

INTRODUCTION

California is turning the corner on its most challenging year in recent history. 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 saved countless lives and coupled with its strong fiscal position provided the foundation for a strong economic recovery. It also provided the resources for immediate relief to families and businesses. California now has one of the lowest COVID-19 positivity rates in the nation and the state is on track to open up by this summer.

The May Revision stands in stark contrast to the budget of one year ago. Compared to a projected budget deficit of \$54 billion a year ago, the state now has a projected \$75.7 billion surplus. Combined with over \$25 billion in federal relief, this supports a \$100 billion California Comeback Plan—a once-in-a-lifetime opportunity to not only speed the state's recovery from the pandemic, but to address long-standing challenges and provide opportunity for every California family—regardless of their income, race, or ZIP code.

OVERALL BUDGET STRUCTURE

The May Revision includes \$24.4 billion in reserves—critical to a strong fiscal foundation, as last year clearly demonstrated. The reserve funds include: \$15.9 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund) for fiscal emergencies,

INTRODUCTION

\$450 million in the Safety Net Reserve, \$4.6 billion in the Public School System Stabilization Account, and an estimated \$3.4 billion in the state's operating reserve.

The May Revision continues to pay down the state's long-term retirement liabilities and reflects \$3.4 billion in additional payments required by Proposition 2 in 2021-22 and \$7.9 billion in additional payments over the next three years. The improved revenue forecast also allows for the elimination of \$2 billion in proposed program suspensions that were delayed at the Governor's Budget. Additionally, for some bargaining units, employee compensation reductions and pay deferrals will end automatically by provisions of their agreements, and the California Department of Human Resources is inviting the remaining bargaining units through collective bargaining to discuss revising these agreements.

While the economic outlook and revenue have improved dramatically, the same budget resiliency that helped the state through the pandemic will continue to be critical to protect programs in the future and to prepare the state for emergencies. The forecast does not project large structural deficits; however, risks to the economic forecast remain—new coronavirus variants, vaccine hesitancy, higher inflation if disrupted supply chains cannot support increased consumer demand, and a stock market decline that would impact state revenues. These risks, together with the one-time nature of the federal funds and new revenue, constrain the state's ability to significantly expand ongoing commitments.

The State Appropriations Limit, or "Gann Limit," caps the amount of revenues from proceeds of taxes that can be appropriated by the state, which constrains state spending and requires revenues over the two-year limit to be allocated evenly between schools and taxpayer refunds. The Governor's Budget projected that the state could exceed the limit over the 2018-19 and 2019-20 two-year period by \$102 million. Based on final revenues, the limit for that two-year period was not exceeded. However, the May Revision projects that the limit for the 2020-21 and 2021-22 fiscal years will be exceeded by \$16.2 billion. This estimate will continue to be revised until May 2023. The May Revision allocates \$16.2 billion to comply with the limit, including tax refunds through a Golden State Stimulus and allocating half of the funds to K-14 schools in 2022-23. Given the uncertainty around the calculation of the limit in future years, the multi-year projections do not assume additional payments.

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 a \$600 Golden State Stimulus to 5.7 million households and \$2.5 billion for impacted small businesses. The May Revision proposes a major expansion to the Golden State Stimulus, providing tax refunds to middle-class families that make an adjusted \$75,000 or less. Under the plan, two-thirds of Californians will benefit from \$600 payments. Qualified families with dependents, including undocumented families, will also be eligible for an additional \$500 payment.

The May Revision continues to invest in small businesses—the backbone of the state's economy—by adding \$1.5 billion to the state's earlier investments that have helped nearly 200,000 businesses to 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 moratoriums and significant federal investments that have helped pay for rents and utilities and provided mortgage assistance. The May Revision also includes \$2 billion to pay down unpaid utility debt, including water and electricity, that has accumulated during the pandemic.

EXPANDING OPPORTUNITY FOR ALL CALIFORNIANS

California's K-12 and higher education systems will be pivotal to an equitable recovery, but also to an inclusive future that invests in each child. One-time federal funding and the significant increase in state funds present an historic opportunity to invest in students and raise the arc of the next generation of Californians.

K-14 EDUCATION

Under Proposition 98, the significant increase in state's revenues results in Proposition 98 funding of \$93.7 billion—nearly \$14,000 per pupil. This is a significant increase over the record level estimated in January. In addition, earlier this year the federal government allocated K-12 schools approximately \$15 billion and the California Community Colleges \$2.3 billion. In addition, the State Appropriations Limit will result in a supplemental payment to schools of approximately \$8 billion, which is scheduled to be allocated in 2022-23. This payment will assist districts over the next several years as one-time federal funds expire.

CALIFORNIA FOR ALL KIDS PLAN

The May Revision re-envisioned the K-12 public education through the California for All Kids Plan—a five-year investment strategy that addresses equity gaps by:

- Offering year-round access to enrichment and extended-day supplemental education programs in low-income communities;
- Improving teacher preparation and training;
- Increasing staff, including counselors, social workers and nurses; and
- Increasing access to school-based nutrition.

The plan also proposes beginning universal access to transitional Kindergarten starting in 2022-23 and fully implemented by 2024-25. With more children entering the K-12 school system, more preschool and childcare slots will become available to serve the 0-3-year-old population. The May Revision also proposes to fund 100,000 new childcare slots to further support working parents.

TRANSFORMING CHILDREN AND YOUTH BEHAVIORAL HEALTH

The May Revision proposes a statewide and comprehensive transformation of the behavioral health system for all Californians age 25 and younger—changing the life trajectory of children so that they can grow up to be healthier, both physically and mentally. This proposal will expand evidenced-based programs, train new behavioral health workers, and create a statewide portal that can connect young people with telehealth visits, and other interactive tools. The proposal is designed to identify behavioral health conditions earlier and improve outcomes.

INCREASING COLLEGE AFFORDABILITY

The May Revision reflects the Administration's priority to increase equity, access and affordability across California's public higher education segments. The May Revision reflects an additional 2 percent of base growth on top of the 3 percent proposed in January, and a complete restoration of the reductions in the 2020 Budget Act. Altogether, University of California's ongoing General Fund will increase by \$506.9 million, while the California State University's ongoing General Fund will increase by \$596.1 million. These are the largest ongoing investments in recent history, and are being made with the understanding that both segments will maintain undergraduate tuition and fees at current levels for the 2021-22 academic year, reduce equity gaps,

provide more online learning opportunities, and better align student learning with workforce needs.

The May Revision also includes \$4 billion over two years to develop more 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.

In an effort to make college more affordable for the 3.8 million low-income children in public schools today, the May Revision invests \$2 billion to create a California Child Savings Accounts program. Seeded with \$500 per account, the value of deposits will grow over time, providing a direct path to affording postsecondary education and helping address equity gaps. New accounts will be created for each subsequent income class of low-income first graders.

The May Revision further increases college affordability by investing \$1 billion over two years to establish the Learning-Aligned Employment program—an endowment housed at the University of California with annual proceeds distributed to the state's public higher education segments to develop partnerships with businesses to train and employ underrepresented students in jobs that align with their educational pathways and can lead to permanent career opportunities.

Recognizing the many workers displaced from their jobs during the pandemic, the May Revision includes a \$1 billion grant program through the California Student Aid Commission for the state's public higher education segments to make grants available to such workers to reskill or upskill and put them on a path toward upward economic mobility and security. The May Revision also includes billions in additional investments that connect people with training, establish more quality jobs, and grow California's workforce. In response to the disproportionate impacts of the pandemic on certain sectors and workers, these opportunities focus on training and apprenticeships, retraining and supporting displaced workers, and developing career pathways for low-income workers.

CONFRONTING HOMELESSNESS AND HOUSING AFFORDABILITY

Combined with the Governor's Budget proposals, the May Revision makes the largest investment to combat homelessness in the state's history—\$11.87 billion over the next two fiscal years. Project Roomkey, deployed during the depths of the pandemic, has helped to house homeless individuals and families. Since last fall, Homekey has acquired and rehabilitated 6,000 units of permanent housing. Total proposed funding of

\$7 billion for Homekey will further expand the portfolio of housing, including behavioral health continuum infrastructure and housing for low-income seniors. The May Revision also includes \$1 billion for the CalWORKS housing support program, \$560 million to address family homelessness, and \$25 million for veterans homelessness.

The May Revision 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.

HEALTH CARE EQUITY AND AFFORDABILITY AND AGING

The May Revision continues to support the California Advancing and Innovating Medi-Cal (CalAIM), a transformation of the delivery of Medi-Cal to manage risk and improve outcomes. The May Revision includes \$315 million to centralize administrative and clinical data from the state, health plans, and health providers to better identify and stratify member risk to support CalAIM implementation and health care equity.

The May Revision makes a significant ongoing \$1 billion (\$859 million General Fund) investment to expand Medi-Cal coverage to undocumented adults aged 60 years and older, beginning in May of 2022. This proposal will increase health care affordability and is a milestone on the path toward universal health coverage. Other proposals include expanded Medi-Cal eligibility for postpartum individuals, doula services as a covered benefit in Medi-Cal, and subsidized zero-dollar premium plans.

The May Revision also includes investments to support older adults—providing a cost-of-living-increase to State Supplemental Payment grants, augmenting Alzheimer's investments, and strengthening older adults' recovery from isolation and health impacts caused by the pandemic.

INFRASTRUCTURE FOR THE NEXT CENTURY

WATER AND DROUGHT

Combined with the Governor's Budget, the May Revision proposes \$5.1 billion over multiple years for a water resilience package to expand and protect water supplies across the state. The package supports drinking water and wastewater infrastructure, water recycling projects, immediate drought support to communities, and improves long-term ecological conditions to help species cope with climate change.

SUSTAINABLE AGRICULTURE

Ongoing climate change—evidenced by decreased water availability, increased floods, and changing weather—has put increased pressure on California's farmers. The May Revision builds on investments in the Governor's Budget to accelerate the transformation of the agriculture sector, together providing \$794 million for implementing climate smart agriculture, improving drought resiliency, increasing pollinator habitat, and transitioning to safer, more sustainable pest management.

ZERO EMISSION TRANSPORTATION

California is committed to developing an equitable Zero Emission Vehicle (ZEV) market, not only as a foundational tool to protect public health and combat climate change, but as a focal point of economic development and job creation. To further reduce the impacts of climate change, the May Revision builds on the Governor's Budget ZEV proposals, bringing investments to \$3.2 billion over the next three years. Investments include funding for clean transportation programs that will improve air quality by expanding zero-emission short-haul trucks, transit buses, and school buses. Funding also supports additional charging and fueling infrastructure to support more clean vehicles. Accelerating the adoption of ZEVs will allow the zero-emission industry to capitalize on scale, create more jobs and economic development, and help bring down the cost of ZEV deployment around the world.

CLIMATE RESILIENCE

The May Revision proposes \$1.3 billion in targeted investments for communities that are facing the impacts of climate change today. This includes 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. Specific investments in environmental justice are described below.

TRANSPORTATION

The May Revision proposes significant investments in infrastructure, including \$4.2 billion for the High Speed Rail project, \$3.1 billion for high-priority rail and active transportation projects, and \$2.4 billion to repair the state highways and 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 May Revision reflects a plan to achieve equitable statewide access to high-speed broadband internet service, and proposes a \$7 billion investment to expand broadband infrastructure and enhance access.

ENVIRONMENTAL JUSTICE

The May Revision takes unprecedented steps to address legacy environmental issues that impact disadvantaged communities, including historic investments in reducing the 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 May Revision invests an additional \$200 million, bringing the total to \$500 million, to accelerate the cleanup of contaminated properties throughout the state in impacted communities and proposes an additional \$291 million for cleanup of additional properties near the former Exide facility in Vernon. The May Revision further invests in protecting Californians from harmful pesticides by implementing a notification system to provide important information about local pesticide use. The May Revision also includes \$200 million to plug abandoned orphaned oil and gas wells, many located near low-income residential areas.

EMERGENCY RESPONSE AND PREPAREDNESS

During 2020, California experienced two unprecedented emergencies—a global COVID-19 Pandemic and the worst wildfire season in state history. A devastating drought and another challenging fire season may be in the near future as well. So California can continue to prepare to respond to these and other emergencies, the May Revision proposes approximately \$100 million for the Governor's Office of Emergency Services (Cal OES) to strengthen the state's emergency capacity and capabilities.

The May Revision includes \$250 million 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.

The May Revision together with the Governor's Budget adds another \$708 million to the already approved \$536 million wildfire package enacted earlier this year, bringing the total wildfire package to \$1.2 billion to prepare for and mitigate devastating fires this season and beyond.

RESULTS-ORIENTED GOVERNMENT

The May Revision will promote 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 May Revision 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 their field offices online to offer a digital DMV to customers during the pandemic, and will begin work to improve operations and modernize its program as well as replace its decades-old information technology system to make it easier to access DMV services. Additionally, the May Revision includes \$50 million for the Department of Technology to pilot a more flexible way to support state information technology system upgrades to ensure 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 and affording significant investments in a more equitable future. The combination of the state's surplus and federal relief funds are allowing California to make a once-in-a-lifetime investment in the future of the state. However, it is unreasonable to believe this growth in resources will continue at this pace over the long term. Accordingly, the May Revision continues maintaining a balanced budget, pays down long-term liabilities, and builds strong reserves to enhance budget resiliency—a necessary predicate for maintaining programs in the future.