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After two years dominated by COVID-19, the first half of 2022 has brought a new challenge—elevated global inflation spurred by lingering supply-chain disruption and Russia's war in Ukraine that has sent prices soaring. In addition, increasingly extreme weather due to climate change is leading to more severe heatwaves, drought conditions, and worsening wildfires, which are placing a massive new strain on the state's electrical grid. Despite these challenges, California continues to move forward and its continued success comes from the creativity and ingenuity of its people, years of smart public investments, and continued fiscal responsibility.

The Budget provides over \$17 billion in relief to millions of Californians to help offset rising costs, and reflects an accelerated minimum wage increase, effective January 1, 2023. The Budget adds substantial investments to address homelessness and behavioral health challenges and includes funding to make neighborhoods safer. It also supports additional protection from the impacts of wildfire and drought.

The Budget makes a massive multi-year commitment to the state's infrastructure—funding schools, higher education, broadband infrastructure, and a clean transportation system to assure California's success for generations to come. Finally, the Budget includes critical actions to maintain energy reliability, creating a strategic reserve, protecting ratepayers, and accelerating clean energy projects.

The Budget reflects California values—defending a woman's right to choose, expanding access to health care for all Californians, and protecting the state's most

vulnerable residents. It reshapes California public schools, and it expands access to the state's colleges and universities.

The Budget continues to build resiliency and prepare the state for an uncertain future by banking \$37.2 billion in budgetary reserves, prepaying billions of dollars in state debts and making supplemental deposits into reserve funds. The Budget allocates 93 percent of the discretionary surplus for one-time purposes.

BROAD-BASED RELIEF

While wages have increased for high-income taxpayers, and corporate profits have surged, the COVID-19 Pandemic has caused economic hardship for many families over the past two years. Compounding this dynamic, inflation, at its highest rates in 40 years, is eroding the ability of low- and middle-income households to cover everyday needs.

To further address rising prices and return tax proceeds to Californians, a central component of the Budget is an over \$17 billion broad-based relief package. Its centerpiece is a refund of up to \$1,050 that will benefit millions of Californians based on income level and the size of household. The relief package also includes increased grants for the state's lowest income families and individuals, and additional funding for food banks.

The relief package includes funding for rental assistance, payments for outstanding utility arrearages built up during the pandemic, and covers all family fees for subsidized child care and preschool programs. The relief package also continues health care subsidies for the middle class if federal subsidies expire, and includes retention bonus payments for thousands of health care workers. Finally, the package targets relief to small businesses by including a one-year suspension of the state sales tax on diesel, and provides additional grants to small businesses negatively impacted by the COVID-19 Pandemic.

ADDRESSING IMPACTS OF CLIMATE CHANGE

Climate change continues to drive extreme weather across the state, resulting in extreme heat events, severe drought, and worsening wildfires. These conditions are placing a massive new strain on the electrical grid, and new investments are needed to strengthen energy reliability. Building off of the \$15 billion allocated last year, the Budget allocates an additional \$39 billion over five years toward climate resilience and integrated climate, equity, and economic opportunity across the state's budget to

mobilize a coordinated government-wide response to the climate crisis. The Budget makes historic investments to expand zero-emission vehicles, climate innovation and opportunities for quality jobs, including encouraging lithium production in California. As referenced in the Climate Change Chapter, the Budget integrates climate actions across program areas with additional funding to support the state's climate goals in transportation, housing, health, schools, and job training.

DROUGHT AND WATER RESILIENCE

This winter, a record-breaking lack of precipitation pushed California into its third consecutive year of drought. The Budget allocates \$1.2 billion to immediate drought support, including efforts to encourage conservation. The Budget includes an additional \$1.5 billion that is deferred for allocation later this summer for long-term water resilience. The Budget also includes \$75 million to support grants to farming and related businesses negatively impacted by the drought, subject to further legislation.

ENERGY

Recent supply chain disruptions, tariff issues, and other factors are slowing the development of new clean energy installations in California, jeopardizing the timely development of projects needed for reliability. At the same time nuclear and gas-fired energy production capacity is scheduled to retire, new extreme weather patterns are causing even more stress on the state's energy grid. New wildfire hardening and transmission costs also are placing additional upward pressure on electricity rates that are already rising significantly over the next few years.

To address this, the Budget allocates \$4.3 billion and includes critical actions to allow the state to provide reliability insurance through the development of a strategic reserve, protection to ratepayers, and accelerated deployment of clean energy projects. The Budget also includes an additional \$3.8 billion that is deferred for allocation later this summer to further reliability, affordability, and accelerate the state's clean energy future.

WILDFIRES

The Budget includes \$1.2 billion in additional actions to continue building forest and wildfire resilience statewide, including \$530 million that will be allocated in the summer pending additional discussions with the Legislature. The Budget also includes significant new CAL FIRE staffing and fire protection operational enhancements to expand the state's wildfire response capacity. The additional \$671.4 million (\$662.9 million General Fund) will add 1,265 new positions and expand fire crews, air attack operations, and

provide for additional relief for CAL FIRE staff to meet the demands of wildland firefighting in a changing climate.

EDUCATION AND PARENTS AGENDA

The Budget includes total funding of \$128.6 billion for K-12 education, reflecting \$22,893 per pupil (\$16,993 K-12 Proposition 98 General Fund). In addition to this funding, the Budget includes \$5.1 billion General Fund for K-12 school facilities, including new preschool and transitional kindergarten facilities.

The Budget includes \$35.8 billion Proposition 98 funds above the 2021 Budget Act for K-14 education, enabling further progress in reshaping California public schools to make them more student- and family-centered. To make this a reality, the Budget includes more funding for community schools and universal high-quality school meals. It also accelerates full funding for extended learning opportunities that will provide families the opportunity for a 9-hour day filled with developmentally appropriate academics and enrichment, including six weeks during the summer. The COVID-19 Pandemic has strained school communities and the Budget invests in an initiative to support K-12 schools with meaningful community engagement and to provide intensive learning supports.

California continues to extend universal transitional kindergarten to all four-year-olds, and to expand the state's subsidized child care system. The Budget includes \$100.5 million to develop and renovate child care facilities, includes adjustment factor updates for the State Preschool program to reshape this program to serve three-year-olds and children with disabilities, and temporarily extends family fee waivers and reimburses subsidized child care and state preschool providers based on maximum authorized care.

CHILDREN'S BEHAVIORAL HEALTH

The COVID-19 Pandemic left many Californians feeling isolated, especially children and youth. Last year the Budget included \$4.4 billion over multiple years to transform California's behavioral health system for all California children and youth. The Budget includes an additional \$290 million over three years to address the most urgent needs and emergent issues in children's mental health. As the state continues to implement a new behavioral health system for children and youth, this proposal will support grants to deliver well-being and mindfulness programs, as well as parent support education programs. This proposal will also fund grants to support children and youth at increased risk of suicide and a youth suicide crisis response pilot program. The funding will also

establish a center for researching, evaluating, and applying innovative new technologies to improve youth mental health, enabling California to maximize the positive impact of emerging technology on the social and emotional well-being of children and youth, and minimize the harm these technologies cause by focusing on their use to improve assessment, supports, and treatment.

EXPANDING OPPORTUNITY AND STRENGTHENING CALIFORNIA'S FUTURE

HIGHER EDUCATION

Earlier this year, the Administration finalized five-year compacts with the University of California and California State University systems and a five-year roadmap with the California Community College system. These partnerships are designed to expand access, close equity gaps, and promote student success. They are focused on improving time-to-degree completion and reducing students' total cost of attendance. The compacts also focus on better connecting students to careers by strengthening occupational pathways that improve student economic mobility and better aligning student learning objectives to the state's workforce needs.

The Budget makes new investments that will strengthen career pathways and support the next generation of innovations in California by making lasting infrastructure investments at the state's universities. The Budget also furthers access and equity to higher education by expanding the Cal Grant program for students attending non-profit private universities and, starting in 2024-25, further expands the Cal Grant entitlement by removing barriers so that more students are eligible for Cal Grant awards.

HEALTH CARE

California has advanced multiple measures in recent years to improve health care affordability—expanding Covered California premium subsidies for the middle class; increasing access to Medi-Cal for children, young adults, and older adults regardless of immigration status; providing greater coverage for preventative services; and taking actions to reduce prescription drug costs.

The Budget will make California the first state to realize the goal of universal access to health coverage for all income-eligible Californians by closing a key gap in Medi-Cal coverage for individuals ages 26 to 49, regardless of immigration status. The Budget also continues progress in improving health care affordability by establishing the Office of Health Care Affordability, charged with increasing the transparency of

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pricing, developing specific cost targets for different sectors of the health care industry, and imposing financial consequences for entities failing to meet these targets.

If the federal government does not extend the federal health insurance premium subsidies, the Budget proposes \$304 million to re-instate state-supported Covered California premium subsidies for the middle class. The Budget also includes \$100.7 million to develop and manufacture low-cost biosimilar insulin products to increase availability and affordability of insulin in the state.

And while other states seek to limit women's ability to receive reproductive care, the Budget provides over \$200 million to expand access to reproductive healthcare services, improve clinical infrastructure, and expand the workforce in reproductive healthcare services. These investments are primarily focused on grants to reproductive health providers to provide abortion care and reproductive health education and information.

INFRASTRUCTURE

The Budget includes a multi-year commitment of \$47 billion in state funds for infrastructure. This includes funding to accelerate the transition to zero-emission vehicles, modernize the state's transportation system, promote energy innovation and reliability, advance the state's housing goals, reduce wildfire risk to communities, and to support drought resiliency and response. The Budget includes additional funding to build more housing for homeless individuals, for greater access to broadband connectivity, for school facilities and libraries, and for university facilities.

These unprecedented investments are on top of the billions in new federal funding from the Infrastructure Investment and Jobs Act that will support transportation, broadband and other infrastructure projects over the next five years. Every \$1 billion invested in infrastructure is expected to create approximately 13,000 quality jobs in California.

TRANSPORTATION

The Budget includes \$14.8 billion for regional transit and rail projects; to support the continued development of a first-in-the-nation, electrified high-speed rail system in California; bicycle and pedestrian projects; and climate adaptation projects, with a focus on aligning the state's transportation system with its climate goals.

The Budget also includes \$6.1 billion (General Fund, Proposition 98 General Fund, federal funds, and Greenhouse Gas Reduction Fund) over five years for zero-emission vehicles, which builds on last year's unprecedented zero-emission

package, for a total of \$10 billion to advance California's climate and transportation goals.

HOUSING

Since 2019, California has invested significantly in affordable housing development throughout the state, and has enacted laws to hold local jurisdictions accountable for meeting their regional housing needs. The Budget builds upon the \$10.3 billion housing investment made last year with a focus on aligning housing goals and climate goals.

Namely, the Budget includes an additional \$2 billion over two years to accelerate the development of affordable housing. Building this housing near jobs, schools, and other amenities reduces commutes and greenhouse gas emissions. The Budget also includes significant investments to help low-income Californians build wealth and achieve the dream of home ownership.

HOMELESSNESS AND BEHAVIORAL HEALTH

Last year, the state allocated a \$12 billion multi-year investment for local governments to build housing and provide critical supports and homelessness services. The Budget includes an additional \$3.4 billion General Fund over three years to continue the state's efforts by investing in immediate behavioral health housing and treatment, as well as encampment cleanup grants, and extends for an additional year support for local government efforts. These investments are intended to serve as a bridge to other related efforts such as Homekey and California Advancing and Innovating Medi-Cal (CalAIM), which will redesign Medi-Cal to better serve Californians, including individuals experiencing homelessness, and provide long-term care.

The Budget reflects funding for a new court process to assist people living with untreated schizophrenia or other psychotic disorders with funding for state department and Judicial Branch costs associated with the new Community Assistance, Recovery and Empowerment (CARE) Court process. The Administration continues to work with the Judicial Council and counties to estimate costs associated with this new court process. In addition, the Budget includes significant investments in community treatment and care for individuals suffering from mental illness who are deemed incompetent to stand trial. The Budget also allocates opioid settlement funds, expands medication assisted treatment, and expands community-based mobile crises services. All of these investments will better serve individuals experiencing mental illness and substance use disorders.

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To support the implementation of these and other efforts, the Budget also includes \$1.5 billion to invest in a multi-pronged effort to develop and train thousands of new care economy workers, including various mental health professionals and 25,000 new community health workers.

SAFER COMMUNITIES

COVID-19 AND PUBLIC HEALTH

The state continues its science- and data-driven fight against COVID-19. The Budget adds an additional \$1.1 billion to continue to implement the Administration's SMARTER plan, including additional funding to support school testing, increase vaccination rates, and expand and sustain efforts to protect public health at the border.

To expand the state's ability to protect public health and address social determinants of health, the Budget includes \$300 million ongoing General Fund for the Department of Public Health and local health jurisdictions. The Budget also includes major ongoing investments to modernize public health data systems that have been critical during the COVID-19 Pandemic.

PUBLIC SAFETY

Personal safety is one of the most basic needs—and expectations—of all Californians. The Budget includes funding to bolster local law enforcement response to organized retail theft crime, as well as to assist local prosecutors in holding perpetrators accountable. The Budget expands the California Highway Patrol's retail theft task force and also includes funding for the Attorney General to prosecute organized retail theft crimes, lead anti-crime task forces throughout the state, and establish a new Fentanyl Enforcement Program. Additionally, the Budget expands fentanyl drug interdiction efforts led by the California Military Department.

The Budget includes additional investments to support officer wellness and protect victims of crimes, including a major expansion of victim services starting in 2024-25.

BUDGET RESILIENCE AND LOOKING AHEAD

The Budget continues building reserves, eliminating budgetary debt, reducing retirement liabilities, and focusing on one-time spending over ongoing investments to maintain structurally balanced budgets over the long term.

Given the record high inflationary conditions facing the country, the Budget includes an added inflation adjustment beginning in 2023-24 to reflect that state services are likely to cost more than currently estimated. The Budget also continues to focus on allocating the vast majority of the discretionary surplus to one-time investments that can be adjusted in future years, if needed. The Budget is projected to be structurally balanced in 2025-26, the last year in the multi-year forecast.

The Budget includes \$37.2 billion in budgetary reserves. These reserves include: \$23.3 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund) for fiscal emergencies; \$9.5 billion in the Public School System Stabilization Account; \$900 million in the Safety Net Reserve; and \$3.5 billion in the state's operating reserve. The Rainy Day Fund is now at its constitutional maximum (10 percent of General Fund revenues) requiring \$465 million to be dedicated for infrastructure investments in 2022-23. Over the multi-year forecast period, the Budget reflects \$8 billion in supplemental deposits split evenly between the Rainy Day Fund and the Safety Net Reserve. These deposits are above what is constitutionally required.

To further build budget resiliency, the Budget includes a \$4.9 billion multi-year plan to prepay callable general obligation bonds, with a focus on variable rate bonds, and to shift lease revenue bond-financed projects to cash. The Budget also estimates supplemental payments to reduce state retirement liabilities of \$3.4 billion in 2022-23 and an additional \$7.5 billion projected over the next three years.

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. While at the May Revision, appropriations were estimated to be below the State Appropriations Limit in the 2020-21 and 2021-22 fiscal years by a small margin, the Budget projects the state to be \$11 billion below the limit for this two-year period. This projection is based on statutory changes enacted as part of the Budget, which includes expanding the definition of state subventions that must first be accounted for in local limits and revising levels of excluded spending in 2021-22. The 2022-23 fiscal year is also estimated to be below the limit as a result of these changes.

Committing to additional ongoing spending would make it much more difficult for the state to meet all of its constitutional obligations, even if the economy grows faster than forecast, due to the State Appropriations Limit. Given the uncertain future, the Budget includes the enactment of a limited number of ongoing proposals, subject to a determination in the spring of 2024 that the General Fund can support these policies

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over the multi-year forecast. These policies include: an income tax credit associated with union membership, an increase in the CalWORKs maximum aid payment, expanding who is eligible for Medi-Cal by making modifications to share of cost, continuous enrollment of children ages zero through 4 years in Medi-Cal, full pass-through of eligible child support payments to families on CalWORKs, expansion of the Cal Grant entitlement, elimination of restitution fines, and services for victims of crime.

The efforts to maintain a balanced budget over the long-term will minimize disruptions to critical programs such as education and health care when revenues decline.