

## Summary of Governor's 2023-24 January Budget Proposal

### January 10, 2023

Dressed in attire normally reserved for appearances at the state's Emergency Operations Center, Governor Gavin Newsom enthusiastically presented his [2023-24 proposed budget](#) in Sacramento this morning. The Governor abbreviated his commentary this morning (One hour and forty-five minutes is short for him!), as he indicated he would be en route to California's Central Coast to witness some of the damage that a series of catastrophic wind and rain storms have wrought in communities around the state.

In his presentation, the Governor acknowledged the dramatic change in the state's fiscal health, noting the impacts of the national economic picture on state revenues. Continued high inflation, multiple federal reserve bank interest rate increases, and further stock market decline have had a significant impact on revenues due to California's progressive income tax structure and reliance on high-income earners. The Governor's proposed budget forecasts that General Fund revenues will be \$29.5 billion lower than projections and California will be facing an estimated budget gap of \$22.5 billion in the 2023-24 fiscal year.

The Governor noted with pride, however, that previous budgeting has improved the state's fiscal resilience, by boosting the state's reserves, paying down prior debts, focusing on one-time spending, and triggering programmatic spending to sufficient revenue availability. Instead of reductions to priority programs, the budget proposes delays or forgoes some spending in the near term and relies on well-used budget solutions, including fund shifts, trigger reductions, and limited revenue generation and borrowing to address the budget problem. The plan to close the projected budget shortfall includes these elements:

- **Funding Delays (\$7.4 billion):** The budget delays funding for multiple items across 2012-22 through 2023-24 fiscal years and spreads it across the multi-year without reducing the total amount of funding.
- **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 2022-23 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 to 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 CUS 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 2021-22 through 2023-24 fiscal years and places them in a "trigger" that would restore the reductions at the 2024-25 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 of 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.

The Governor also highlights additional proposals in the budget to close shortfalls in future years, including:

- **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 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 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 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 withdrawn.

Priority investments that the Governor is proposing to sustain in the 2023-24 budget include the following:

- **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. 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 and \$165 million to support the addition of one additional staff person in transitional kindergarten classrooms serving these students. Full implementation of universal transitional kindergarten is expected in 2025-26. In addition, the budget delays the 2023-24 planned \$550 million full-day kindergarten program investment to 2024-25
- **Child Care Availability and Affordability:** The budget sustains over \$2 billion annualized to expand subsidized child care slot availability.
- **Universal School Meals:** The budget protects the funding – about \$1.4 billion – for universal access to subsidized school meals and the additional enhanced meal rate.
- **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).
- **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. The proposal does include 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.
- ***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 in 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:*** The budget includes \$350 million in General Fund reductions related to housing programs that were included as part of the 2022 Budget Act. 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 Governor's proposed budget sustains the investments provided in the 2022 Budget Act: \$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.
- ***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 proposal 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.

The Governor cautions that considerable risks to the economy remain. Specifically, the Governor's proposed budget does not contemplate an economic recession. If the state were to experience a recession

in the coming months, there will be more difficult decisions ahead. The Administration's approach is to ensure that there is additional capacity to protect priority programs and services in the event of further economic downturn.

## State Appropriations Limit

Given the economic downturn, the State Appropriation Limit (SAL or "Gann" Limit) does not come into play for the 2023-24 state budget. In response to a question from the press, Finance Director Joe Stephenshaw indicated that the Administration was open to conversations regarding modernizing the limit, which – as a constitutional provision – would require a vote of the people.

## Housing

The Governor's 2023-24 budget proposal continues to focus on state oversight of local housing planning and approval, with continued investments in technical assistance from the recently created Housing Accountability Unit in the Department of Housing and Community Development (HCD).

Weakening revenues have also led to proposed trigger cuts in housing programs that received one-time allocations in the 2022-23 budget. Grant funding for infill infrastructure, adaptive reuse, and multifamily housing remains intact, but the Governor's budget proposes a \$350 million cut from the \$2.85 billion in one-time housing allocations in 2022-23 and 2023-24. Specifically, a \$200 million cut from the \$500 million California Dream for All Home Ownership Program, a \$100 million cut from the CalHome first-time homebuyer assistance program, and elimination of the \$50 million one-time allocation to subsidize the development of accessory dwelling units (ADUs). These cuts could be restored in the 2024-25 budget if sufficient revenues are available.

Under the Office of Emergency Services, the Governor's budget proposes eliminating \$250 million in 2023-24 for the Seismic Retrofitting Program for Soft Story Multifamily Housing created by [SB 189](#) (Chapter 48, Statutes of 2022). Funding for this program could be restored in the 2024-25 budget if sufficient revenues are available.

## Transportation

Due to projected revenue decreases, the Governor's 2023-24 budget includes \$2.7 billion in reductions from one-time General Fund allocations. These cuts would be partially offset by a \$500 million allocation from the State Highway Fund, which would otherwise fund state highway maintenance, operations, and improvements, for a net reduction of \$2.2 billion.

Significant transportation budget adjustments include the following:

- *Transit and Intercity Rail Capital* – \$2 billion reduction and delayed expenditures. The 2022-23 Budget included \$2 billion in 2023-24 and \$2 billion in 2024-25. The Governor's Budget reduces this to \$1 billion in 2023-24, \$500 million in 2024-25, and \$500 million in 2025-26. The \$2 billion reduction would be subject to restoration in the 2024-25 budget if sufficient revenue is available.
- *Active Transportation Program* – \$200 million net reduction. The June 2022 transportation funding package allocated \$1 billion in 2021-22 from the General Fund. The Governor's proposed budget reduces this amount by \$500 million with a \$300 million backfill from the State Highway Account that allows the program to sustain all projects funded in the California Transportation Commission's 2023 grant cycle.
- *Railroad Grade Separations* – No net reduction and delayed expenditures. Last year's transportation funding package allocated \$350 million in 2021-22 from the General Fund for railroad grade

separation projects, with anticipated expenditures in 2023-24. The Governor's Budget delays these expenditures until 2025-26.

- *Climate Adaptation Program* – No net reduction. The full \$200 million allocation in 2021-22 for regional and local transportation climate adaptation grants is retained in the Governor's budget, although funding would now be from the State Highway Account instead of the General Fund.

The Governor's budget projects increases in special transportation fund revenues, with a 4.3-cent inflationary adjustment to the gasoline excise tax and a 3.3-cent inflationary adjustment to the diesel excise tax, both effective July 1, 2023. Revenues from the SB 1 Transportation Improvement Fee, which is charged along with vehicle registrations, will grow by 8.9 percent year-over-year. The SB 1 Road Improvement Fee for zero emission vehicles still comprises a tiny component of total revenues, but it is projected to nearly double from \$43 million in 2022-23 to \$81 million in 2023-24.

## Homelessness

Last year's budget negotiations resulted in a multi-year commitment to fund the Homeless Housing, Assistance and Prevention (HHAP) program. The 2023-24 Governor's budget proposal does not change that commitment and continues to propose \$1 billion for this program in 2023-24. The budget summary discusses the Administration's interest in working with the Legislature this year to advance additional homeless accountability legislation. Additionally, the Administration intends to focus HHAP, through statutory changes, on the highest priority needs such as encampment resolution, Project Homekey operating sustainability, and CARE Act housing supports.

Also, in the spirit of increased accountability, 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. If a jurisdiction is not compliant with their legal responsibilities, it will be disqualified from receiving funds and they will instead be allocated to overlapping cities, counties, or Continuums of Care.

While also not a "new" budget commitment, the Governor's 2023-24 budget maintains the prior commitment of \$400 million in 2023-24 for the encampment resolution grant program. This funding was part of a multi-year commitment of \$700 million over two years included in last year's budget.

## Community Assistance, Recovery, and Empowerment (CARE) Act

Of particular interest to counties, the 2023-24 Governor's budget includes an initial estimate of county behavioral health department costs to implement the CARE Act. Recall that SB 1338 included a provision stating that the CARE Act will only become operative upon the state, in consultation with county stakeholders, developing a CARE Act allocation to provide state financial assistance to counties to implement the care process in the Act. The Administration's initial proposal totals \$16.5 million in 2023-24, \$66.5 million in 2024-25, and \$108.5 million in 2025-26 and ongoing for implementation. As these estimates still require significant coordination with county stakeholders, the budget summary also mentions the Administration will continue to work with counties and stakeholders to refine this ongoing program cost estimate.

The 2023-24 Governor's budget also refines fiscal estimates for the Judicial Branch to implement the CARE Act. After multiple fiscal year adjustments, the Governor's budget ultimately proposes \$23.8 million in 2023-24, \$50.6 million in 2024-25, and \$68.5 million in 2025-26 and ongoing for courts to implement the CARE Act.

Lastly, the 2023-24 Governor's budget proposes \$6.1 million in 2023-24, increasing to \$31.5 million annually in 2025-26, to support public defender and legal services organizations who will provide legal counsel to CARE respondents.

## **1991 and 2011 Realignment**

Updated revenue estimates for 1991 and 2011 Realignment programs are detailed in charts found at the end of this section. As expected, revenues appear to be significantly impacted by the overall economic conditions.

After multiple years of robust growth for 2011 Public Safety Realignment, the Department of Finance estimates a significant decline in growth for 2022-23 and 2023-24. However, estimates do anticipate that "full base funding" will be met in both fiscal years. Specific to the Community Corrections Subaccount, the budget estimates total base funding of \$1.893 billion and growth funding of \$20.1 million in 2022-23 (compared to 2021-22 growth of \$300.3 million). These projections would then create a 2023-24 base of \$1.913 billion in 2023-24. The Department of Finance projects 2023-24 growth of \$49.5 million for Community Corrections. Recall that the Realignment revenue estimates will be updated in the May Revision.

Additionally, the Department of Finance estimates Vehicle License Fee growth funding for the Enhancing Law Enforcement Activities Subaccount. The estimated \$329.3 million in growth for 2022-23 is dedicated to the Juvenile Justice Crime Prevention Act, Juvenile Camps, Juvenile Probation, and Citizens Option for Public Safety programs.

**1991 Realignment**  
**Estimated Revenues and Expenditures at 2023-24 Governor's Budget**  
 (Dollars in Thousands)

| 2021-22 State Fiscal Year (Actuals)           |                    |                    |                    |                  |                   |                  |                    |
|---|--------------------|--------------------|--------------------|------------------|-------------------|------------------|--------------------|
| Amount  | CalWORKs<br>MOE    | Health             | Social<br>Services | Mental<br>Health | Family<br>Support | Child<br>Poverty | Totals             |
| <b>Base Funding</b>                           |                    |                    |                    |                  |                   |                  |                    |
| Sales Tax Account                             | \$752,888          | \$87,215           | \$2,409,972        | \$115,314        | \$418,627         | \$251,580        | \$4,035,595        |
| Vehicle License Fee Account                   | 367,663            | 1,070,952          | 216,223            | 104,743          | 185,798           | 419,359          | 2,364,738          |
| <b>Subtotal Base</b>                          | <b>\$1,120,551</b> | <b>\$1,158,167</b> | <b>\$2,626,195</b> | <b>\$220,057</b> | <b>\$604,425</b>  | <b>\$670,939</b> | <b>\$6,400,333</b> |
| <b>Growth Funding</b>                         |                    |                    |                    |                  |                   |                  |                    |
| Sales Tax Growth Account:                     | \$-                | \$109,354          | \$70,065           | \$221,816        | \$-               | \$261,392        | \$662,627          |
| Caseload Subaccount                           | -                  | -                  | (70,065)           | -                | -                 | -                | (70,065)           |
| General Growth Subaccount                     | -                  | (109,354)          | -                  | (221,816)        | -                 | (261,392)        | (592,562)          |
| Vehicle License Fee Growth Account            | -                  | 364                | -                  | 737              | -                 | 869              | -                  |
| <b>Subtotal Growth</b>                        | <b>\$-</b>         | <b>\$109,718</b>   | <b>\$70,065</b>    | <b>\$222,553</b> | <b>\$-</b>        | <b>\$262,261</b> | <b>\$664,597</b>   |
| <b>Total Realignment 2021-22<sup>1/</sup></b> | <b>\$1,120,551</b> | <b>\$1,267,885</b> | <b>\$2,696,259</b> | <b>\$442,610</b> | <b>\$604,425</b>  | <b>\$933,200</b> | <b>\$7,064,929</b> |

| 2022-23 State Fiscal Year (Projected)         |                    |                    |                    |                  |                  |                  |                    |
|---|--------------------|--------------------|--------------------|------------------|------------------|------------------|--------------------|
| <b>Base Funding</b>                           |                    |                    |                    |                  |                  |                  |                    |
| Sales Tax Account                             | \$752,888          | \$149,119          | \$2,480,037        | \$337,129        | \$466,077        | \$512,972        | \$4,698,222        |
| Vehicle License Fee Account                   | 367,663            | 1,071,315          | 216,223            | 105,480          | 185,798          | 420,228          | 2,366,708          |
| <b>Subtotal Base</b>                          | <b>\$1,120,551</b> | <b>\$1,220,434</b> | <b>\$2,696,259</b> | <b>\$442,610</b> | <b>\$651,875</b> | <b>\$933,200</b> | <b>\$7,064,929</b> |
| <b>Growth Funding</b>                         |                    |                    |                    |                  |                  |                  |                    |
| Sales Tax Growth Account:                     | \$-                | \$2,819            | \$23,000           | \$5,717          | \$-              | \$6,737          | \$38,273           |
| Caseload Subaccount                           | -                  | -                  | (23,000)           | -                | -                | -                | (23,000)           |
| General Growth Subaccount                     | -                  | (2,819)            | -                  | (5,717)          | -                | (6,737)          | (15,273)           |
| Vehicle License Fee Growth Account            | -                  | 13,633             | -                  | 27,654           | -                | 32,588           | 73,875             |
| <b>Subtotal Growth</b>                        | <b>\$-</b>         | <b>\$16,452</b>    | <b>\$23,000</b>    | <b>\$33,371</b>  | <b>\$-</b>       | <b>\$39,325</b>  | <b>\$112,149</b>   |
| <b>Total Realignment 2022-23<sup>1/</sup></b> | <b>\$1,120,551</b> | <b>\$1,236,886</b> | <b>\$2,719,259</b> | <b>\$475,981</b> | <b>\$651,875</b> | <b>\$972,525</b> | <b>\$7,177,078</b> |

| 2023-24 State Fiscal Year (Projected)         |                    |                    |                    |                  |                  |                    |                    |
|---|--------------------|--------------------|--------------------|------------------|------------------|--------------------|--------------------|
| <b>Base Funding</b>                           |                    |                    |                    |                  |                  |                    |                    |
| Sales Tax Account                             | \$752,888          | \$128,702          | \$2,503,037        | \$342,847        | \$489,313        | \$519,709          | \$4,736,495        |
| Vehicle License Fee Account                   | 367,663            | 1,084,948          | 216,223            | 133,134          | 185,798          | 452,816            | 2,440,583          |
| <b>Subtotal Base</b>                          | <b>\$1,120,551</b> | <b>\$1,213,651</b> | <b>\$2,719,259</b> | <b>\$475,981</b> | <b>\$675,111</b> | <b>\$972,525</b>   | <b>\$7,177,078</b> |
| <b>Growth Funding</b>                         |                    |                    |                    |                  |                  |                    |                    |
| Sales Tax Growth Account:                     | \$-                | \$6,418            | \$25,300           | \$13,019         | \$-              | \$15,341           | \$60,078           |
| Caseload Subaccount                           | -                  | -                  | (25,300)           | -                | -                | -                  | (25,300)           |
| General Growth Subaccount                     | -                  | (6,418)            | -                  | (13,019)         | -                | (15,341)           | (34,778)           |
| Vehicle License Fee Growth Account            | -                  | 7,285              | -                  | 14,776           | -                | 17,413             | 39,474             |
| <b>Subtotal Growth</b>                        | <b>\$-</b>         | <b>\$13,703</b>    | <b>\$25,300</b>    | <b>\$27,795</b>  | <b>\$-</b>       | <b>\$32,754</b>    | <b>\$99,552</b>    |
| <b>Total Realignment 2023-24<sup>1/</sup></b> | <b>\$1,120,551</b> | <b>\$1,227,353</b> | <b>\$2,744,559</b> | <b>\$503,776</b> | <b>\$675,111</b> | <b>\$1,005,280</b> | <b>\$7,276,630</b> |

<sup>1/</sup> Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.

**2011 Realignment Estimate at 2023-24 Governor's Budget**

(\$ millions)

|  | 2021-22          | 2021-22<br>Growth | 2022-23          | 2022-23<br>Growth | 2023-24           | 2023-24<br>Growth |
|--|------------------|-------------------|------------------|-------------------|-------------------|-------------------|
| <b>Law Enforcement Services</b>                              | <b>\$2,936.5</b> |                   | <b>\$3,336.8</b> |                   | <b>\$3,363.6</b>  |                   |
| Trial Court Security Subaccount                              | \$597.3          | \$40.0            | \$637.3          | \$2.7             | \$640.0           | \$6.6             |
| Enhancing Law Enforcement Activities Subaccount <sup>1</sup> | \$489.9          | \$258.1           | \$489.9          | \$329.3           | \$489.9           | \$324.8           |
| Community Corrections Subaccount                             | \$1,593.0        | \$300.3           | \$1,893.2        | \$20.1            | \$1,913.3         | \$49.5            |
| District Attorney and Public Defender Subaccount             | \$56.7           | \$20.0            | \$76.7           | \$1.3             | \$78.1            | \$3.3             |
| Juvenile Justice Subaccount                                  | \$199.6          | \$40.0            | \$239.7          | \$2.7             | \$242.3           | \$6.6             |
| Youthful Offender Block Grant Special Account                | (188.6)          |                   | (226.4)          |                   | (229.0)           |                   |
| Juvenile Reentry Grant Special Account                       | (11.0)           |                   | (13.2)           |                   | (13.4)            |                   |
| <b>Growth, Law Enforcement Services</b>                      |                  | <b>\$658.4</b>    |                  | <b>\$356.1</b>    |                   | <b>\$390.8</b>    |
| <b>Mental Health<sup>2</sup></b>                             | <b>\$1,120.6</b> | \$37.1            | <b>\$1,120.6</b> | \$2.5             | <b>\$1,120.6</b>  | \$6.1             |
| <b>Support Services</b>                                      | <b>\$4,419.5</b> |                   | <b>\$5,125.9</b> |                   | <b>\$5,173.1</b>  |                   |
| Protective Services Subaccount                               | \$2,650.1        | \$334.6           | \$2,984.7        | \$22.4            | \$3,007.1         | \$55.2            |
| Behavioral Health Subaccount                                 | \$1,769.4        | \$371.8           | \$2,141.1        | \$24.8            | \$2,166.0         | \$61.2            |
| Women and Children's Residential Treatment Services          | (5.1)            |                   | (5.1)            |                   | (5.1)             |                   |
| <b>Growth, Support Services</b>                              |                  | <b>\$743.5</b>    |                  | <b>\$49.7</b>     |                   | <b>\$122.5</b>    |
| <b>Account Total and Growth</b>                              | <b>\$9,878.5</b> |                   | <b>\$9,989.1</b> |                   | <b>\$10,170.6</b> |                   |
| <b>Revenue</b>   |                  |                   |                  |                   |                   |                   |
| 1.0625% Sales Tax  | \$9,117.5        |                   | \$9,150.0        |                   | \$9,335.2         |                   |
| General Fund Backfill <sup>3</sup>                           | \$13.0           |                   | \$19.8           |                   | \$20.7            |                   |
| Motor Vehicle License Fee                                    | \$748.0          |                   | \$819.2          |                   | \$814.7           |                   |
| <b>Revenue Total</b>   | <b>\$9,878.5</b> |                   | <b>\$9,989.1</b> |                   | <b>\$10,170.6</b> |                   |

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

<sup>1</sup> Base Allocation is capped at \$489.9 million. Growth does not add to the base.

<sup>2</sup> Base Allocation is capped at \$1,120.6 million. Growth does not add to the base.

<sup>3</sup> General Fund backfill pursuant to Revenue and Taxation Code sections 6363.9 and 6363.10; Chapter 690, Statutes of 2019; Chapter 78, Statutes of 2020; Chapter 82, Statutes of 2021; Chapter 225, Statutes of 2022; and Chapter 251, Statutes of 2022.

## Health Care

### Medi-Cal

#### **MEDI-CAL ADULT EXPANSION AGES 26-49**

The Governor's budget includes \$844 million (\$634.8 million General Fund) to expand full-scope Medi-Cal coverage to adults ages 26 through 49, regardless of immigration status, effective January 1, 2024. This expansion is consistent with the 2022-23 budget.

#### **MANAGED CARE ORGANIZATION TAX**

The Governor's budget proposes to enact a three-year Managed Care Organization (MCO) tax renewal effective January 1, 2024 through December 31, 2026 to provide additional revenue for the Medi-Cal program for purposes of supporting access to health care services and minimizing the need for program reductions. The proposed 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 next three years.

The proposal maintains the structure from the prior tax authorized in [AB 115](#) (Chapter 348, Statutes of 2019) with modifications, including updates to the base enrollment period to reflect calendar year 2021 enrollment data and adjusted for enrollment changes to managed care plans effective January 1, 2024. The Administration will explore opportunities over the next few months to increase the MCO tax to provide support for the Medi-Cal program. Expect trailer bill language related to the MCO tax proposal.

### **CALAIM**

The Governor's budget maintains approximately \$10 billion total funds towards CalAIM. Additionally, the Department of Health Care Services (DHCS) will be seeking an amendment to the CalAIM waiver to authorize transitional rent as an additional Community Support. The new Community Support for transitional rent would allow the provision of 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 incurring other Medicaid state plan services, such as inpatient hospitalizations or emergency department visits. 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.

### **FEDERAL PUBLIC HEALTH EMERGENCY AND MEDI-CAL**

The Administration assumes \$773.8 million in General Fund savings in 2022-23 compared to the enacted 2022-23 budget. The adjustment is primarily related to additional increased federal medical assistance percentage (FMAP) savings from assuming the public health emergency ends in mid-April 2023 instead of mid-October 2022, offset by increased caseload costs.

In 2023-24, the Administration is projecting increased General Fund costs related to COVID-19 impacts of about \$2.7 billion, related to the following: (1) \$3.6 billion General Fund costs from the loss of increased FMAP; (2) \$627 million in savings as Medi-Cal redeterminations resume and caseload begins to fall in August 2023; and (3) other smaller offsetting savings as spending related to various other COVID-19 impacts decline.

However, these estimates do not reflect the recent congressional action to end the continuous enrollment requirement beginning April 2023 or the gradual phase-down of increase FMAP over 2023. The 2023-24 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.

### **REPRODUCTIVE HEALTH SERVICES 1115 WAIVER**

The budget proposes \$200 million total funds (\$15 million General Fund) in 2024-25 for the yet-to-be developed Reproductive Health Services 1115 waiver. The Newsom Administration will be developing an 1115 demonstration waiver focused on reproductive health, with the following goals: (1) support access to family planning and related services for Medi-Cal enrollees, as well as other individuals who may face barriers to access; (2) support the capacity and sustainability of California's reproductive-health safety net; and (3) promote system transformation for California's reproductive health safety net.

### **DESIGNATED STATE HEALTH PROGRAM AND RATE INCREASES**

The Newsom Administration has submitted a proposal to continue the Designated State Health Program (DSHP) under the CalAIM 1115 waiver effective January 1, 2023 to December 31, 2026. The DSHP proposal would allow DHCS to claim \$646.4 million in federal funding over four years to support the Providing Access and Transforming Health (PATH) program and CalAIM Justice Initiative. As part of its approval of DSHP proposals, the Centers for Medicare and Medicaid Services (CMS) require that states provide rate increases for certain services if the Medicaid to Medicare provider rate ratio is below 80

percent. Effective January 1, 2024, primary care will receive a 10 percent increase in fee-for-service for all codes under 80 percent of Medicare; obstetric and doula care will receive a 10 percent increase in both fee-for-service and managed care. The net impact from the provider rate increases and the DSHP claiming is estimated to be \$22 million total funds (\$152.9 million General Fund savings) in 2023-24. This proposal will include trailer bill language related to DSHP and the corresponding rate increases. The Administration will continue to evaluate the need for additional targeted provider rate increases at the May Revision.

### **MEDI-CAL CHECK WRITE**

The 2022-23 budget included funding to buy back the current two-week delay of fee-for-service checkwrite payments at the end of each June. The Administration is proposing to delay implementation until 2024-25. This action reduces costs by \$1.1 billion (\$378 million General Fund) in 2022-23.

## **Behavioral Health**

### **CALIFORNIA'S BEHAVIORAL HEALTH COMMUNITY-BASED CONTINUUM (CALBH-CBC) DEMONSTRATION WAIVER**

As part of the CalAIM transformation, the Newsom Administration unveiled plans in November 2022 to seek a new Medicaid 1115 demonstration – California's Behavioral Health Community-Based Continuum (CalBH-CBC) Demonstration Waiver. The demonstration waiver will expand access and strengthen the continuum of mental health services for Medi-Cal members living with serious mental illness (SMI) and serious emotional disturbance (SED) through a staged implementation beginning no sooner than January 1, 2024. The Administration is estimating the fiscal impact of the waiver over five years to be \$6.1 billion total funds (\$314 million General Fund, \$2.1 billion county funds, and \$3.5 billion federal funds). The budget includes \$5.7 million total funds (\$0.31 million General Fund) for DHCS in 2023-24 for the waiver. The Department of Social Services (DSS) budget includes \$14.5 million (\$10.6 million General Fund) ongoing to support additional workload for county child welfare agencies associated with implementation of the CalBH-CBC Demonstration Waiver. The funding will be used for Child and Family Teams for family maintenance cases, joint home visits with mental health providers, and caseworker administrative time to implement and coordinate extracurricular activities paid for with the new activity stipend. The latter two items will be implemented in 2024-25.

### **BEHAVIORAL HEALTH PAYMENT REFORM CASH FLOW FUNDING**

The proposed budget includes \$375 million General Fund one time in 2023-24 to initially fund the non-federal share of behavioral health-related services at the start of the CalAIM Behavioral Health Payment Reform. These funds are intended to mitigate a significant cash flow issue for counties as they transition from cost-based reimbursement to fee-schedule. DHCS is also proposing trailer bill language to create a continuously appropriated fund to facilitate the implementation of county intergovernmental transfers.

The proposed fund would be called the Medi-Cal County Behavioral Health Special Fund and would allow counties to voluntarily deposit county funding into the new fund, helping reduce administrative burdens to counties.

### **BEHAVIORAL HEALTH CONTINUUM INFRASTRUCTURE PROGRAM DELAY**

The Governor's budget proposes to delay Round 6 (designated for outstanding needs remaining) of the BHCIP funding until 2024-25 (\$240.4 million) and 2025-26 (\$240.3 million), reducing costs by \$480.7 million General Fund in 2022-23.

### **BEHAVIORAL HEALTH BRIDGE HOUSING FUNDING DELAY**

Given the state's revenue decline, the Governor's budget delays until 2024-25 \$250 million of the \$1.5 billion General Fund in 2023-24 Bridge Housing funding. The proposed budget maintains \$1 billion General Fund in 2022-23 and \$250 million General Fund in 2023-24 for this program.

### **OPIOID AND FENTANYL RESPONSE PACKAGE**

Building on opioid response investments in the 2022-23 budget, the Governor's proposed 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 DHCS and 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 [AB 2365](#) (Chapter 783, Statutes of 2022); and
- \$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 these funds are secured, the Administration will update the spending plan 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.

### **OVERSIGHT FOR SUBSTANCE USE DISORDER LICENSING AND CERTIFICATION**

The Governor's budget proposes to strengthen compliance oversight of outpatient substance use disorder programs, including establishing a new mandatory certification program. The Legislature rejected a fee increase on substance use disorder providers in the 2022-23 state budget negotiations.

### **CALHOPE**

The Governor's budget includes \$105 million total funds (including \$96.4 million General Fund and \$9 million Mental Health Services Fund) in 2022-23 and \$44.6 million total funds (\$40 million General Fund and \$4.6 million Mental Health Services Fund) in 2023-24 for CalHOPE, a behavioral health warm line for Californians to call for support and assistance.

### **INCOMPETENT TO STAND TRIAL WAITLIST**

The Governor's proposed budget maintains the previously planned investments in solutions to reduce the felony Incompetent to Stand Trial (IST) waitlist, which included \$535.5 million in 2022-23 and increased to \$638 million by 2025-26. The Administration notes that in calendar year 2022, the waitlist declined from a high of 1,953 to 1,473 as a result of implementing these solutions and increased operational efficiencies.

### **LANTERMAN-PETRIS SHORT ACT DATA AND REPORTING**

The Administration proposes to expand Lanterman-Petris Short (LPS) Act data reporting requirements primarily by: (1) requiring counties to collect and report data quarterly to DHC from their local entities implementing LPS involuntary holds rather than those entities reporting directly to DHCS and (2) authorizing DHCS to levy civil money penalties against facilities and counties for failure to submit data timely. The civil penalties would be subject to an appeals process, and penalty revenue would be

deposited into a new continuously appropriated special fund to support DHCS implementation of [SB 929](#) (Chapter 539, Statutes of 2022). These changes would be implemented via budget trailer bill.

### **DRUG MEDI-CAL CLAIMING**

As part of the state budget, the Administration proposes trailer bill language to change the Drug Medi-Cal claim timelines from six to 12 months to create parity with the claim timeliness requirements for Medi-Cal fee-for-service, specialty mental health, and federal regulations.

### **Covered California**

Improving the affordability of and access to health care continues to be a top priority for the Administration. The 2022-23 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.

Due to declining General Fund revenues, the proposed budget would transfer 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.

### **Health Care Workforce**

The Administration is proposing to maintain 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. However, the Administration is proposing to spread the investments across a longer time horizon due to declining General Fund revenues. The proposed 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. Specifically, the budget 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. The budget also delays \$55 million in the nursing initiative and \$49 million in social worker initiatives. HCAI is anticipated to release additional detail in the coming days about the proposal.

### **Public Health**

#### **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, \$200 million is for local health jurisdictions and \$100 million is for state public health capacity.

#### **PARTIAL PUBLIC HEALTH WORKFORCE REDUCTIONS**

The Governor's 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 state's softening fiscal condition. Funding will impact the Public Health Pathways Training Corps, Incumbent Worker Upskill Training, California Microbiologist Training, California Lab Aspire, and California Epidemiologic Investigation Services Training programs. The Governor's budget maintains funding for waiving public health nurse certification fees.

### **PUBLIC HEALTH CLIMATE AND HEALTH RESILIENCE PLANNING**

The Governor's 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.

### **EMERGENCY RESPONSE AND SMARTER PLAN IMPLEMENTATION**

The Governor's 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 Governor's budget assumes reduced COVID-19 direct response expenditures of approximately \$614 million California Emergency Relief Fund in 2022-23 compared to the 2022-23 budget. The decrease is driven in part by reduced response activities since the peak of the COVID-19 pandemic.

## **Human Services**

### **CalWORKs**

The Governor's budget projects a 2.9 percent increase to CalWORKs Maximum Aid Payment levels, with an estimated cost of \$87 million in 2023-24. The increased costs are funded by the Child Poverty and Family Supplemental Support Subaccount of 1991 Realignment. This increase is on top of an 11 percent statutory increase for 2022-23.

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

The Governor's budget maintains SSI/SSP cash assistance. The average monthly caseload for SSI/SSIP is estimated to be 1.1 million residents 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 minimum grants level to \$1,134 for individuals and \$1,928 for couples per month. The Governor's 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.

### **California Food Assistance Program (CFAP) Expansion Timing**

The Governor's 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 Governor's 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.

## Child Care

The state reached an historic agreement with Child Care Providers United – California to collectively bargain reimbursement rate increases. The Governor's budget maintains over \$2 billion annually to expand subsidized child care slot availability.

Consistent with the current memorandum of understanding between the state and Child Care Providers United-California (CCPU) and the requirements of [AB 131](#) (Chapter 116, Statutes of 2021), 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.

The Governor's 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 Cost-of-Living Adjustment of 8.13 percent.

The Governor's budget maintains the commitment initiated as part of the 2021-22 budget 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 Governor's budget assumes that 20,000 new slots that would have been funded in 2023-24 will instead be funded in 2024-25.

## Child Support Services

The Governor's budget proposes an additional \$36.5 million for Local Child Support Agency administration of the state's child support program. While this funding is not intended to complete the full funding of the Level of Effort funding methodology established in 2018, it does provide additional funding for caseload, call volume, and personnel increases to maintain current service levels.

## Aging Programs

The Governor's budget includes \$37.2 million annually across five years starting in 2022-23 for Mello-Granlund Older Californians Act Modernization pilot programs supporting community-based services programs, senior nutrition support, family and caregiver supports, senior volunteer development, and/or aging in place. This proposal reflects \$186 million General Fund spent over five years instead of across three years as originally planned in the 2022-23 budget.

## Migration and Border Communities

In the Governor's budget narrative, the Administration pledges to continue working with the federal government, including Congress, to leverage additional federal resources and assess operational needs to inform a 2023-24 investment in humanitarian efforts associated with migration in border communities. This issue will be revisited as part of the May Revision.

## Health and Human Services Innovation Accelerator Initiative

The Governor's budget puts forth a new research proposal: the Health and Human Services Innovation Accelerator Initiative, which is designed to focus health 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.

## Local Public Safety Investments

### Proposition 47

As a result of the implementation of Proposition 47 (2014), the Department of Finance estimates net state correctional system savings of \$101 million in 2022-23. This figure represents a decrease of \$60.1 million compared to the savings identified for 2021-22 in last year's budget. The savings derived from implementation of Proposition 47 are dedicated to three policy priorities identified by the initiative: (1) behavioral health treatment and diversion programs (65 percent), (2) programs to improve outcomes for K-12 students and reduce trancies (25 percent), and (3) support for victims' services through trauma recovery centers (10 percent).

### Community Corrections Performance Incentive Grant (SB 678)

Consistent with last year's budget agreement, the Governor's 2023-24 budget proposes to continue the temporary freeze of the statutory formula for the SB 678 grant program. Statewide, probation departments will receive \$123.8 million, consistent with their 2021-22 and 2022-23 allocations. The budget summary states the temporary freeze is 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.

### Post-Release Community Supervision Funding

In recognition of increases in post-release community supervision responsibilities associated with implementation of Proposition 57 (2016), the Governor's budget contains \$8.2 million for county probation departments.

### Public Defense Pilot Program

The Governor's budget withdraws the final year of a three-year investment in the provision of indigent defense. Citing declining revenues, the budget eliminates \$50 million associated with the third year of the three-year [Public Defense Pilot Program](#) administered by the Board of State and Community Corrections.

### Previous Organized Retail Theft Investments

As noted in the introduction, the Governor's budget maintains a commitment to funding over three years various local and state initiatives to address organized retail theft.

## State Corrections

The budget provides \$14.5 billion in funding for the California Department of Corrections and Rehabilitation (CDCR), of which \$3.8 billion is directed for health, mental health, and dental care services

for those in custody. The budget summary includes details on projected prison and parole populations, both of which continue to trend downward for the foreseeable future.

### **Closure of the Division of Juvenile Justice**

The Governor's budget proposes a permanent reduction of \$95.8 million associated with the state's closure of the Division of Juvenile Justice (DJJ) on June 30, 2023 pursuant to [SB 92](#) (Chapter 18, Statutes of 2021). (Note: This reduction applies to CDCR's budget and is associated with the state's ceasing of DJJ operations; it does not affect ongoing funding to counties for the DJJ realignment pursuant to [SB 823](#) (Chapter 337, Statutes of 2020).)

The budget estimates that 360 youth will remain in DJJ's custody at the time of the June closure. These youth will be transferred to the probation department in the county of commitment upon the final closure of the state's juvenile facilities. We will continue to provide updates on the state's transition plan for these youth in the months ahead.

### **Prison Closures and Capacity**

The Governor's budget summarizes recent population trends and details the state's closure in recent years of out-of-state and in-state contract correctional facilities. Additionally, the state has closed or is in the process of closing two state institutions: Deuel Vocational Institution (Tracy, San Joaquin County) – closed as of September 2021; California Correctional Center (Susanville, Lassen County) – closure initiated in November 2022. In December 2022, CDCR announced its intention to end the lease on the California City Correctional Facility (Kern County), its last privately owned prison facility, by March 2024.

Finally, CDCR plans to close Chuckawalla Valley State Prison (Blythe, Riverside County) by March 2025 as well as deactivate the following facilities at six institutions:

- Folsom Women's Facility (Sacramento County);
- Facility C in Pelican Bay State Prison (Del Norte County);
- West Facility in California Men's Colony (San Luis Obispo County);
- Facility A in California Rehabilitation Center (Riverside County);
- Facility D in California Institution for Men (San Bernardino County); and
- Facility D in California Correctional Institution (Kern County).

Estimated savings associated with the completed, in-progress, and anticipated prison closures and facility deactivations total likely more than \$500 million ongoing.

### **Significant Budget Adjustments**

Among the most notable CDCR budget changes are:

- *Free Voice Calling* – Pursuant to [SB 1008](#) (Chapter 827, Statutes of 2022), the Governor's budget provides \$5.6 million in 2022-23 and \$30.7 million ongoing to provide free voice calling for those incarcerated in state prisons.
- *Direct COVID Expenditures* – The Governor's budget provides one-time funding of \$141.8 million to cover additional CDCR costs associated with mitigating the ongoing impacts of COVID. This amount includes resources to support testing for staff and incarcerated individuals (\$89.2 million), personnel services (\$37.5 million), and medical registry costs (\$15.1 million).

Other budget investments address video surveillance in the institutions, facility improvements, and deferred maintenance, among other items.

## Judicial Branch

The judicial branch budget supports the operations of the Supreme Court, courts of appeal, superior courts, the Habeas Corpus Resource Center, and the Judicial Council. The Governor's budget provides \$5.1 billion in judicial branch resources, the vast majority of which (\$2.9 billion or 57 percent) is directed to trial court operations. The budget summary notes previous year investments, including full funding of all remaining (23) trial court judgeships as part of the 2022-23 budget; no additional new judgeships are proposed in 2023-24.

### CARE Act Resources

The Governor's budget provides funding across various functions to support the short- and long-term implementation of the CARE Act. See the comprehensive description of CARE Act funding, including support to the trial courts, on pages 5 and 6 of this document.

### Dependency Counsel

The Governor's budget makes no changes to the statewide dependency counsel funding level. It assumes \$252.7 million in total funding, \$216.7 million General Fund and \$66 million in federal draw down.

### Trial Court Juror Compensation

Consistent with the provisions of [AB 1981](#) (Lee – Chapter 326, Statutes of 2022), the Governor's budget proposes \$19 million in 2023-24, \$17.5 million in 2024-25, and \$4.2 million annually thereafter to (1) increase juror mileage and public transit reimbursements and (2) support the Judicial Council's study of up to six courts to determine whether such increases ameliorate juror diversity and participation.

### Additional Budget Adjustments

Other notable components of the judicial branch budget include:

- *Court Facilities Construction* – \$89.5 million in 2023-24, \$175.5 in 2024-25, and \$174.5 million ongoing to backfill an expected shortfall in the State Court Facilities Construction Fund and to maintain existing services.
- *Trial Court Trust Fund (TCTF) Backfill* – \$109.3 million ongoing to continue backfill of TCTF given ongoing revenue declines.
- *Trial Court Employee Benefit and Retirement Costs* – \$19.6 million ongoing annually to cover health and retirement benefits for trial court employees.
- *Deferred Maintenance* – The budget reduces by \$49.5 million in the current year the previously approved \$188 million made available to address trial and appellate court deferred maintenance; the total amount now available for this purpose is \$138.5 million.
- *Court Appointed Special Advocate (CASA) Program* – The 2023-24 budget rescinds the last two years of a three-year, \$20 million annual investment in the CASA program approved as part of the current-year budget (leaving \$20 million in 2022-23).

## Department of Justice

Notable Department of Justice (DOJ) budget adjustments include the following:

- *Bureau of Forensic Services* – \$53.4 million ongoing to address the shortfall associated with declining fine and fee revenue in the DNA Identification Fund. The budget notes that this investment is needed to maintain current service levels associated with processing forensic evidence for local jurisdictions.

- *Various Implementation Activities* – Approximately \$12 million in ongoing funding associated with 10 recently enacted measures that impact DOJ workload.
- *Fee Increase for Missing Persons DNA Program* – The Governor's budget assumes \$1.5 million Special Fund and \$1.4 million ongoing to support the Missing Persons DNA Identification program, based on an increase in the fee (from \$2 to \$3.63) assessed for each death certificate. The fee increase is needed to maintain current service levels.

## Wildfire and Forest Resilience

The Governor's budget maintains \$2.7 billion (97 percent) of funding authorized in the 2021 and 2022 Budget Acts for forest health and fire prevention activities and programs. The Governor's budget proposes \$91 million in General Fund reductions, which are partially offset by a \$14 million shift to Prop 98. The proposed cuts not backfilled by the fund shift will be restored in full if there are sufficient General Fund revenues in January 2024.

Significant budget adjustments include the following:

- *Climate Catalyst Fund* – a reduction of \$10 million General Fund in 2020-21 and \$31 million in 2021-22, maintaining approximately \$8 million (16 percent) for the program.
- *Stewardship of State-Owned Lands* – a reduction of \$10 million General Fund in 2022-23 and \$15 million in 2023-24; maintaining approximately \$280 million (92 percent) for resilient forest and landscape projects on state lands.
- *Defensible Space Inspections* – a reduction of \$5 million General Fund in 2023-24; maintaining approximately \$20 million (80 percent) to support defensible space inspections.
- *Monitoring and Research* – a reduction of \$5 million General Fund in 2023-24; maintaining approximately \$33 million (87 percent) for research and monitoring efforts.
- *Workforce Training* – a reduction of \$15 million General Fund in 2023-24, which is nearly fully offset by Proposition 98, maintaining \$53 million (98 percent) to support workforce development.

## Drought Response and Water Resilience

The Governor's budget maintains \$8.6 billion (98 percent) of previously committed funding to minimize the budget's impacts on the current drought and to support critical water projects around the state. In total, the 2023-24 budget proposes \$194 million General Fund in reductions which would be restored in January 2024 if there is sufficient General Fund as part of the trigger cuts. The Governor's budget also includes new investments detailed below:

- *Urban Flood Risk Reduction* – \$135.5 million General Fund over two years so support local agencies to reduce urban flood risk.
- *Delta Levees* – \$40.6 million General Fund for ongoing Delta projects that reduce the risk of levee failure and flooding, habitat benefits, and reduce the risk of saltwater intrusion.
- *Central Valley Floor Protection* – \$25 million General Fund to support projects that will reduce the risk of flooding in Central Valley communities that also contribute to agricultural sustainability and ecosystem restoration.
- *2023 Drought Contingency* – \$125 million General Fund one-time as a drought contingency set-aside for allocation during the spring budget process.

- *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 in Safe Drinking Water Account ongoing to support new water supplies.
- *Modernizing Water Rights* – \$31.5 million General Fund one-time in 2023-24 to continue to develop the Updating Water Rights Data for California project.
- *Urban Water Use Objectives* – \$7 million General Fund over four years to implement [SB 1157](#) (Chapter 679, Statutes of 2022).
- *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 tools to conduct water availability analysis.
- *Stream Gages* – \$4.7 million General Fund over two years to begin reactivation of stream gages.

Other proposed actions to address the budget problem include the following:

- *Watershed Resilience Programs* – a reduction of \$24 million General Fund in 2023-24 and a delay of \$270 million General Fund in 2024-25; maintaining 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 \$30 million General Fund in 2024-25; maintaining approximately \$130 million (65 percent) of PFAS cleanup resources.
- *Water Recycling* – a reduction of \$40 million General Fund in 2023-24; maintaining 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 2023-24; maintaining 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; maintaining approximately \$20 million (57 percent) to support pilot studies.
- *Water Refilling Stations at Schools* – a reduction of \$5 million General Fund in 2022-23, which eliminates funding for this program.

## Climate Change

The 2021-22 and 2022-23 budgets invested \$54 billion in various climate related programs. The Governor's budget would maintain 89 percent of these investments or \$48 billion. Some of the reductions are offset by fund shifts, which are detailed below by program. Moreover, many of the proposed special funds reductions are included in the trigger package.

### Climate Pillar Legislation Implementation

The Governor's Budget proposes resources to continue implementation of landmark climate legislation, including:

- *Protecting Communities from Impacts of Oil Drilling* ([SB 1137](#); Chapter 365, Statutes of 2022) – \$14.6 million Oil, Gas, and Geothermal Administrative Fund in 2023-24, \$20 million in 2024-25, and \$19.6 million ongoing across multiple departments. SB 1137 requires a setback distance of 3,200 feet between any new oil wells and homes, schools, parks, or businesses open to the public.
- *Nature-Based Solutions* ([AB 1757](#); Chapter 341, Statutes 2022) – \$7.6 million General Fund and Cost of Implementation Account in 2023-24 and \$5 million ongoing. AB 1757 requires the development of an ambitious range of carbon removal targets for natural and working lands.

- Clean Electric Grid ([SB 1020](#); Chapter 361, Statutes 2022) – \$4 million from various accounts (including General Fund) in 2023-24 and additional ongoing funds. SB 1020 advances interim clean energy targets for California – 90 percent of all retail sales of electricity to California end-use customers by 2035 and 95 percent by 2040; 100 percent of electricity procured to serve state agencies by 2035.

### **Klamath Dams Removal**

Governor Newsom's budget proposal includes \$2 million General Fund in 2023-24 and \$1.3 million ongoing and five permanent positions for Department of Fish and Wildlife to support protection and management of fish and wildlife, recreational opportunities, and tribal partnerships before, during, and after dam removal – which begins this spring pursuant to the Klamath Hydroelectric Settlement Agreement which requires the removal of four hydroelectric dams in California and Oregon.

### **Zero-Emission Vehicles (ZEV) Acceleration**

The Governor's 2023-24 budget includes \$2.5 billion in General Fund reductions across various ZEV programs, which are partially offset by approximately \$1.4 billion from Cap-and-Trade program Greenhouse Gas Reduction Funds (GGRF). The most significant budget adjustments are detailed below:

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

### **Extreme Heat and Community Resilience**

The Governor's budget maintains \$444 million (68 percent) of extreme heat funding and \$1.6 (85 percent) of community resilience funding over several years. The budget includes \$735 million General Fund reductions, which are partially offset by a \$250 million shift to Cap-and-Trade funds. If sufficient General Fund is available in January 2024, reductions that are not otherwise delayed will be restored.

Notable proposed budget adjustments include the following:

- *Urban Greening Program* – a reduction of \$100 million General Fund in 2023-24; maintaining approximately \$150 million (60 percent) for the program.
- *Extreme Heat and Community Resilience Program* – a reduction of \$25 million General Fund in 2022-23 and \$50 million in 2023-24; maintaining approximately \$100 million (57 percent) for the program.
- *Urban Forestry Program* – a reduction of \$20 million General Fund in 2022-23 and \$10 million in 2023-24; maintain approximately \$80 million (73 percent) for the program.
- *Community Resilience Centers* – a delay of \$85 million General Fund to 2024-25; maintaining full funding, just later than initially allocated.
- *Regional Climate Resilience* – a reduction of \$5 million General Fund in 2022-23 and \$100 million in 2023-24, maintaining \$125 million (50 percent) for the program.

- *Transformative Climate Communities Program* – a reduction of \$65 million General Fund in 2022-23 and \$40 million in 2023-24; maintaining approximately \$315 million (75 percent) for this fund.
- *Community Air Protection Program* – a reduction of \$50 million in 2023-24 for this program and a shift of \$250 million to the GGRF, maintaining approximately \$560 million (92 percent) for the program.

## Nature-Based Solutions and Coastal Resilience

The Governor's budget maintains \$1.3 billion (86 percent) of nature-based solutions investments and \$743 million (57 percent) coastal resilience funding. In total, there are \$779 million in proposed General Fund reductions across various programs. If sufficient General Fund is available in January 2024, reductions that are not otherwise delayed will be restored.

Significant budget adjustments include the following:

- *Protecting Fish and Wildlife from Changing Climate* – a reduction of \$35 million General Fund in 2023-24, maintaining approximately \$318 million (90 percent) for this purpose.
- *State Conservancy Nature-Based Solutions* – a reduction of \$100 million General Fund in 2023-24, maintaining 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, maintaining 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, maintaining 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 program.
- *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, maintaining 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, maintaining approximately \$582 million (55 percent) for this purpose.

## Climate Smart Agriculture

The 2023-24 budget proposal maintains \$1 billion (89 percent) for sustainable agriculture investments. The Governor's budget includes \$128 million in General Fund reductions. If sufficient General Fund is available in January 2024, reductions that are not otherwise delayed will be restored.

Significant budget adjustments include:

- *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, maintaining 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, maintaining 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, maintaining approximately \$5 million (50 percent) for this program.

## Circular Economy

The Governor's budget maintains \$443 million (95 percent) of investments to address short-lived climate pollutants and advance organic waste infrastructure. The Budget proposes \$24 million in General Fund reductions across several programs. If sufficient General Fund is available in January 2024, reductions that are not otherwise delayed will be restored.

Notable proposed budget adjustments include the following:

- *Composting Opportunities* – a reduction of \$4.8 million General Fund in 2021-22, maintaining 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, maintaining approximately \$45.5 million (91 percent) for this program.

## Energy

The Governor's budget maintains \$7 billion (89 percent) of the 2022 Budget Act's \$7.9 billion earmarked for energy related programs and projects. Additionally, the Governor's budget proposes an initial allocation \$100 million in 2023-34 from the SB 846 Clean Energy Reliability Investment Plan funds for investments that will accelerate the transition to clean energy.

The 2023-24 Governor's Budget includes \$879 million General Fund reductions and \$370 million General Fund delays to future years. If there are sufficient General Fund revenues in January 2024, up to \$410 million of the reductions will be restored, making at least \$469 million permanent reductions.

The significant budget adjustments include the following:

- *California Arrearage Payment Program* – reverts \$400 million in California Emergency Relief Funds in 2022-23 to the General Fund based on savings from the California Arrearage Payment Program which helped Californians address 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, maintaining approximately \$670 million (70 percent) for the program for low-income utility customers.
- *Long Duration Energy Storage* – a reduction of \$50 million in 2023-24 from the Long Duration Energy Storage Program, maintaining approximately \$330 million (87 percent) for projects that help with the clean energy transition.

- *Carbon Removal* – a reduction of \$25 million in 2023-24 from the Carbon Removal Program; maintaining approximately \$75 million (75 percent) for carbon removal projects.
- *Transmission Financing* – a reduction of \$25 million in 2023-24 from the Transmission Financing Program; maintaining approximately \$225 million (90 percent) for financing to support 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; maintaining 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; maintaining approximately \$65 million (87 percent).
- *Industrial Grid Support and Decarbonization* – a delay of \$370 million of funds in the current year, budget year, and future years for the Equitable Building Decarbonization Program. Another \$87 million reduction is planned for 2025-26. These adjustments result in the maintenance of \$835 million (91 percent) for this program.

## General Government

### Libraries

The Governor's proposed budget proposes delaying support for local library infrastructure projects. Specifically, \$100 million in 2023-24 funding would be delayed to 2024-25 (\$33 million), 2025-26 (\$33 million), and 2026-27 (\$33 million).

### Broadband

The Governor's proposed budget maintains the same level of funding for broadband middle-mile (\$3.25 billion), last-mile (\$2.3 billion), and Loan Loss Reserve Fund (\$750 million) activities; however, these funds are deferred as follows:

- 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).

### Film and Television Tax Credit

The proposed budget includes \$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.

### Made in California Program

The proposed budget includes \$1.5 million to be spent over three years to relaunch the Made in California Program and conduct outreach and engagement to increase participation in the program with the goal of supporting in-state manufacturing by increasing consumer awareness of in-state production.

### California Small Business COVID-19 Relief Grant Program

The proposed budget removes about \$92 million from this program due to declining General Fund revenues. This amount represents an estimate of what will remain after all grants have been awarded to eligible businesses.

## **IBank's Small Business Finance Center and the California Rebuilding Fund**

Due to declining General Fund revenues, the Governor proposes to remove \$50 million from this fund, leaving \$37.5 million available for financial assistance to small businesses.

## **California Competes**

The Governor has proposed extending the California Competes grant program with \$120 million for a third year of funding. The California Competes grant program was created to extend the success of the California Competes Tax Credit program to businesses that cannot fully benefit from a nonrefundable tax credit. The Administration anticipates utilizing California Competes to help support the federal CHIPS (Creating Helpful Incentives to Produce Semiconductors) Act to incentivize semiconductor manufacturing, research, and development in California.

## **What's Next?**

Although no hearings have yet been announced, we expect that the full budget committees in each house will meet soon (next week in all likelihood) to hear an overview of the Governor's proposed spending plan. Trailer bill language (TBL) to implement various budget proposals is typically due February 1 to the Legislature. We will continue to keep you apprised on budget developments going forward and welcome your questions about both the budget substance and process.

## **Questions?**

Should you have questions on any aspect of the January budget proposal or the budget process in general, please do not hesitate to reach out to your UCC Advocacy Team. Thank you!