOVATION

The state has made significant investments to support small businesses, including tax relief for businesses impacted by the COVID-19 Pandemic, fee waivers for new businesses to encourage business growth, additional funding to bolster existing grant programs and technical assistance centers, and new programs to support entrepreneurs. In addition to making a historic investment of over \$4 billion for the California Small Business COVID-19 Relief Grant Program, the state has made General

Fund investments totaling over \$800 million to support California businesses. Many of the following programs will be implemented over several fiscal years:

- **State Small Business Credit Initiative (SSBCI)**—\$1.1 billion from the federal American Rescue Plan Act of 2021 has been allocated to help support small businesses. This funding is intended to leverage an additional \$18 billion of capital to California small businesses. To supplement SSBCI funds, the 2021 Budget Act added \$20 million one-time General Fund for IBank's Small Business Loan Guarantee Program to continue to provide loans as businesses recover from the economic impacts of the COVID-19 Pandemic. The Small Business Loan Guarantee Program uses state funds for guarantees that are not eligible for SSBCI.
- **Pandemic-Related Investments**—\$397.5 million one-time General Fund has been invested to create the California Venues Grant (\$150 million) and Microbusiness COVID-19 Relief Grant programs (\$50 million); to assist in the continued recovery of California's travel and tourism industry (\$110 million); and to support IBank's Small Business Finance Center and the California Rebuilding Fund to focus on programs that benefit underserved businesses (\$87.5 million).
- **Small Business and Nonprofit COVID-19 Supplemental Paid Sick Leave Grants**—\$250 million one-time General Fund has been appropriated for relief grants for small businesses and non-profits to offset costs of their employees who used the state's supplemental COVID-19 paid sick leave.
- **Business Creation and Job Growth**—\$80 million one-time General Fund was invested to spur new businesses and job creation by establishing the California Dream Fund to support micro-grants to seed entrepreneurship and small business creation in underserved groups (\$35 million); providing financial and technical assistance to employment social enterprises that provide jobs, on-the-job training, and other support to people who face high barriers to work (\$25 million); and expanding California Innovation Hubs and Entrepreneurship Grants to encourage the incubation of new businesses (\$20 million).
- **Small Agricultural Business Drought Relief Grant Program**—\$75 million one-time General Fund was allocated to provide direct assistance to eligible agriculture-related businesses affected by severe drought conditions.
- **Technical Assistance for Small Businesses**—\$6 million General Fund in 2022-23, and \$26 million ongoing, was appropriated to permanently extend the California Office of the Small Business Advocate's Small Business Technical Assistance Program and

Capital Infusion Program, and \$8 million one-time General Fund to support Women's Business Centers.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Film and Television Tax Credit**—\$330 million per year beginning in 2025-26 to extend the existing program and make the credit refundable to benefit a wider range of productions and ensure the competitive program will maximize economic benefits to the state. For additional information regarding this tax credit, see the Revenue Estimates Chapter.
- **Made in California Program**—\$1.5 million one-time General Fund, to be spent over three years, to relaunch the Made in California Program and conduct outreach and engagement to increase participation in the program. The Made in California Program aims to support in-state manufacturing by increasing consumer awareness of in-state production.
- **California Small Business COVID-19 Relief Grant Program**—The Budget proposes to remove approximately \$92 million General Fund from this program due to declining General Fund revenues. This is the estimated amount remaining after all grants have been awarded to eligible businesses. As of December 2022, over 320,000 small businesses received grants at an average grant amount of approximately \$11,000. Awards are still ongoing for round nine and will continue until all funds have been exhausted.
- **IBank's Small Business Finance Center and the California Rebuilding Fund**—Due to declining General Fund revenues, the Budget proposes to remove \$50 million General Fund, leaving \$37.5 million available for financial assistance to small businesses.

The Administration will consider changes to address issues within the nonprofit sector to support the sector's ability to deliver on meeting goals in state programs.

THE STATE'S CHIPS ACT STRATEGY

The federal CHIPS (Creating Helpful Incentives to Produce Semiconductors) Act invests \$54 billion into semiconductor manufacturing, research, and development, including \$39 billion over 5 years in financial assistance under the incentive program to build, expand or modernize domestic facilities and equipment for semiconductor fabrication, assembly, testing, advanced packaging, or research and development. The state has

several existing programs that semiconductor companies can benefit from and that provide incentives and support to companies looking to relocate to or expand in California. These programs include the California Competes Tax Credit, the partial sales tax exemption for the purchase of manufacturing equipment, and the sales tax exemption program administered by the California Alternative Energy and Advanced Transportation Financing Authority for manufacturers that promote alternative energy and advanced transportation. To further leverage federal funds available under the CHIPS Act and to encourage semiconductor manufacturing and research and development in California, the Budget includes an extension of the California Competes grant program and changes to the state's existing New Employment Credit as described below.

CALIFORNIA COMPETES

The Budget proposes to provide \$120 million one-time General Fund for a third year of the California Competes grant program. The California Competes grant program was initially created in the 2021 Budget Act to extend the success of the California Competes Tax Credit program to businesses that cannot fully benefit from a nonrefundable tax credit, but still present vital economic development opportunities that are at risk of taking place outside of California. The 2022 Budget Act included \$120 million one-time General Fund for the California Competes grant program and added language to give priority to grant program funds for semiconductor manufacturing and research and development for grants awarded in 2023-24. The 2022 Budget Act also removed the cap that prevents any one grantee from receiving more than 30 percent of the program's total amount of grants allocated in 2023-24.

NEW EMPLOYMENT CREDIT

The Budget proposes eliminating the geographic restrictions of the state's existing New Employment Credit for qualifying semiconductor manufacturing and research and development firms. The New Employment Credit was created in 2014 to incent businesses that operate in high-poverty areas to hire and provide full-time employment to the long-term unemployed, veterans discharged from service in the last 12 months, Earned Income Tax Credit recipients, ex-offenders convicted of a felony, and current recipients of CalWORKS or county general assistance. Expanding access to the credit by removing the geographic requirement for qualifying semiconductor manufacturing and research and development firms will provide more flexibility for these firms to use

this financial incentive to create full-time jobs, and will also support the state's equity goals by encouraging the hiring of underserved populations.

CANNABIS

The state has made significant progress in strengthening California's legal cannabis market. The 2021 Budget Act consolidated the cannabis-regulatory functions into a single Department of Cannabis Control within the Business, Consumer Services, and Housing Agency, to simplify participation in the legal market and support the successful and safe operation of cannabis businesses in compliance with state law. The 2022 Budget Act included statutory changes to reform cannabis taxes, provide relief to equity cannabis retailers, and authorize high-road cannabis employers and cannabis equity operators to claim tax credits. These policy changes simplify the tax structure and remove administrative burdens and costs, which reduces barriers to entry into the legal, regulated cannabis market. Furthermore, the state has implemented a fee waiver or deferral program to reduce barriers to entry into the legal market and invested in grant programs that support equity in cannabis, provide funding to cities and counties that do not currently have a local cannabis retailer licensing program, and help local governments and aid licensees in moving from provisional licensure to annual licenses.

UPDATED ALLOCATION OF THE CANNABIS TAX FUND

On July 1, 2022, pursuant to comprehensive cannabis tax reforms in Chapter 56, Statutes of 2022 (AB 195), the cannabis cultivation tax was suspended, resulting in savings to legal cannabis businesses and consumers. On January 1, 2023, responsibility for cannabis excise tax remittance moved from distribution to the point of sale. Additional tax reforms included the creation of two Cannabis Equity Tax Programs, including vendor compensation for eligible retailers, and Equity Tax Credits for eligible licensees beginning January 1, 2023.

Proposition 64 specifies the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis and the past effects of its criminalization. Once these priorities have been met, the remaining funds are directed to youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities. AB 195 requires that these Allocation 3 programs are funded at a baseline of

approximately \$670 million. To meet this requirement, the Budget includes \$95.4 million General Fund in 2023-24 to backfill the estimated decline in revenues that fund the programs as follows:

- **Education, prevention, and treatment of youth substance use disorders and school retention**—60 percent (\$401.8 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent (\$133.9 million)
- **Public safety-related activities**—20 percent (\$133.9 million)

CANNABIS ENFORCEMENT

The Office of Emergency Services, in partnership with the Department of Cannabis Control and the Department of Fish and Wildlife, has convened several state, federal and local entities to strengthen enforcement coordination statewide utilizing existing resources through the California Unified Cannabis Enforcement Task Force. The Task Force seeks to better align intelligence gathering; catalog and coordinate enforcement activity; assess enforcement impacts; strengthen partnership, communication, and collaboration; make existing enforcement efforts more effective and strategic; align communications; pilot new methods, assess efficacy of enforcement methods, and identify best practices; strategically engage with non-participating governmental partners; and take other action as may be necessary to effectively combat illegal cannabis activity in California.

To further reinforce enforcement efforts, the Budget includes funding for the following entities:

- **Board of State and Community Corrections**—\$83.9 million Cannabis Tax Fund is allocated to the Board of State and Community Corrections through Allocation 3 to award grants to local governments to assist with law enforcement, fire protection, or other local programs addressing public health and safety associated with the implementation of the Control, Regulate and Tax Adult Use of Marijuana Act.
- **State Water Resources Control Board**—\$6.4 million Cannabis Control Fund and \$5.7 million in other special funds, which will increase over time to \$13.1 million Cannabis Tax Fund and \$6.6 other special funds, to continue the State Water Resources Control Board's statutorily mandated efforts to address water quality and instream flow-related impacts from cannabis cultivation through enforcement

against illegal cultivations and compelling enrollment of eligible cultivators in the Water Board's regulatory program through outreach and engagement to unpermitted cultivators, and progressive enforcement against sites that do not enroll in Water Board permits.

- **Department of Fish and Wildlife**—\$3.8 million Cannabis Control Fund and \$4.2 million Fish and Game Preservation Fund to continue the Department of Fish and Wildlife's Cannabis Regulatory and Enforcement Program. Continued regulatory resources will maintain the Department's role in the state cannabis regulatory structure and the Department's permanent law enforcement support for state agencies will assist with verifying compliance with the regulatory program requirements, including required impact minimization or mitigation measures in permits, licenses, and CEQA documents.
- **Department of Cannabis Control**—\$1.9 million Cannabis Control Fund to establish a permanent Department of Cannabis Control Enforcement District Office in Fresno to further the enforcement activities of the department in the Central Valley.
- **California Department of Tax and Fee Administration**—A portion of \$10 million Cannabis Control Fund will be allocated to the California Department of Tax and Fee Administration to support its cannabis tax enforcement program.

OFFICE OF PLANNING AND RESEARCH

The Office of Planning and Research assists the Governor and the Administration in planning, research, policy development and legislative analysis.

RACIAL EQUITY AND YOUTH EMPOWERMENT COMMISSIONS

The Budget includes \$3.8 million General Fund in 2023-24 and \$3.1 million General Fund through 2028-29, which includes \$1.5 million General Fund that was authorized in the 2022 Budget Act, to support the state's first Racial Equity Commission established by Executive Order N-16-22 and the California Youth Empowerment Commission established in Chapter 660, Statutes of 2021. The Office of Planning and Research will oversee both Commissions, which will launch by the end of 2023. The Budget also includes statutory changes to establish the Racial Equity Commission, an advisory body, through 2029. These Commissions will support California's leadership in expanding opportunity and justice for all. The California Youth Empowerment Commission was created to address the growing need to engage youth directly with policymakers. The

Commission is advisory in nature, for the main purpose of providing meaningful opportunities for civic engagement to help inform how to improve the quality of life for California's diversity of youth, especially disconnected and disadvantaged youth.

OFFICE OF COMMUNITY PARTNERSHIPS AND STRATEGIC COMMUNICATIONS

The Office of Community Partnerships and Strategic Communications manages the state's highest priority public awareness and community outreach campaigns. The 2022 Budget Act included \$65 million General Fund annually through 2025-26 to establish the Office and provided \$230 million one-time California Emergency Relief Fund in 2022-23 for the Office to continue COVID-19 vaccine-related public education and outreach campaigns. Due to declining General Fund revenues, the Budget proposes to remove \$80 million in 2022-23 for the COVID-19 Outreach campaign, reducing the one-time investment to \$150 million.

CALIFORNIA VOLUNTEERS

California Volunteers is the state office responsible for engaging Californians in service, volunteering, and civic action to tackle the state's most pressing challenges while lifting all communities. The state has made significant investments to support volunteers and service opportunities in California, including:

- **Californians for All College Service Program**—The 2021 Budget Act included \$146.3 million one-time (\$127.5 million federal American Rescue Plan Act of 2021 (ARPA) funds and \$18.8 million General Fund) to create the Californians for All College Service Program in partnership with the University of California, California State University, California Community Colleges, and private California university campuses. The 2022 Budget Act included \$73.1 million in 2024-25 and 2025-26 to continue funding for this program to provide opportunities for California college students, including AB 540-eligible students, to contribute to their communities while supporting lower debt college pathways for low-income students.
- **Youth Jobs Corps Program**—The 2021 Budget Act included \$185 million one-time federal American Rescue Plan Act of 2021 (ARPA) funds for the CaliforniansForAll Youth Jobs Corps program, to create or expand youth employment opportunities, such as part-time work or summer jobs, in partnership with local governments and community-based organizations. This program helps youth learn valuable job skills, develop public service career pathways, and engage with their communities.

- **California Climate Action Corps**—The 2021 and 2022 Budget Acts provided a total of \$4.7 million General Fund through 2025-26, and \$823,000 annually thereafter to support 115 Climate Corps members in the California Climate Action Corps program. These resources support the mission of empowering Californians to take meaningful actions to protect their communities against the harshest impacts of climate change.
- **California Experience Corps**—The 2022 Budget Act provided \$10 million one-time General Fund for the Foster Grandparents and Senior Companions program to engage older adults in volunteer service that benefit schools, families, and communities across the state. This provides up to 500 additional volunteer positions with stipends for older adults to provide one-on-one mentoring, nurturing, and support to children; and to provide peer-support services to older adults at risk of out-of-home placement due to chronic illness, disability, or isolation.

SIGNIFICANT BUDGET ADJUSTMENTS

- **California Climate Action Corps**—The Budget proposes \$4.7 million General Fund in 2023-24 through 2025-26, and \$9.4 million ongoing to make this program permanent and double the number of Climate Corps members from 115 to 230.
- **Youth Jobs Corps Program**—The Budget proposes \$78.1 million ongoing General Fund to make the CaliforniansForAll Youth Jobs Corps program permanent while providing pathways for undocumented Californians with work authorization.
- **Summer Youth Jobs Corps Program**—The Budget proposes to eliminate \$25 million one-time General Fund included in the 2022 Budget Act to support the existing Youth Jobs Corps program and offer additional summer employment opportunities. The purpose of this one-time grant program can be achieved by the proposed ongoing funding for the Youth Jobs Corps program.

OFFICE OF EMERGENCY SERVICES

The Office of Emergency Services (Cal OES) serves as the state's leadership hub during all major emergencies and disasters. This includes responding, directing, and coordinating local, state and federal resources and mutual aid assets across all regions to support the diverse communities across the state. Cal OES also builds disaster resilience by supporting local jurisdictions and communities through planning and preparedness activities, training, and facilitating the immediate response to an emergency through the longer-term recovery phase. During this process, Cal OES serves

as the state's overall coordinator and agent to secure federal government resources through the Federal Emergency Management Agency. The Budget includes \$3.3 billion (\$771.7 million General Fund) and 1,877 positions for Cal OES.

SIGNIFICANT BUDGET ADJUSTMENTS

- **California Cybersecurity Integration Center (Cal-CSIC)**—The Budget proposes \$28.7 million and 40 positions across various departments to maintain and enhance the capabilities of the Cal-CSIC. The Cal-CSIC was established as a partnership between Cal OES, the California Military Department, California Department of Technology, and the California Highway Patrol and serves as the central organizing hub of state government's cybersecurity preparedness and response activities and coordinates cyber intelligence and information sharing with local, state, and federal agencies; tribal governments; utilities and other service providers; academic institutions; and nongovernmental organizations. These resources will allow the Cal-CSIC to lead state efforts to identify and mitigate current and ever-evolving cyber threats, including providing enhanced (1) threat detection, assessment, and research; (2) gap testing and remediation; and (3) incident analysis and response.
- **Seismic Retrofitting Program for Soft Story Multifamily Housing**—Chapter 48, Statutes of 2022 (SB 189) established the Seismic Retrofitting Program for Soft Story Multifamily Housing and included legislative intent to appropriate \$250 million for this program in the 2023-24 Budget. Given the state's fiscal outlook and the projected decline in General Fund revenues, the intended appropriation is not reflected in the Budget. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.

This page intentionally blank to facilitate double-sided printing.

ECONOMIC OUTLOOK

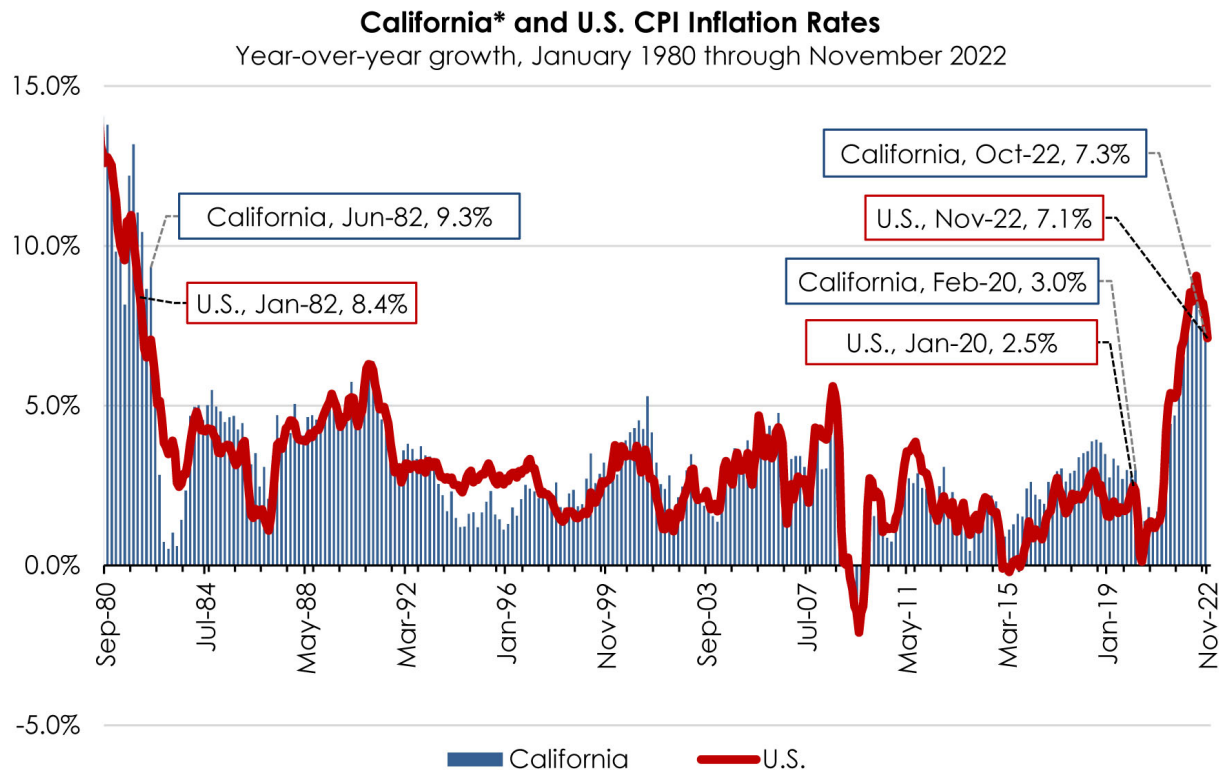
OVERVIEW

Despite stubbornly high inflation, international instabilities, and the ongoing impacts of a global public health pandemic, California and the nation experienced relatively strong nonfarm job growth in 2022. The state recovered all COVID-19 Pandemic-induced job losses as of October 2022, and the unemployment rate fell to a record low in September 2022. While the labor market thrived, U.S. inflation became more broad-based and reached a 40-year high of 8.5 percent by March 2022, leading the Federal Reserve to start raising the target federal funds rate in efforts to cool the overheated economy. (See figure on California and U.S. CPI Inflation Rates.)

Between March and December 2022, the Federal Reserve raised rates seven times to a target range of 4.25 percent to 4.5 percent and has indicated that it will maintain high target rates until inflation slows to the Federal Reserve's target threshold of around 2 percent. The Governor's Budget forecast projects economic growth to continue, albeit at a slower pace in 2023 as interest rates remain high. Nonfarm job and total wage growth are also expected to slow in 2023 before reverting to a trend of more normalized growth.

The uncertain future paths for inflation and Federal Reserve policy pose short-term risks. If high inflation persists longer than expected or if the Federal Reserve policy causes greater pullbacks by businesses or individuals, the economy could tip into a mild recession. This could lead to a steeper decline in investment and interest-sensitive

consumption, which in turn could cause a larger decline in economic growth and reduced nonfarm employment and personal income growth. However, upside risks include a quicker-than-projected easing of inflation and an end to the Russian invasion of Ukraine, which would lead to looser monetary policy and stronger economic growth.



*California inflation rate available through October 2022.

Source: U.S. Bureau of Labor Statistics; California Department of Industrial Relations, CA Department of Finance, Governor's Budget Forecast.

CALIFORNIA JOBS RECOVERY CONTINUES IN 2022 WHILE WAGE GROWTH STALLS

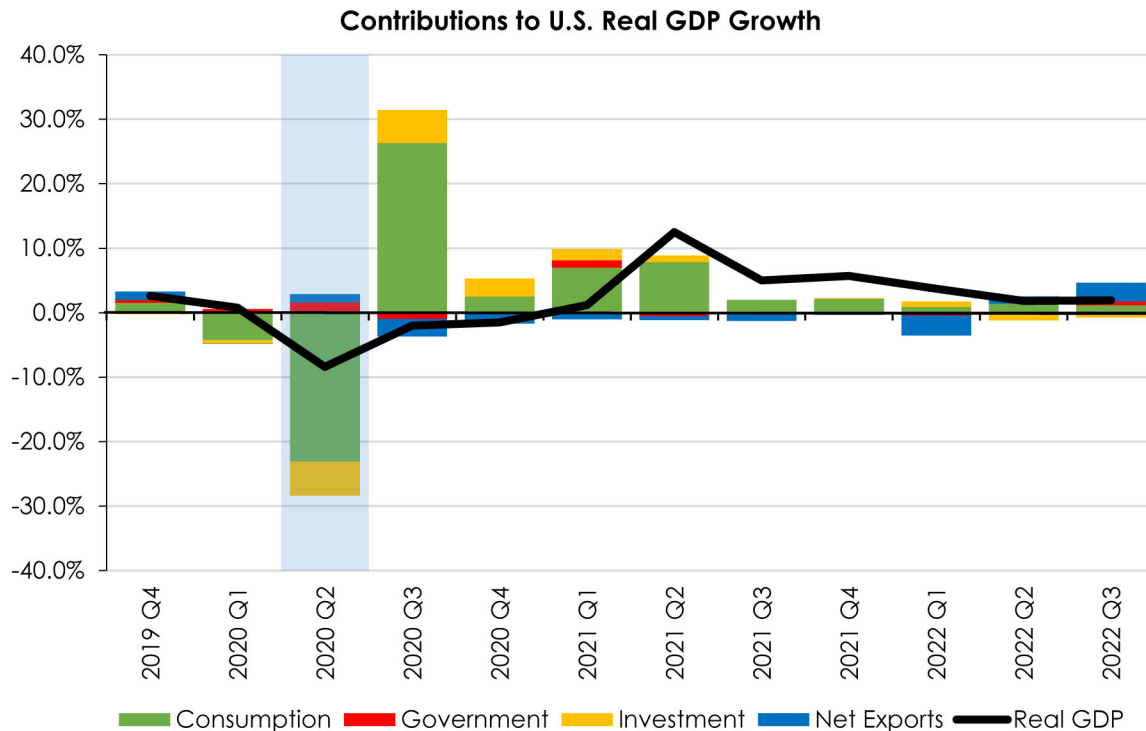
As the state adjusted to living with COVID-19, nonfarm job growth was remarkably strong, growing 3.2 percent annually—its largest growth since 2000. The state recovered the last of the nearly 2.8 million jobs lost as a result of the COVID-19 Pandemic in October. California added nearly 600,000 nonfarm jobs through the first ten months of 2022, a slower pace than in 2021 when the state added more than 900,000 jobs over the same months. Nevertheless, California's job gains in the first ten months of 2022 have accounted for 14.5 percent of the 4 million U.S. jobs added through October, higher than its historical share of U.S. employment of around 12 percent.

Unlike the rapid nonfarm jobs recovery, the state's overall labor force has yet to fully recover to pre-pandemic levels as of October 2022. Despite strong annual labor force growth of 1.7 percent—not seen since the 2000s—only 71 percent of the nearly 1 million people who left the workforce in the first four months of the pandemic had returned as of October 2022. However, California's labor force participation rate is only 0.3 percentage point below its February 2020 pre-pandemic level of 62.6 percent even as the state surpassed the nation's labor force participation rate of 62.2 percent by 0.3 percentage point in June.

As the state's labor force and employment recovery continued throughout 2022, the state's unemployment rate fell to a record-low rate of 3.8 percent in September. Similarly, the nation's unemployment rate fell to 3.5 percent (its lowest rate since 1969) in the same month. The state's employment recovery has followed the nation's trend throughout the year. Even as labor market conditions remained strong, updated data indicate that California's average wage growth in 2021 and in early 2022 was lower than initially estimated. This was in part due to a broad-based slowdown in total wage growth in the first half of 2022, led by contractions in high-wage sectors such as information, financial services, and professional and business services.

THE ECONOMIC FORECAST: SLOWING BUT CONTINUED GROWTH

Economic growth is expected to continue, albeit at a slow pace, through 2024 as high interest rates decrease demand. (See figure on Contributions to U.S. Real GDP Growth.) Consumption and exports are also projected to grow more slowly. As a result, U.S. real Gross Domestic Product (GDP) growth is expected to be around 1 percent in 2023 and 2024.

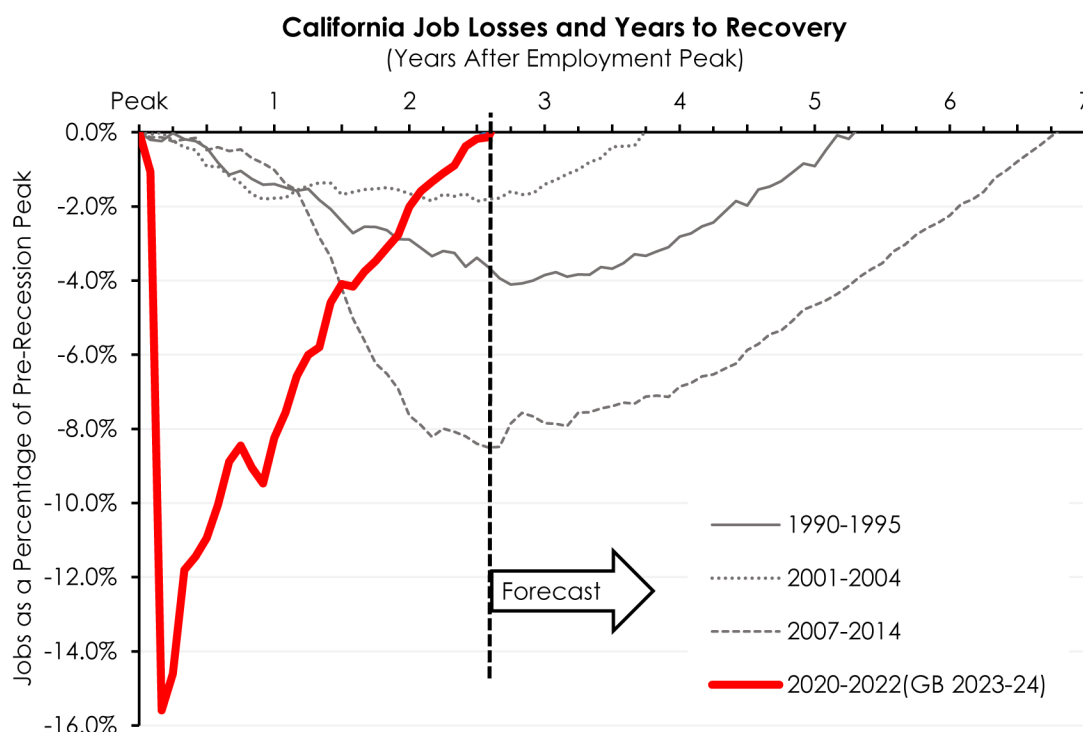


Note: Shaded area indicates recession.

Source: U.S. Bureau of Economic Analysis; CA Department of Finance, Governor's Budget Forecast.

STRONG STATE JOB GROWTH EXPECTED TO NORMALIZE

In line with slower expected U.S. real GDP growth, California's nonfarm job growth is expected to begin slowing in 2023. Reasons for slowing job growth include weakening demand and the low unemployment environment driven by California's strongest economic recovery since 1960. Nonfarm jobs are then expected to increase across most sectors in California in the second quarter of 2024 as monetary policy eases and, by 2025, both the nation and the state's nonfarm employment growth are projected to return to steady-state trends. The Governor's Budget forecast projects total employment to remain above the pre-pandemic levels throughout the forecast window despite a projected slowdown in job growth. (See figure on California Job Losses and Years to Recovery.)



Lines start from the quarter of each nonfarm employment pre-recession peak.

Source: CA Employment Development Department, Labor Market Information Division; CA Department of Finance, Governor's Budget Forecast.

California's labor force is projected to grow by 1.4 percent in 2023 and approach its pre-pandemic level even as the labor market weakens. It is projected to moderate thereafter, averaging 0.7 percent growth between 2024 and 2026. Similar to the nation's projections, the state's unemployment rate is projected to peak in 2025 at 5.2 percent before falling to 5 percent in 2026. California's unemployment rate—historically one to two percent higher than the national rate—is expected to stay only one-half point above the national rate over the forecast window.

INFLATION EXPECTED TO MODERATE

Inflation in 2021 was concentrated in energy and transportation and became more broad-based in 2022, spreading to other components including food and shelter. U.S. inflation peaked at 9.1 percent in June 2022, but has since shown signs of easing, slowing to 7.7 percent by October. Likewise, California's inflation peaked at 8.3 percent in June and dropped slightly to 7.5 percent by August, the latest available data when finalizing the forecast.

Despite recent reports of slowing inflation, it remains broad-based but increasingly driven by a backward-looking shelter inflation, which is based on rental contracts over

a fixed period (for example, 6 months or 12 months) and represents about one-third of the overall inflation index. Therefore, shelter inflation tends to decline more slowly than other components. While port and trucking congestion continue to ease, the ongoing shortage of microchips for vehicles continues to hamper production and thus keep new vehicle prices elevated. Food and fuel prices rose sharply after the Russian invasion of Ukraine and have since declined but remain higher than a year ago.

Going forward, headline inflation is expected to continue to decelerate as the labor market cools due to the Federal Reserve's tight monetary policy, supply chain issues continue to resolve, and measured inflation incorporates recent contract rent decreases. However, the forecast projects that the deceleration in shelter inflation will lag other components, reflecting the increases in rents in late 2021 and early 2022. (See figure on Economic Indicators at the end of this chapter.)

MODEST WAGE GROWTH EXPECTED THROUGH FORECAST PERIOD

With the expected easing of inflation and the winding down of the Federal Reserve's tight monetary policy, California average wage growth is projected to moderate throughout the forecast period in comparison to the growth of 11.1 percent and 7.4 percent in 2020 and 2021, respectively. The forecast reflects data revisions released in September 2022 showing a high-wage-sector-driven contraction in total wages in early 2022. Average wages are projected to grow by 3.4 percent in 2023 before averaging 3.6 percent between 2024 and 2026.

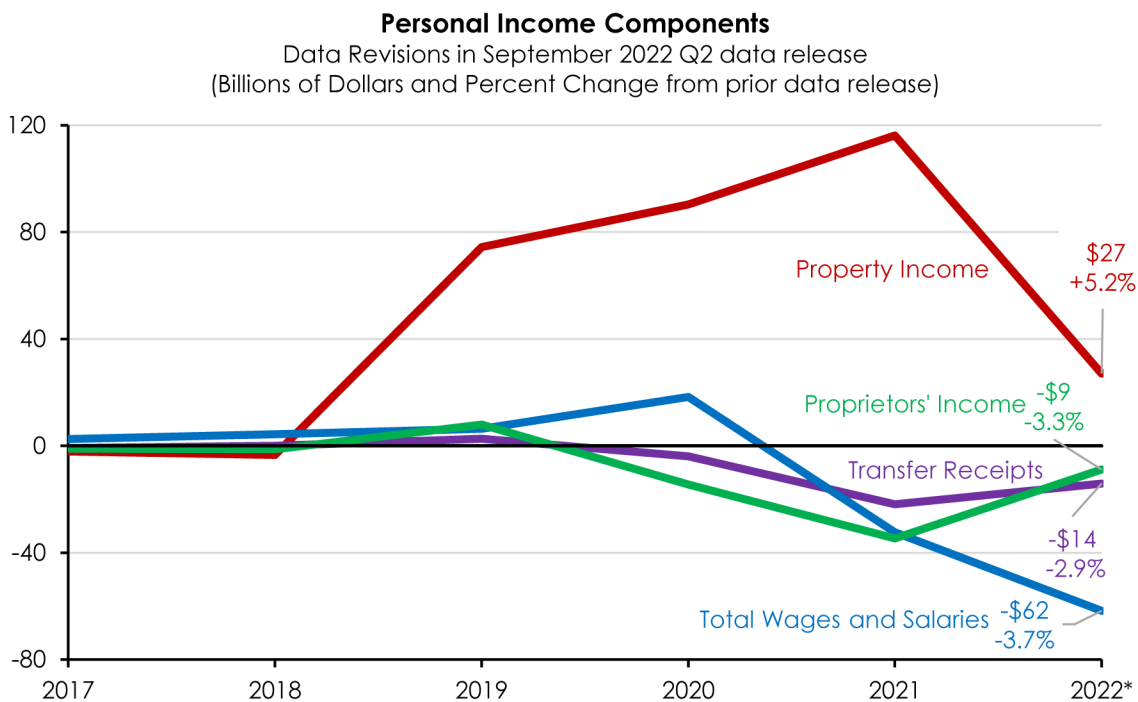
PERSONAL INCOME GROWTH REFLECTS MODERATING WAGE GROWTH

Personal income is projected to have continued growth through 2025, albeit at a slower rate in part due to updated historical data and the labor market response to tighter monetary policy. The Governor's Budget forecast incorporates the second quarter personal income data release, which included revisions to historical data going back to 2017 reflecting more accurate wage data. The data revisions showed a broad-based slowdown in most personal income components, and slower overall headline growth than previously estimated. (See figure on Personal Income Components.) Nevertheless, tighter monetary policy is also expected to curtail headline personal income growth through the forecast window.

Despite the downward revisions to total wages, which makes up more than half of total personal income, the Governor's Budget forecast projects total wages will drive personal income growth. As high interest rates are assumed to cause nonfarm job growth to slow in 2023 and early 2024, total wage growth is expected to see a similar

slowdown. Slower job growth will also be reflected in proprietors' income, which covers the profits of non-corporate businesses and is an indicator of business activity. Business activity is expected to slow due to high interest rates and inflation pushing up business costs, in turn lowering income.

Property income is the sum of interest, rental, and dividend income and is generally driven by interest income. Interest income is projected to grow in line with the expected trajectory of the Federal Reserve's interest rate increases, peaking in 2023 with double-digit growth of 10.8 percent. Rental income is a lagged indicator as it represents contract rents from leases signed over the previous 12 months and tends to follow shelter inflation. It is projected to peak in 2022 due to increases in asking rents in late 2021 and later decelerate through the remainder of the forecast period in line with current rent decreases. Dividend income growth is expected to slow as higher interest rates lead to more risk and investor uncertainty in the stock market. The forecast assumes interest rates will begin to ease by the end of 2023. Beginning in 2024, California personal income is expected to begin reverting to its historical growth trends, averaging 4.7 percent growth in 2025 and 2026.



*Year 2022 only reflects data revisions through the first quarter of 2022.

Total wages and salaries were 51 percent of total personal income in 2021, proprietor's income was 8.5 percent, property income was 17.8 percent and transfers was 19.4 percent.

Source: U.S. Bureau of Economic Analysis; CA Department of Finance, Governor's Budget Forecast.

HOUSING SHORTAGE PERSISTS

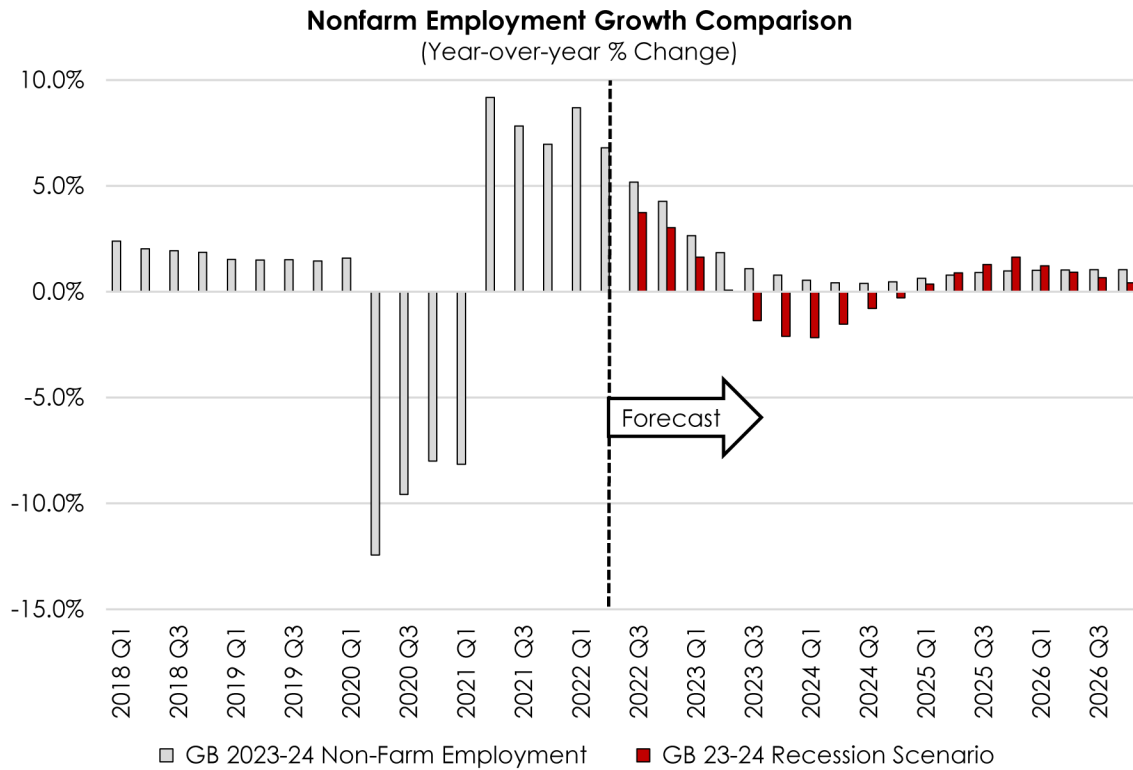
California continues to face a critical housing shortage despite recent declines in the working-age population and various legislative efforts to ease building restrictions. Between January 2000 and January 2022, the state gained 5.9 million new households, but only an additional 2.5 million housing units. Ongoing growth in housing is essential to support long term economic growth in the state. Although the Governor's Budget forecast projects California to average 122,000 permits in 2023, the state would need to permit 180,000 units annually (according to the California Department of Housing and Community Development) to meet housing needs. While building is expected to remain below the necessary number of homes needed to address the state's housing shortage, higher interest rates are expected to limit growth in 2023 and 2024, then as interest rates fall, permit growth is projected to increase in 2025 and 2026.

RISKS TO THE FORECAST

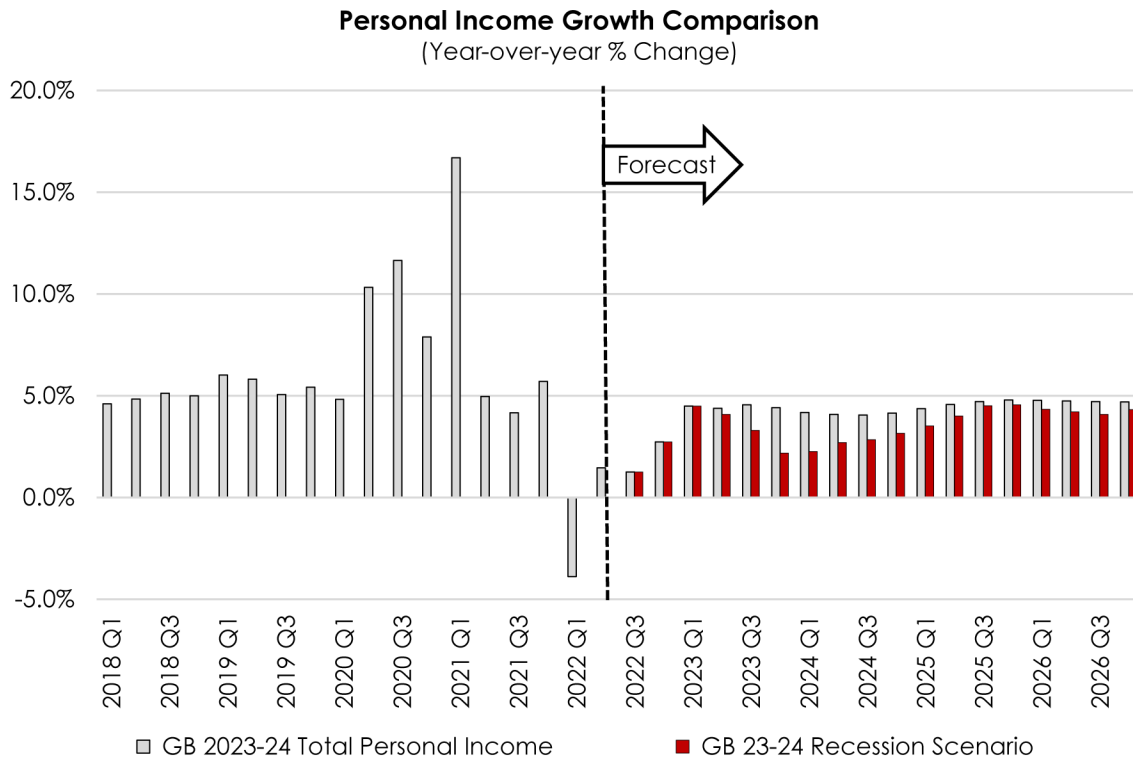
The possibility of inflation falling more slowly than expected, or of the Federal Reserve overshooting its policy by tightening more than necessary, poses significant risk to the Governor's Budget forecast. The Federal Reserve has signaled ongoing increases to the target federal funds rate in order to return inflation to its long-term target of around 2 percent, and policy could be tighter than expected if high inflation persists longer than expected. It typically takes several months for the economy to absorb the full effect of policy changes, and there is a risk that the Federal Reserve could raise target interest rates too high and too fast, causing tight credit conditions that may discourage economic activity even after inflation has returned to normal. This could deepen the expected economic slowdown and push the economy into a mild recession. Overreactions from individuals, businesses, and markets to the Federal Reserve's policies, for example, by assuming that future monetary policy would be tighter than it turns out to be and curtailing expansion plans accordingly, could have a similar impact.

A mild recession along the lines described above would likely entail steeper declines in investment and interest-sensitive consumption than in the Governor's Budget baseline forecast. To that end, the Department of Finance has modeled a Recession scenario that projects California nonfarm employment to contract in late 2023 through 2024. Personal income would also grow more slowly in this scenario, as cumulative state personal income would be \$132 billion lower over the forecast window than in the

baseline forecast. (See figures on Nonfarm Employment Growth Comparison and Personal Income Growth Comparison.)



Source: U.S. Bureau of Economic Analysis, CA Department of Finance, 2023-24 Governor's Budget Forecast.



Source: U.S. Bureau of Economic Analysis, CA Department of Finance, Governor's Budget Forecast.

Conditions in China also present a potential forecast risk, as turmoil stemming from continued lockdowns under a zero-tolerance COVID-19 policy, related unrest, and a potential financial crisis could disrupt the global economy. China has also threatened an invasion of Taiwan, which could be more disruptive to the global supply chain than the Russian invasion of Ukraine as Taiwan is the world's largest supplier of semiconductors.

California home prices fell in the second half of 2022, but a steeper decline could depress permit activity more than expected, reducing construction employment and overall economic activity in the state in the short term. While lower housing costs would likely improve the state's long-term competitive position, a sudden drop could lead to a sustained construction slump as it did after the collapse of the housing bubble before the Great Recession.

Potential upside risks to the forecast include faster-than-expected easing of inflation and resolution of the Russian invasion of Ukraine, which could revive European economic growth and increase demand for U.S. exports. Inflationary cooling over the next several months in line with the deceleration in October could lead to less restrictive

monetary policy than expected. Resulting lower interest rates could boost construction spending and other investment.

Economic Indicators

Annual Percentage Change unless Otherwise Indicated

	2019	2020	2021	Forecast				
				2022	2023	2024	2025	2026
United States								
Real GDP	2.3%	-3.4%	5.7%	1.7%	0.9%	1.3%	1.9%	1.9%
Unemployment Rate (percent)	3.7%	8.1%	5.4%	3.7%	3.9%	4.5%	4.7%	4.6%
Nonfarm Employment	1.3%	-5.8%	2.8%	4.0%	0.9%	-0.5%	0.0%	0.4%
Personal Income	4.1%	6.5%	7.5%	3.0%	4.6%	3.9%	4.5%	4.5%
CPI Inflation Rate (percent)	1.8%	1.2%	4.7%	8.1%	4.7%	2.5%	2.3%	2.3%
California								
Unemployment Rate (percent)	4.1%	10.3%	7.4%	4.4%	4.5%	5.1%	5.2%	5.0%
Civilian Labor Force	0.6%	-2.5%	-0.1%	1.9%	1.4%	0.9%	0.7%	0.5%
Nonfarm Employment	1.5%	-7.1%	3.6%	6.2%	1.6%	0.5%	0.8%	1.0%
Residential Permits (thousands of units)	110	106	120	121	122	127	134	142
Average Wages	4.4%	11.1%	7.4%	0.5%	3.4%	3.0%	3.7%	3.9%
Real Average Wages	1.4%	9.4%	3.1%	-7.2%	-1.9%	-0.6%	0.5%	0.8%
Personal Income	5.6%	8.7%	7.7%	0.4%	4.5%	4.1%	4.6%	4.7%
CPI Inflation Rate (percent)	3.0%	1.7%	4.3%	7.7%	5.3%	3.6%	3.2%	3.1%

Governor's Budget Forecast based on data available as of November 2022.

Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Census Bureau; CA Employment Development Department, Labor Market Information Division; CA Department of Finance, 2023-24 Governor's Budget Forecast.

This page intentionally blank to facilitate double-sided printing.

REVENUE ESTIMATES

Economic growth has continued to moderate in both the nation and in California as supply chain strains, prolonged price pressures from the COVID-19 Pandemic, and disruptions from Russia's invasion of Ukraine led to persistently elevated inflation. With inflation remaining at historically high rates throughout 2022, the Federal Reserve raised interest rates from a target range of 0 percent to 0.25 percent in March 2022, to a range of 4.25 percent to 4.5 percent as of December 2022. The record pace of interest rate increases has already contributed to ongoing volatility and significant declines in the stock market and is expected to slow the economy over the next few years. These factors have led to a substantially downgraded economic outlook.

Before accounting for transfers to the Budget Stabilization Account (BSA), and absent budget actions designed to address the budget problem, General Fund revenue is projected to be \$29.5 billion lower than assumed in the 2022 Budget Act over the budget window—from fiscal year 2021-22 through fiscal year 2023-24. Most of this lower projection is because the personal income tax forecast was substantially revised down due to a less positive economic outlook and ongoing weakness in personal income cash receipts since the 2022 Budget Act.

While this downward revision is substantial, the Governor's Budget revenue forecast does not assume a recession, but rather reflects a moderation of economic growth and a reversal of some of the exceptionally high revenue growth in 2021-22, leading to projected year-over-year declines in revenues in both 2022-23 and 2023-24. A recession, particularly one that would disproportionately impact high-income earners, would lead to further decreases in revenues.

Following remarkably strong growth in 2020 and 2021, stock markets declined substantially in 2022, negatively impacting revenues. As of late November 2022, when the Governor's Budget forecast was finalized, the S&P 500 had declined approximately 17 percent from its peak in early January while the Nasdaq Composite Index had declined around 30 percent. At the end of 2022, markets continued to decline, and the S&P 500 was down around 20 percent from its January peak while the Nasdaq was around 35 percent below its peak. The Budget forecast does not assume further declines from November levels and projects steady but slow growth of the stock market. If financial markets perform significantly worse or better than assumed, the revenue picture will likely change accordingly.

BUDGET WINDOW

The 2023-24 Governor's Budget General Fund Revenue Forecast figure compares the revenue forecasts, by source, in the 2022 Budget Act and the Governor's Budget. Of the three largest tax sources, personal income tax is responsible for most of the overall downgrade relative to the 2022 Budget Act forecast.

- **The personal income tax forecast** is lower by \$25.4 billion over the budget window largely due to withholding and capital gains. Personal income tax withholding receipts have contracted by 4.5 percent on average on a year-over-year basis from July to November, and are down a cumulative \$4.6 billion since April and through November. The stock market has also underperformed relative to the 2022 Budget Act forecast, with the S&P 500 down around 6 percent in the third quarter of 2022. Weakness in recent data and slower projected growth led to a significant downward revision to withholding and capital gains. Nominal wage growth and business-derived income were also revised down, reflecting lower expectations of economic growth, and further contributing to slower projected revenue growth.
- **The corporation tax forecast** is lower by \$3.8 billion over the budget window. However, this is due to updated assumptions around the Pass-Through Entity (PTE) Elective Tax, which resulted in around \$5 billion shifting from corporation tax to personal income tax. The PTE Elective Tax, first effective for the 2021 tax year, allows California business owners to mitigate the impact of the \$10,000 limit on state and local tax deductions imposed by the 2017 Federal Tax Cut and Jobs Act. The PTE Elective Tax is designed to largely be revenue neutral for the state, as payments made under the corporation tax are offset by credits against the personal income tax. The Governor's Budget forecast reflects updated assumptions on the amount and timing of PTE Elective Tax payments and credit usage which were informed by

preliminary tax data for the tax year 2021. Excluding the impact of the PTE Elective Tax, the corporation tax forecast is slightly higher through 2023-24, consistent with cash receipts through November which were about \$200 million higher cumulatively since the 2022 Budget Act.

- **The sales tax forecast** is lower by \$2.5 billion over the budget window, mainly because of weaker projected economic growth and lower expected taxable private investment due to tighter monetary policy. Sales tax cash receipts were nearly \$600 million higher than the 2022 Budget Act cumulatively from April through November.

Revenue projections for insurance tax, alcoholic beverages tax, and cigarette tax are largely unchanged from the 2022 Budget Act, while the revenue forecast for pooled money interest is \$2.2 billion higher than in the 2022 Budget Act over the budget window due to higher interest rates. The forecast for other minor and not otherwise classified revenues is \$6.3 billion lower than the 2022 Budget Act forecast over the budget window, driven by federal reimbursements of wildfire and COVID-19 Pandemic costs projected to be \$6.9 billion lower. Actual and anticipated reimbursements from the federal government for costs associated with the state's response to recent wildfires and the pandemic are projected to total approximately \$6.5 billion in the Budget forecast, compared to \$13.4 billion in the 2022 Budget Act.

Transfers to the BSA are projected to be around \$2 billion lower than in the 2022 Budget Act over the budget window. Other transfers, which include loan repayments and transfers from the Coronavirus Fiscal Recovery Fund, are projected to be \$7.4 billion higher, with the Coronavirus Fiscal Recovery Fund accounting for \$5.6 billion of the overage. After accounting for all transfers, baseline General Fund revenues in the Budget are \$26.2 billion lower than projected in the 2022 Budget Act over the budget window.

LONG-TERM FORECAST

The Long-Term Revenue Forecast figure displays actual and projected revenues for the three largest General Fund revenues (personal income tax, corporation tax, and sales tax) from 2020-21 through 2026-27. Total General Fund revenue from these sources is projected to grow from \$215 billion in 2021-22 to \$218.1 billion in 2026-27. The average year-over-year growth rate for this period is 0.4 percent as this includes year-over-year declines in 2022-23 and 2023-24. Revenues are assumed to moderate to lower levels following growth of nearly 30 percent in 2020-21 and over 19 percent in 2021-22.

**2023-24 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2022 Budget Act**
(Dollars in Millions)

Source	2022 Budget Act	Governor's Budget	Change From Budget Act Forecast	
<u>Fiscal 2021-22 (Preliminary)</u>				
Personal Income Tax	\$136,497	\$136,762	\$265	0.2%
Corporation Tax	46,395	45,298	-1,098	-2.4%
Sales & Use Tax	32,750	32,915	165	0.5%
Insurance Tax	3,468	3,495	27	0.8%
Alcoholic Beverage	430	431	1	0.3%
Pooled Money Interest	237	362	125	53.0%
Cigarette	54	54	0	-0.5%
Other Revenues	3,050	3,851	801	26.2%
Subtotal	\$222,882	\$223,168	\$286	0.1%
Transfer To/From BSA	-5,677	-5,224	453	-8.0%
Other Transfers	9,856	15,947	6,091	61.8%
Total	\$227,061	\$233,891	\$6,830	3.0%
<u>Fiscal 2022-23</u>				
Personal Income Tax	\$137,506	\$128,905	-\$8,601	-6.3%
Corporation Tax	38,464	38,482	18	0.0%
Sales & Use Tax	33,992	32,851	-1,142	-3.4%
Insurance Tax	3,667	3,641	-26	-0.7%
Alcoholic Beverage	435	436	1	0.3%
Pooled Money Interest	478	1,794	1,316	275.3%
Cigarette	49	49	0	-0.2%
Other Revenues	8,460	4,589	-3,871	-45.8%
Subtotal	\$223,050	\$210,746	-\$12,304	-5.5%
Transfer To/From BSA	-2,968	-1,620	1,348	-45.4%
Other Transfers	-375	-243	133	-35.4%
Total	\$219,707	\$208,883	-\$10,823	-4.9%
<u>Fiscal 2023-24</u>				
Personal Income Tax	\$143,755	\$126,695	-\$17,060	-11.9%
Corporation Tax	42,013	39,308	-2,705	-6.4%
Sales & Use Tax	35,145	33,599	-1,546	-4.4%
Insurance Tax	3,865	3,863	-2	-0.1%
Alcoholic Beverage	440	441	1	0.3%
Pooled Money Interest	911	1,686	775	85.1%
Cigarette	43	45	1	2.8%
Other Revenues	7,245	4,040	-3,204	-44.2%
Revenue Solutions	n/a	30	30	n/a
Subtotal	\$233,417	\$209,707	-\$23,710	-10.2%
Transfer To/From BSA	-1,159	-911	248	-21.4%
Other Transfers	166	195	28	17.2%
Transfer Solutions	n/a	1,183	1,183	n/a
Total	\$232,424	\$210,174	-\$22,250	-9.6%
Three-Year Total Excluding BSA and Solutions			-\$29,505	
Three-Year Total			-\$26,243	

By 2026-27, the three largest sources combined are assumed to grow at 4.1 percent, in line with projected economic growth. Growth rates for the personal income tax and the corporate income tax are distorted by the PTE Elective tax in the out years as the PTE Elective tax is only in effect through the end of 2025.

Long-Term Revenue Forecast - Three Largest Sources

(General Fund Revenue - Dollars in Billions)

	2020-21	2021-22 ^{e/}	2022-23 ^{e/}	2023-24 ^{e/}	2024-25 ^{e/}	2025-26 ^{e/}	2026-27 ^{e/}
Personal Income Tax	\$128.9	\$136.8	\$128.9	\$126.7	\$127.6	\$138.5	\$156.2
(Year-over-Year Change)	29.4%	6.1%	-5.7%	-1.7%	0.7%	8.6%	12.7%
Corporation Tax	\$22.6	\$45.3	\$38.5	\$39.3	\$40.9	\$35.1	\$25.3
(Year-over-Year Change)	61.9%	100.5%	-15.0%	2.1%	4.0%	-14.3%	-27.8%
Sales and Use Tax	\$29.1	\$32.9	\$32.9	\$33.6	\$34.6	\$35.8	\$36.6
(Year-over-Year Change)	14.0%	13.2%	-0.2%	2.3%	2.9%	3.7%	2.2%
Total	\$180.5	\$215.0	\$200.2	\$199.6	\$203.1	\$209.5	\$218.1
(Year-over-Year Change)	29.8%	19.1%	-6.9%	-0.3%	1.7%	3.1%	4.1%

^{e/}Estimated

Source: California Department of Finance, 2023-24 Governor's Budget Forecast.

TAX PROPOSALS

The Budget includes three tax proposals, as described below:

STUDENT LOAN FORGIVENESS

The Budget proposes to exempt student loan debt forgiven under the 2022 federal student loan debt relief plan from state income taxation, assuming litigation around the plan is resolved. Under the plan, the federal government will forgive up to \$10,000 in student loans for individuals making less than \$125,000 per year, and up to \$20,000 for those who received a Pell Grant—for students with the largest financial need. The American Rescue Plan Act exempts the forgiveness of student loan debt from 2021 to 2025 federal income taxes; the Budget exempts federal student debt relief provided to Californians from state taxes. The U.S. Department of Education estimates California has over 3.5 million eligible borrowers who could receive debt relief, including 2.3 million Pell borrowers.

INCOMPLETE NON-GRANTOR TRUSTS

The Budget proposes to require net income derived from incomplete non-grantor trusts be subject to California income tax if the grantor of the trust is a California resident. This proposal mitigates a tax strategy which allows California residents to transfer assets into out-of-state incomplete non-grantor trusts and potentially avoid state taxation. This change, which would be effective beginning in tax year 2023, is projected to increase tax revenues by \$30 million in 2023-24 and by \$17 million annually thereafter.

FILM AND TELEVISION TAX CREDIT

The Budget proposes to extend the Film and Television Tax Credit Program at \$330 million per year for five years beginning in 2025-26 (Program 4.0) and make it refundable prospectively for the new Program 4.0. The existing Film and Television Tax Credit Program 3.0 provides tax credits for eligible films produced in California through 2024-25. This credit retains and supports the growth of production jobs in the film industry and stimulates economic activity statewide, enhancing California's position as the leading national and global location for all forms of media content creation. Making the credit refundable will benefit a wider range of productions and ensure the competitive program will maximize economic benefits to the state. Credit recipients with insufficient tax liability will be able to claim a tax refund at a discounted value over multiple years to lessen the revenue loss to the state. Credits applied against tax liability will retain their full value.

PERSONAL INCOME TAX

The personal income tax is the state's largest revenue source, accounting for 69 percent of General Fund revenues before transfers in 2020-21 and projected to comprise about 60 percent of all General Fund revenues before transfers in 2023-24.

Personal income tax is projected to generate \$136.8 billion in 2021-22, \$128.9 billion in 2022-23, and \$126.7 billion in 2023-24. Compared to the 2022 Budget Act, these figures reflect an upward revision of \$265 million in 2021-22, and downward revisions of \$8.6 billion in 2022-23 and \$17 billion in 2023-24. Downgrades in the personal income tax forecast are largely driven by decreased withholding and capital gains due to weak cash receipts and stock market performance since the 2022 Budget Act, as well as the downgraded economic forecast. Despite weak cash receipts related to tax year 2022 in the second half of 2022, the personal income tax projection for 2021-22 was slightly upgraded due to a one-time gain from assumed elevated refunds related to the PTE Elective Tax not materializing in October 2022. The personal income tax projections also reflect lower credit usage related to the PTE Elective Tax, which is assumed to increase personal income tax revenues by \$2.4 billion in 2021-22, \$1.1 billion in 2022-23, and \$1.4 billion in 2023-24.

Modeled closely after federal income tax law, California's personal income tax is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure is progressive over the income spectrum. Since the 2012 tax year, the marginal rates range from 1 percent to 12.3 percent, not including a 1-percent

surcharge on taxable income above \$1 million for the Mental Health Services Act tax. Proposition 30 created three additional income tax brackets beginning in 2012 with rates of 10.3 percent for taxable income above \$500,000, 11.3 percent for taxable income above \$600,000, and 12.3 percent for taxable income above \$1 million, with the income thresholds indexed for inflation. Proposition 30 held these tax brackets in effect for seven years—from tax years 2012 to 2018. Voters approved Proposition 55 in November 2016, extending the three additional tax brackets through tax year 2030.

The Budget forecast assumes no significant change in domestic migration patterns between California and other states, with net outflows appearing to have continued in 2022. International immigration typically brings hundreds of thousands of people to the state, outweighing the losses in domestic migration. However, while immigration delays and pandemic-related restrictions are mostly resolved, immigration is still below 2019 levels. As a result of the large increase in teleworking brought about by the COVID-19 Pandemic, it is possible there could be further increases in out-migration from California. If the increase in out-migration continues, is significant enough, and affects high-income households, actual personal income tax revenues may fall below projections.

A portion of personal income tax revenues is deposited into a special fund instead of the General Fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over \$1 million. Revenue from the surcharge is transferred to the Mental Health Services Fund and used to fund mental health programs. The forecast projects annual revenues of \$5.6 billion for 2021-22 and \$3.6 billion for 2022-23 and 2023-24 for this fund. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2021-22 through 2023-24 are shown in the Personal Income Tax Revenue figure.

Personal Income Tax Revenue

(Dollars in Millions)

	2021-22 Preliminary	2022-23 Forecast	2023-24 Forecast
General Fund	\$136,762	\$128,905	\$126,725
Mental Health Services Fund	<u>\$5,567</u>	<u>\$3,631</u>	<u>\$3,564</u>
Total	\$142,329	\$132,536	\$130,289

Source: California Department of Finance, 2023-24 Governor's Budget Forecast.

WAGES AND SALARIES

The largest income source for the personal income tax is wages and salaries. Although the year-over-year growth rate for wages tends to be less volatile than other income sources, wages and salaries include some unpredictable types of compensation such as stock grants, restricted stock units, stock options, and bonus payments. In 2020, taxes attributable to wages and salaries accounted for 58.4 percent of personal income tax revenues.

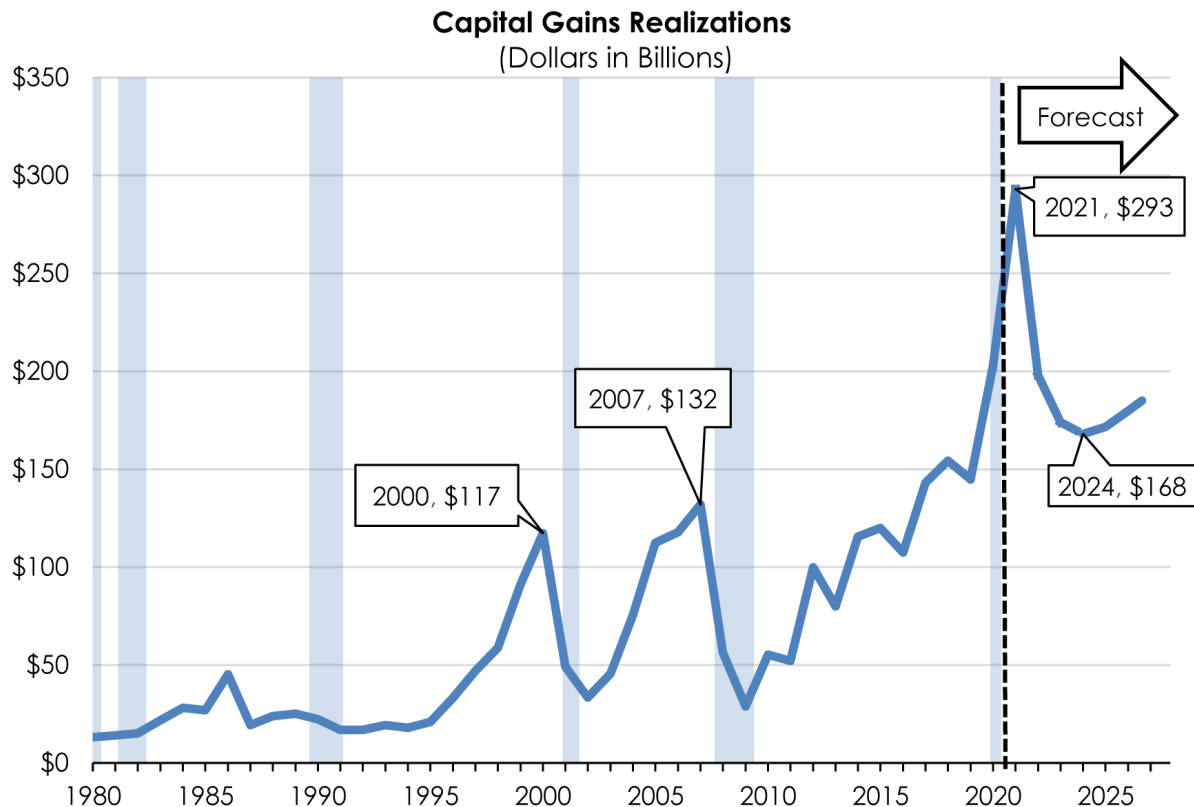
With withholding receipts contracting by 2.4 percent on average from June to November, withholding receipts are expected to contract by 1.3 percent for the entire year of 2022, following an annual growth of over 20 percent in 2021. Projected economic wage growth was revised lower from 9.9 percent to 6.5 percent in 2022 and from 7.1 percent to 5.1 percent in 2023 in the Budget forecast. Withholding and total wages are usually highly correlated; however, the withholding series is considerably more volatile because it is much more sensitive to changes in high-income earners' wages due to their higher tax rates. Therefore, the divergence between withholding and wage growth rates in 2022 is likely due to a change in the composition of wages. Declines in asset valuations are likely leading to more wage losses accruing to high-income earners who receive a higher share of stock-based compensation and bonuses. The combination of a lower forecast for economic wages and recent substantial weaknesses in cash receipts is expected to decrease withholding receipts compared to the 2022 Budget Act by nearly \$17.7 billion over fiscal years 2022-23 and 2023-24.

CAPITAL GAINS

The Capital Gains Realizations figure shows capital gains reported on California tax returns from 1980 through projections for 2021 through 2027. While the level of capital gains has grown significantly since 1980 (along with the economy and total personal income tax revenue), capital gains volatility has been a constant, and history shows that high levels of capital gains eventually drop off, sometimes rapidly, following declines in financial markets and asset prices.

The highest-income Californians pay the largest share of the state's personal income tax. For the 2020 tax year, the top 1 percent of income earners paid 49 percent of all personal income taxes. This percentage has been greater than 40 percent in every year since 2004, except for 2009 during the Great Recession. The share of total adjusted gross income from the top 1 percent of income earners has increased from

13.8 percent in 1993 to 26.6 percent in 2020. This number has also exceeded 20 percent in every year since 2004, except in 2009. Consequently, positive or negative changes in the income of this relatively small group of high-income taxpayers can have a significant impact on state revenues.



Shaded areas indicate previous U.S. recessions.

Source: California Department of Finance, 2023-24 Governor's Budget Forecast.

These two related phenomena—significant reliance of the General Fund on capital gains and on taxes paid by a small portion of the population—underscore the difficulty of forecasting personal income tax revenue. Proposition 2 helps address some of the state's revenue volatility by requiring the transfer of a portion of capital gains revenue greater than 8 percent of General Fund tax revenue to the Rainy Day Fund and to pay down state debts. The Rainy Day Fund can be drawn down only if the Governor declares a budget emergency and, even then, no more than 50 percent of the Fund can be drawn down in the first year.

The Capital Gains Revenue figure shows revenue from capital gains as a percentage of total General Fund tax revenue. The amount of capital gains revenue in the General Fund can vary greatly over time and from year to year. For instance, capital gains contributed only \$2.3 billion to the General Fund in 2009. By 2012, this revenue had

increased to \$10.4 billion. For 2021, it is projected to reach \$30.4 billion—its highest amount ever—before decreasing to \$20.2 billion in 2022 and \$17.6 billion in 2023.

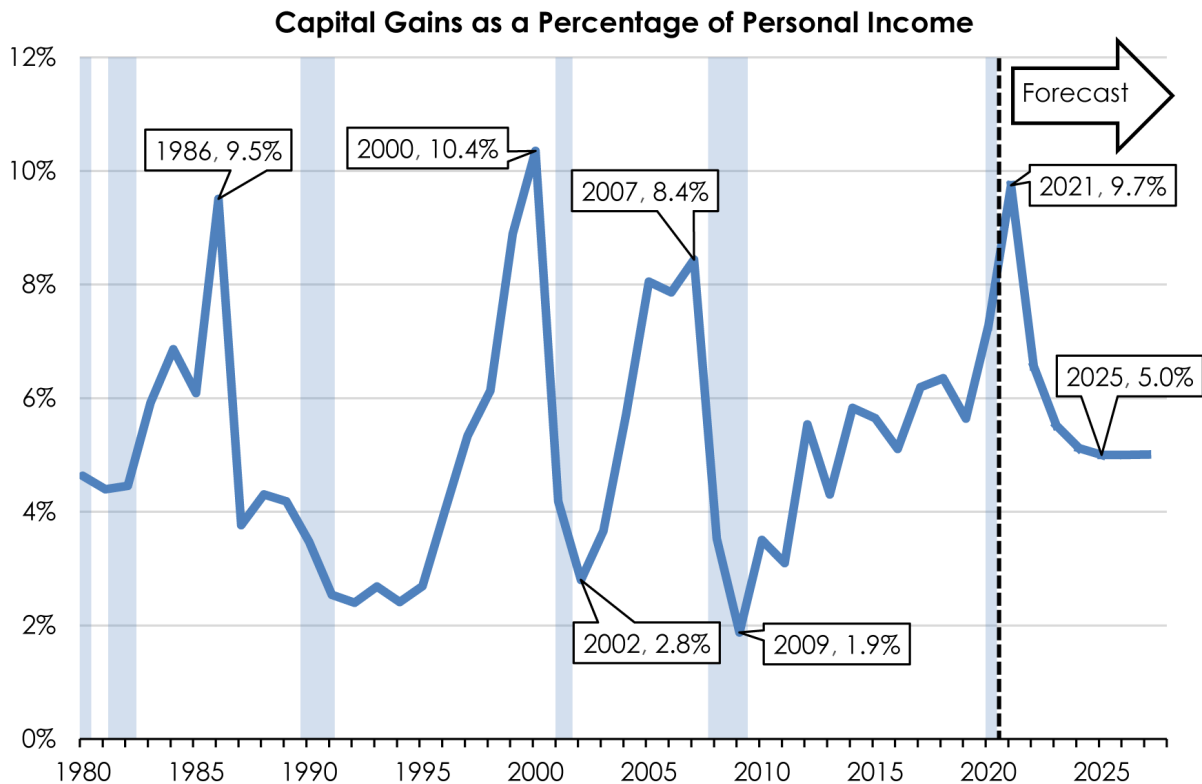
Capital Gains Revenue
As a Percent of General Fund Tax Revenues
(Dollars in Billions)

Calendar Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021^{e/}	2022^{e/}	2023^{e/}
Capital Gains Realizations	\$52	\$100	\$80	\$116	\$120	\$113	\$144	\$154	\$145	\$203	\$293	\$198	\$174
Tax Revenues from Capital Gains	\$4.2	\$10.4	\$7.6	\$11.3	\$11.8	\$11.5	\$14.1	\$15.4	\$14.4	\$20.6	\$30.4	\$20.2	\$17.6
Fiscal Year	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22^{e/}	22-23^{e/}	23-24^{e/}
Tax Revenues from Capital Gains	\$6.0	\$9.6	\$8.7	\$11.5	\$11.7	\$12.3	\$14.4	\$15.1	\$16.3	\$23.6	\$27.4	\$19.4	\$17.4
Total General Fund Tax Revenues ^{1/}	\$85	\$98	\$103	\$114	\$119	\$122	\$135	\$144	\$145	\$187	\$223	\$211	\$210
Capital Gains Percentage	7.1%	9.8%	8.5%	10.1%	9.9%	10.0%	10.7%	10.4%	11.2%	12.6%	12.3%	9.2%	8.3%
^{e/} Estimated													
^{1/} Excluding transfers													
Source: California Department of Finance, 2023-24 Governor's Budget Forecast.													

The stock market has declined significantly from the levels assumed as of the 2022 Budget Act. This is expected to mainly impact higher-income households who earn the majority of capital gains income. Taxes attributable to capital gains made up 18.9 percent of personal income tax revenue in 2020 and that percentage is expected to be even higher in 2021 before declining in 2022 and 2023. Since the 2022 Budget Act forecast, capital gains realizations have been revised slightly higher in 2021 from \$291 billion to \$293 billion. However, capital gains realizations have been revised significantly lower from \$227 billion to \$198 billion in 2022 and from \$217 billion to \$174 billion in 2023. This reflects a stock market forecast that has been revised downward and 2022 estimated payments that were significantly below projections in June and September 2022.

Estimated capital gains realizations as a share of personal income in 2021 exceeded the 2007 pre-Great Recession peak of 8.4 percent and approached the all-time peak of 10.4 percent in 2000. Following these peaks in 2007 and in 2000, capital gains as a percent of personal income declined to 1.9 percent in 2009 and to 2.8 percent in 2002, which represented peak-to-trough declines in capital gains realizations of 78 percent and 72 percent, respectively. The Budget projects capital gains realizations to decline by 43 percent from their peak in 2021 to their trough in 2024, which is about slightly more than half of the decreases during the Great Recession or the 2001 Recession, when stock market declines were more severe. As shown in the Capital Gains as a

Percentage of Personal Income figure, capital gains realizations are assumed to decline from their peak levels of 9.7 percent of personal income in 2021 to reach 5 percent of personal income by 2025. The 2022 Budget Act assumed capital gains realizations would decline more slowly from record high 2021 levels to 5 percent of personal income in 2026.



Shaded areas indicate previous U.S. recessions.

Source: California Department of Finance, 2023-24 Governor's Budget Forecast.

CORPORATION TAX

The corporation tax is projected to generate \$45.3 billion in 2021-22, \$38.5 billion in 2022-23, and \$39.3 billion in 2023-24. Compared to the 2022 Budget Act, these figures reflect a decrease of \$1.1 billion in 2021-22, no significant difference in 2022-23, and a decrease of \$2.7 billion in 2023-24. However, this cumulative \$3.8 billion shortfall through 2023-24 is entirely due to the PTE Elective Tax payments being \$5.5 billion lower through 2023-24 compared to what was assumed in the 2022 Budget Act. Excluding the effect of the PTE Elective Tax, the corporate tax revenue forecast would have been \$1.7 billion higher through 2023-24, reflecting cash receipts through November 2022 that were above the 2022 Budget Act forecast.

The PTE Elective Tax is projected to increase corporate income tax revenues by \$20.4 billion in 2021-22, \$14.3 billion in 2022-23, and \$15.0 billion in 2023-24.

Receipts from the corporation tax, the state's second-largest revenue source, are expected to contribute about 19 percent of all General Fund revenues before transfers in 2023-24.

SALES AND USE TAX

The sales tax generated General Fund revenue of over \$32.9 billion in 2021-22 and is projected to generate just under \$32.9 billion in 2022-23 and \$33.6 billion in 2023-24. Compared to the 2022 Budget Act, these figures reflect an increase of \$165 million in 2021-22 and decreases of \$1.1 billion in 2022-23 and \$1.5 billion in 2023-24. Receipts from the sales tax, the state's third-largest revenue source, are expected to contribute 16 percent of all General Fund revenues excluding transfers in 2023-24.

A weaker economic outlook drives the sales tax forecast reduction from the 2022 Budget Act. Taxable consumer spending increased significantly in 2021 due to consumers shifting their consumption from services to taxable goods as a result of the COVID-19 Pandemic, strong inflation, and income growth. The Budget assumes taxable consumer spending growth will decelerate in response to slowing inflation in certain taxable goods, slowing wage growth, and consumption shifting back from goods to services. Additionally, higher interest rates than assumed at the Budget Act are expected to have a significant negative effect on taxable business investment by further increasing borrowing costs.

The sales tax is generally applied to the sale of merchandise, including vehicles, in the state. General Fund sales tax revenues are projected by relating taxable sales to consumption of taxable goods and business investment. Since July 1, 2010, the General Fund portion of the sales tax no longer applies to gasoline. Taxable sales, excluding gasoline, increased by 13.6 percent in 2020-21. Based on preliminary data, taxable sales increased by 14.3 percent in 2021-22. The forecast projects taxable sales to increase by 0.4 percent in 2022-23 and by 2 percent in 2023-24.

Highly correlated with taxable sales growth, sales tax revenues are projected to decrease by 0.2 percent in 2022-23 and to grow by 2.3 percent in 2023-24, a significant deceleration from growth of 14.2 percent in 2020-21 and 13 percent in 2021-22 forecasted in the 2022 Budget Act. Projected levels of sales tax revenue are lower than

those at the 2022 Budget Act, due to a slightly downgraded forecast for consumer spending and a significantly downgraded forecast for private investment.

REVENUE IN A RECESSION

The Budget revenue forecast is based on a scenario that assumes continued but slowing economic growth and does not assume a recession. As discussed in the Economic Outlook Chapter, several risk factors could negatively impact the economy and lead to a recession, which could either be mild or more severe. A significant financial shock from tightening financial conditions, persistent supply chain issues, inflation, further stock market and asset price declines, and geopolitical turmoil are all issues that pose a risk to ongoing economic and revenue growth.

Even in a moderate recession, revenue declines below the Budget forecast could be significant. The magnitude of the revenue loss would depend upon the depth and duration of a recession, as well as its relative impact on higher-income individuals. A mild recession could lead to General Fund revenue losses between \$20 billion to \$40 billion relative to the Budget forecast over the budget window. In a moderate to more severe recession scenario, General Fund revenue losses could exceed \$60 billion compared to the Budget forecast through 2023-24, based on the revenue declines seen following the 2001 and 2008 recessions.

This page intentionally blank to facilitate double-sided printing.

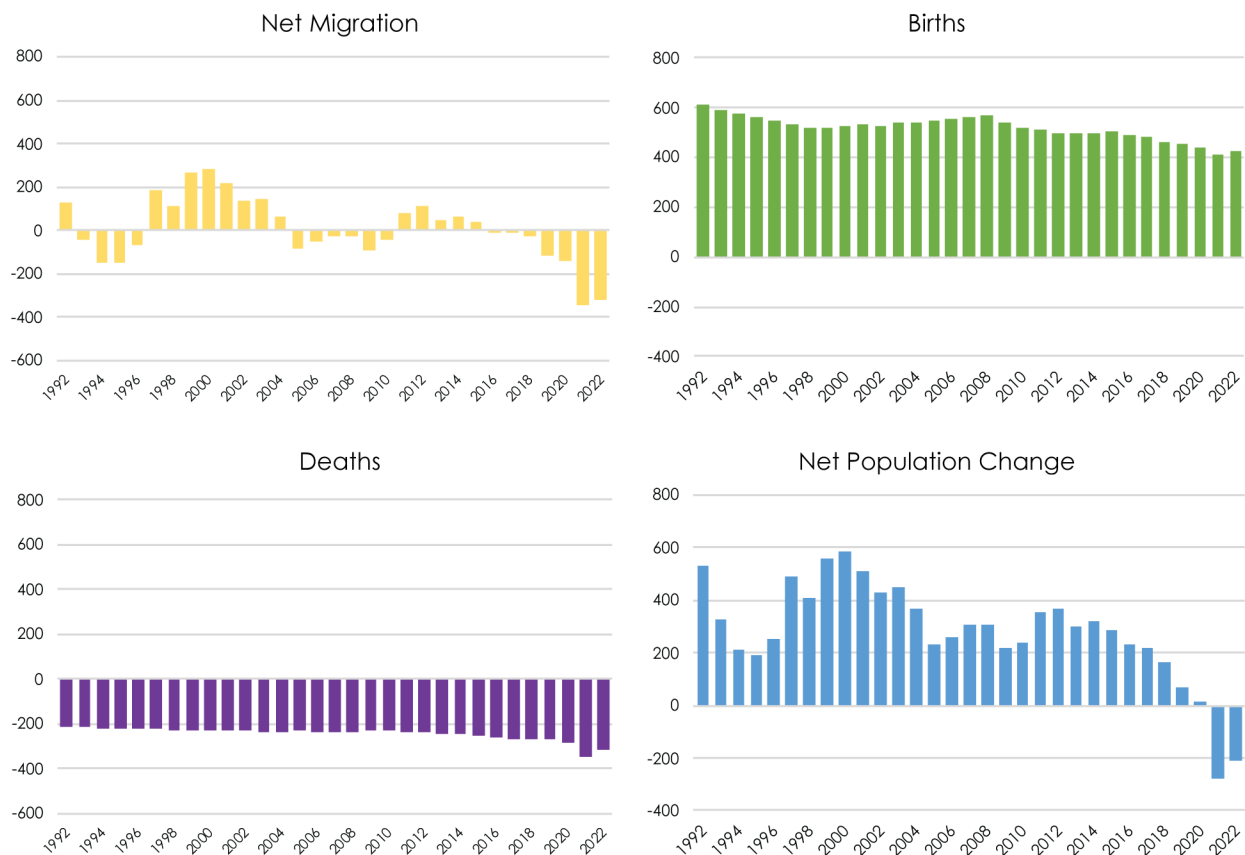
DEMOGRAPHIC INFORMATION

The effects of the COVID-19 Pandemic continue to reverberate as California and the U.S. slowly adapt to changes in employment patterns and other challenges. While the pandemic impacted the lives of all Californians, some residents continue to bear an outsized burden as COVID-19 moves into the endemic stage. It is important to acknowledge, for example, the continuing higher mortality for older Californians. However, the fundamental demographic trends underlying California's population—positive natural increase, above average health, and a continuing desired destination for global immigrants remain largely unchanged.

POPULATION CHANGE

California's population was an estimated 39.0 million as of July 1, 2022, down 0.4 percent from July 1, 2021. Prior to the COVID-19 Pandemic, California's population growth has slowed due to declining births correlated with changes in education, marriage, and work decisions; rising deaths from an aging population; and reduced net migration due to recent decreases in foreign immigration. The pandemic accelerated these trends and drove the state's population growth negative in fiscal years 2020-21 and 2021-22.

Components of Population Change: California 1992-2022



Data Source: State of California, Department of Finance. California County Population Estimates and Components of Change by Year, July 1, 1992-2022. January 2023.

Beginning in 2021-22, California has once again seen positive international immigration, which contributes a significant share to the net growth in population. However, the combined effects of pandemic restrictions and federal administrative backlogs continue to keep migration below pre-pandemic levels. Coupled with domestic out-migration, the slow rebound in international migration has contributed to California's recent population slow down. These trends are expected to continue as the population and labor force adjust to pandemic-induced changes, while the larger domestic movements driven by employment shifts seem to have subsided.

Regionally, inland counties continue to have the highest population growth rates, continuing a trend that began in 2016. Most of the urban coastal counties have either grown at a much slower pace or lost population as the shift to remote work has enabled individuals to relocate to lower-cost areas.

STAFF ASSIGNMENTS

EXECUTIVE OFFICE

Joe Stephenshaw

Director of Finance
(916) 445-4141

Erika Li

Chief Deputy Director, Budget
(916) 445-9862

Richard Gillihan

Chief Operating Officer
(916) 445-4923

H.D. Palmer

Deputy Director, External Affairs
(916) 323-0648

Gayle Miller

Chief Deputy Director, Policy
(916) 445-8582

Kari Krogseng

Chief Counsel
(916) 322-0971

Michele Perrault

Legislative Director
(916) 445-8610

BUDGET PROGRAM AREAS

Budget Planning and Preparation,
Cash Management, FISCAL Project Support,
Statewide Budget Issues, and
Statewide Accounting Policies and Training

Corrections and Rehabilitation,
Justice, and General Government

Education

Employee Compensation and State Pensions,
State Central Services Departments, Audits
and Evaluations, Information Services,
Information Technology and Consulting,
and Departmental Administration

Energy, Housing and Homelessness,
Labor, Local Government, Tax Agencies,
and Transportation

Health and Human Services

Natural Resources, Environment,
and Capital Outlay

Revenues, Economy, Demographics,
and Federal Funds Accountability

PROGRAM BUDGET MANAGERS

Thomas Todd (916) 445-5332

Amy Jarvis (916) 445-8913

Chris Ferguson (916) 445-0328

Jennifer Whitaker (916) 445-3274

Teresa Calvert (916) 322-2263

Adam Dorsey (916) 445-6423

Matt Almy (916) 324-0043

Erica Gonzales (916) 322-2263

This page intentionally blank to facilitate double-sided printing.