

INTRODUCTION

The COVID-19 Pandemic has tested all Californians and stressed hospitals, health systems, schools, and the overall economy. Despite these extraordinary challenges, the state's science-based approach has saved countless lives. Coupled with a strong fiscal position, the state has laid the foundation for the strong economic recovery now underway. The 2021 Budget Act provides for immediate relief to families and businesses, and makes investments to address California's long-standing challenges. It provides opportunity for every California family—regardless of their income, race, or ZIP code.

MAINTAINING BUDGET RESILIENCY

Building reserves and paying down debt are critical to protect core programs in the future and to prepare the state for emergencies—but it is also critical to avoid overcommitting to ongoing programs and spending that cannot be easily adjusted when the state experiences significant revenue declines. This is why the Budget prioritizes one-time spending over ongoing, allocating 85 percent of discretionary funds to one-time spending. The multi-year forecast reflects a budget roughly in balance; however, risks to the economic forecast remain, including a stock market decline that would significantly reduce state revenues. The Budget acknowledges these risks and includes a phase-in of certain investments that can be adjusted annually through the budget process. These include allocations in child care slots, increases in CalWORKs services, an expanded Middle Class Scholarship, and a future expansion of the California Food Assistance Program.

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The Budget includes \$25.2 billion in reserves. The reserve funds include: \$15.8 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund) for fiscal emergencies, \$900 million in the Safety Net Reserve, \$4.5 billion in the Public School System Stabilization Account, and an estimated \$4 billion in the state's operating reserve.

The Budget continues to pay down the state's long-term retirement liabilities, with \$3.4 billion in payments required by Proposition 2 in 2021-22 plus \$7.9 billion in additional payments over the next three years. The improved revenue forecast also allows for the elimination of \$2 billion in program suspensions enacted in prior budgets. Additionally, employee compensation reductions were ended, employee prefunding of contributions for other post-employment benefits resumed, and various suspended and deferred compensation items were restored as of July 1, 2021 through agreements reached with the state employee bargaining units. The Budget also completely pays off Proposition 98 deferrals implemented last year to avoid reductions to school spending, alleviating the need for local school districts to continue borrowing funds to support programmatic needs.

The State Appropriations Limit, or "Gann Limit," caps the amount of revenues from proceeds of taxes that can be appropriated by the state, which serves to constrain state spending. Any excess revenues appropriated above the state's limit over a two-year period must ultimately be reallocated evenly between schools and taxpayer refunds. The Budget projects the state to be below the Gann Limit for the two-year fiscal period of 2020-21 and 2021-22, based in part on statutory changes enacted as part of the Budget that more accurately account for selected expenditures under both state and local limits and a revised level of excluded spending. The estimate for this two-year period will continue to be revised until May 2023.

IMMEDIATE RELIEF FOR FAMILIES AND SMALL BUSINESSES

Earlier this year, the Governor and the Legislature acted swiftly to approve an historic relief package that provided \$600 Golden State Stimulus and Golden State Grant payments to 5.7 million households and grants to hundreds of thousands of impacted small businesses. The Budget includes a major expansion to the Golden State Stimulus, providing tax refunds to middle-class families with an adjusted gross income of \$75,000 or less. In total, two-thirds of Californians will benefit from \$600 payments. Qualified families with dependents, regardless of immigration status, will also be eligible for an additional \$500 payment.

The Budget expands relief to small businesses by adding \$1.5 billion to the state's earlier \$2.5 billion investment in the Small Business COVID-19 Relief Grant Program that has helped approximately 210,000 businesses stay open and keep Californians employed.

During the pandemic, many Californians have been able to remain in their homes through the help of state and federal eviction moratoria, and significant federal investments that have helped pay for rents and utilities and provided mortgage assistance. In addition to \$6.4 billion in state administered and direct local federal rent relief, the Budget also includes \$2 billion to pay down unpaid utility debt, which accumulated during the pandemic.

EXPANDING OPPORTUNITY FOR ALL CALIFORNIANS

California's K-12 and higher education systems are pivotal for an equitable recovery and to an inclusive future. One-time federal funding and a significant increase in state funds present a historic opportunity to invest in children and youth and improve educational outcomes of the next generation of Californians.

K-14 EDUCATION AND EARLY CHILDHOOD EDUCATION

Under Proposition 98, the significant increase in the state's revenues results in Proposition 98 funding of \$93.7 billion—nearly \$14,000 per pupil and \$21,555 per pupil when accounting for all funding sources. This is a significant increase over the record level estimated in January. In addition, earlier this year, the federal government allocated California K-12 schools approximately \$15 billion. The Budget pays off all deferrals and includes funding for the California for All Kids Plan—investing in universal transitional kindergarten, offering year-round access to enrichment and extended-day supplemental education programs in low-income communities, improving teacher preparation and training, increasing staff on school campuses, and increasing access to school-based nutrition for all students.

With more children eligible to enter the K-12 school system, more preschool and childcare slots will become available to serve the 0-3-year-old population. The Budget includes a plan for up to 200,000 new childcare slots to be phased in over several years to further support working parents. The Budget also reflects the first collective bargaining agreement between the state and Child Care Providers United representing thousands of child care providers. This contract reflects significant rate increases and reform of rates paid to child care providers across the state.

TRANSFORMING CHILDREN AND YOUTH BEHAVIORAL HEALTH

The Budget includes a comprehensive statewide transformation of the behavioral health system for all Californians age 25 and younger—so more children can grow up to be healthier, both physically and mentally. This investment expands evidenced-based programs, trains new behavioral health workers, and creates a statewide portal that can connect young people with telehealth visits and other interactive tools. This expanded system is designed to identify behavioral health conditions early and improve long-term outcomes.

INCREASING COLLEGE AFFORDABILITY

The Budget increases equity, access and affordability across California's public higher education segments. The Budget includes a 5 percent base budget increase for both the University of California (UC) and California State University (CSU), as well as a complete restoration of the reductions in the 2020 Budget Act. Altogether, UC's ongoing General Fund will increase by \$545.9 million, while the CSU's ongoing General Fund will increase by \$597.1 million.

The Budget sets aside \$2 billion over three years to develop additional student housing—which will defray a significant cost of attending college and support students who often have to choose between education and work to support themselves and their families—and support campus infrastructure contingent upon future legislation. Additionally, the Budget implements significant investments in student financial aid to make college more affordable—by expanding the Cal Grant entitlement program for community college students, and by revising the Middle Class Scholarship Program to provide eligible students with scholarships intended to reduce a student's total cost of attendance.

In an effort to make college more affordable for the 3.5 million low-income children in public schools today, the Budget establishes college savings accounts and funds \$500 base deposits for all public school students from low-income families, English learners, and foster youth. The value of these deposits will grow over time, providing additional support for postsecondary education. New accounts will also be created for each subsequent incoming class of low-income first graders.

The Budget further addresses college access and equity by providing better linkages between degrees and credentials and well-paying jobs through the following investments: \$250 million one-time General Fund to support regional K-16 collaboratives, which will bring higher education, K-12, and employers together to create streamlined

career pathways; and \$500 million one-time General Fund over two years to establish the Learning-Aligned Employment program to train and employ underrepresented students in jobs that align with their educational pathways and can lead to permanent employment.

The Budget includes \$500 million to provide education and training grants to workers displaced by the COVID-19 Pandemic. The Budget also provides \$500 million one-time General Fund for the Golden State Teacher Grant Program to support students enrolled in teacher preparation programs.

CONFRONTING HOMELESSNESS AND HOUSING AFFORDABILITY

The Budget includes approximately \$12 billion over two years—the largest investment in the state's history—to combat homelessness. Project Roomkey, first deployed during the pandemic, has helped to house homeless individuals and families, and the Budget includes \$150 million to support transitions to permanent housing. Since last fall, Homekey has acquired and rehabilitated 6,000 units of permanent housing. Total proposed funding of \$5.8 billion for Homekey will further expand the portfolio of housing, including behavioral health continuum infrastructure and housing for low-income seniors. The Budget also includes \$2 billion over multiple years to support local actions to address homelessness. This funding is connected to accountability metrics, such as increasing transitions of individuals to permanent supportive housing.

In addition, the Budget makes numerous investments to address housing affordability, including accessory dwelling unit financing, regional planning grants, funds to preserve affordable units, and funds to promote homeownership.

IMPROVING HEALTH CARE EQUITY

The Budget expands Medi-Cal coverage to undocumented adults aged 50 years and older, beginning in May 2022. This proposal will increase health care access and is another milestone on the path toward universal health coverage. Other equity investments include Medi-Cal eligibility for postpartum individuals, doula services as a covered benefit in Medi-Cal, and subsidized zero-dollar premium plans. The Budget also eliminates the Medi-Cal asset limit for older adults and persons with disabilities.

Additional investments to support older adults include augmenting Alzheimer's investments, strengthening older adults' recovery from isolation and health impacts caused by the pandemic, and increasing meals to support senior nutrition as well as

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increasing CalFRESH expansion outreach to older adults. The Budget also includes over \$800 million for the construction, acquisition, and/or rehabilitation of projects to preserve or expand adult and senior care facilities to serve people experiencing homelessness or who are at risk of homelessness.

The Budget supports the California Advancing and Innovating Medi-Cal (CalAIM), a transformation of the delivery of Medi-Cal to manage risk and improve outcomes and improve health care equity. As part of CalAIM, the Budget includes \$315 million to provide population health management services that centralize administrative and clinical data from the state, health plans, and providers to allow all parties to better identify and stratify member risks and inform quality and value delivery across the continuum of care.

The Budget includes a variety of investments to support developmental services. It outlines a multi-year developmental service provider rate increase based on a 2019 Rate Study, increasing rates by \$1.2 billion General Fund by 2025-26, with an implementation plan focused on improving consumer outcomes and quality of services. The Budget also includes investments to provide children ages three to four with provisional Lanterman Act service eligibility, improve consumer onboarding into the Self-Determination Program, increase competitive employment opportunities for individuals with intellectual and developmental disabilities, support crisis prevention and response services to individuals with intellectual or developmental disabilities, and provide direct service professional workforce training and development.

The Budget assumes an ongoing \$300 million commitment to improve the public health system, beginning in 2022-23, based on an analysis of lessons learned during the COVID-19 Pandemic. It also includes additional investments for COVID-19 response efforts, such as testing, vaccinations, and contact tracing; and funds for numerous efforts administered by the Department of Public Health.

Additional investments support the Department of State Hospitals to address the Incompetent to Stand Trial (IST) patient waitlist, including an IST solutions workgroup, community-based restoration program expansions, increasing sub-acute capacity constraints, and jail-based competency treatment program updates.

REDUCING POVERTY

The Budget includes \$291.3 million General Fund for State Supplemental Payment grant increases. The Budget also provides an increase of 5.3 percent for grants to families on CalWORKS. In addition, the Budget makes major investments to improve services to

CalWORKs families, including job training and other services needed to support economic independence. The Budget also allocates \$35 million General Fund for guaranteed income pilot programs which will target former foster youth, pregnant or parenting foster youth, and low-income Californians.

WILDFIRE AND EMERGENCY RESPONSE AND PREPAREDNESS

During 2020, California experienced not only the COVID-19 Pandemic, but the worst wildfire season in state history. To enhance the state's capabilities, the Budget includes significant investments to advance wildfire prevention and all-hazard emergency preparedness and response.

WILDFIRE PREVENTION

An early action package enacted in April 2021 included \$536 million (\$411 million General Fund and \$125 million Cap and Trade) for a broad set of investments that are currently supporting forest health and fire prevention activities. These investments are critical to changing the state's approach to managing wildfire. The Budget authorizes an additional \$958 million (\$758 million General Fund and \$200 million Cap and Trade) for expenditure in the 2021-22 fiscal year to advance wildfire prevention and forest resilience investments. This includes \$500 million General Fund authorized to accelerate into the budget year. The final allocation of wildfire prevention and forest resiliency funding will be determined later this summer.

The Budget includes ongoing General Fund support for 30 additional fire crews, enabling the California Department of Forestry and Fire Protection to respond to larger and more damaging wildfires throughout the fire season and complete priority fuel reduction projects to reduce wildfire risk in fire-threatened areas. The Budget also includes significant investments in new Black Hawk helicopters and large air tankers transferred from the federal government.

EMERGENCY RESPONSE AND PREPAREDNESS

The Budget includes approximately \$135 million for the Governor's Office of Emergency Services (Cal OES) to strengthen the state's emergency capacity and capabilities. The Budget also includes \$100 million one-time General Fund for Cal OES to implement an equitable all-hazards grant program focused on building resiliency in disadvantaged communities and providing assistance to communities who often lack resources or expertise in drafting competitive grant applications to leverage federal and private funds.

INFRASTRUCTURE FOR THE NEXT CENTURY AND LEGACY ENVIRONMENTAL ISSUES

The Budget uses federal funds and one-time General Fund to make transformational investments in the state's infrastructure to protect Californians and the state's unique ecosystems and landscapes.

The Budget also takes unprecedented steps to address legacy environmental issues that impact disadvantaged communities, including historic investments in reducing harmful emissions from the state's transportation system and efforts to reduce harmful pesticides. It also reflects new strategies across programs to invest in community-led initiatives. In addition, the Budget invests \$500 million one-time General Fund to accelerate the cleanup of contaminated properties throughout the state in impacted communities and proposes an additional \$322.4 million one-time General Fund to clean up additional properties near the former Exide facility in Vernon. The Budget further invests in protecting Californians from harmful pesticides through a notification system that will provide important information about local pesticide use.

WATER RESILIENCE AND DROUGHT

The Budget commits approximately \$5.1 billion over four years to the state's water resilience and drought preparedness and response, including investments that support safe drinking water, wastewater, and water conveyance infrastructure; water recycling and groundwater cleanup; Sustainable Groundwater Management Act grants; financial assistance to small and urban water suppliers; and water resilience multi-benefit projects. Of this amount, \$2.1 billion General Fund over three years is set aside for water resilience investments that will be negotiated this summer.

ZERO EMISSION VEHICLES

The Budget includes \$2.7 billion in 2021-22 and \$3.9 billion (\$2.98 billion General Fund, \$565 million Cap and Trade, and \$394 million other funds) over three years for zero-emission vehicle (ZEV) and infrastructure investments. This will scale the zero-emission vehicle market in ways that benefit all Californians and accelerate the state toward meeting climate and transportation goals established in the Governor's ZEV Executive Order N-79-20 and consistent with California's Zero Emission Vehicle Market Development Strategy.

The ZEV package includes funding to improve air quality and increase economic development and job creation through the delivery of over 1,000 zero emission

drayage trucks, 1,000 transit buses, and 1,000 school buses, as well as the charging and fueling infrastructure to enable these deployments.

SUSTAINABLE AGRICULTURE

Ongoing climate change—evidenced by decreased water availability, increased floods, and changing weather—has increased pressure on California's farmers. The Budget includes \$236 million General Fund for investments that support sustainable agriculture including funding for healthy soils, incentives for alternatives to agricultural burning in the San Joaquin Valley, technical assistance for underserved farmers, and the seniors farmers market nutrition program. The Budget also includes \$617 million General Fund over two years for agriculture investments that were deferred for allocation in negotiations this summer.

CLIMATE RESILIENCE

The Budget sets aside \$3.7 billion over three years for communities that are facing the impacts of climate change. The use of these funds will be determined later this summer and will include, but not be limited to, proposals addressing extreme heat, sea level rise, and community-driven infrastructure investments in the most disadvantaged communities, which are often the hardest hit by climate change and other health, environmental, and economic challenges.

ENERGY

California has long led the nation and the world in setting ambitious renewable energy and climate policies, working toward a clean economy that is healthier and more equitable. Achieving the state's energy goals will support economic growth and job creation, and improve public health so the benefits of cleaner, more efficient energy are enjoyed by all Californians. The Budget includes \$812 million over two years to accelerate California's progress in meeting its clean energy goals. The use of these funds will be determined later this summer.

TRANSPORTATION

The Governor will continue to work with the Legislature this summer to enact a comprehensive transportation package that includes significant investments in transportation infrastructure, including \$4.2 billion in General Obligation bond funds dedicated for the High Speed Rail project, and \$3.5 billion General Fund for high-priority transit projects, grade crossings, zero emission rail equipment, active transportation, and climate adaptation projects. The Budget contains \$2.3 billion in special funds and

federal funds to repair state highways, local roads, local bridges, and accelerate rail projects. Taken together, these investments will result in thousands of new jobs and spur even more economic activity throughout the state.

BROADBAND

The pandemic has underscored the importance of making broadband accessible and affordable for educational, employment, and health purposes. The Budget reflects a plan to increase equitable access to high-speed broadband Internet service through a \$6 billion investment to expand broadband infrastructure and enhance access by constructing an open access middle mile and by funding construction of last mile projects that connect unserved households in remote areas to the middle mile.

RESULTS-ORIENTED GOVERNMENT

The Budget promotes effective government with additional investments to improve the state's ability to respond rapidly to emergencies and continue the critical work to bring government closer to the people—an imperative underscored by more Californians adapting to remote work—during and after the pandemic. The Budget includes funding for the Employment Development Department to take lessons learned during the pandemic to modernize its benefits system.

The Department of Motor Vehicles (DMV) has successfully moved more services online to offer a digital DMV to customers during the pandemic, and will continue to work to replace its decades-old information technology system to make it easier to access DMV services. Additionally, the Budget includes \$25 million for the California Department of Technology to support state information technology system upgrades so that the state can more effectively deliver services and benefits.

HISTORIC INVESTMENTS AND LOOKING AHEAD

California's prudent fiscal planning is supporting the state's recovery from the COVID-19 Recession. The combination of the state's surplus and federal relief funds gives California the opportunity to make once-in-a-generation investments in a more equitable future for the state. However, the multi-year forecast reflects a return to revenue growth more in line with a typical economic expansion, thereby limiting ongoing spending. Accordingly, the multi-year forecast reflects a budget kept in balance by focusing on one-time spending. The state has paid off budgetary debts and has multi-year plans to pay down its long-term retirement liabilities.

These actions, coupled with historic reserve levels, enhance the state's budget resiliency—a necessary predicate for sustaining programs in the future.