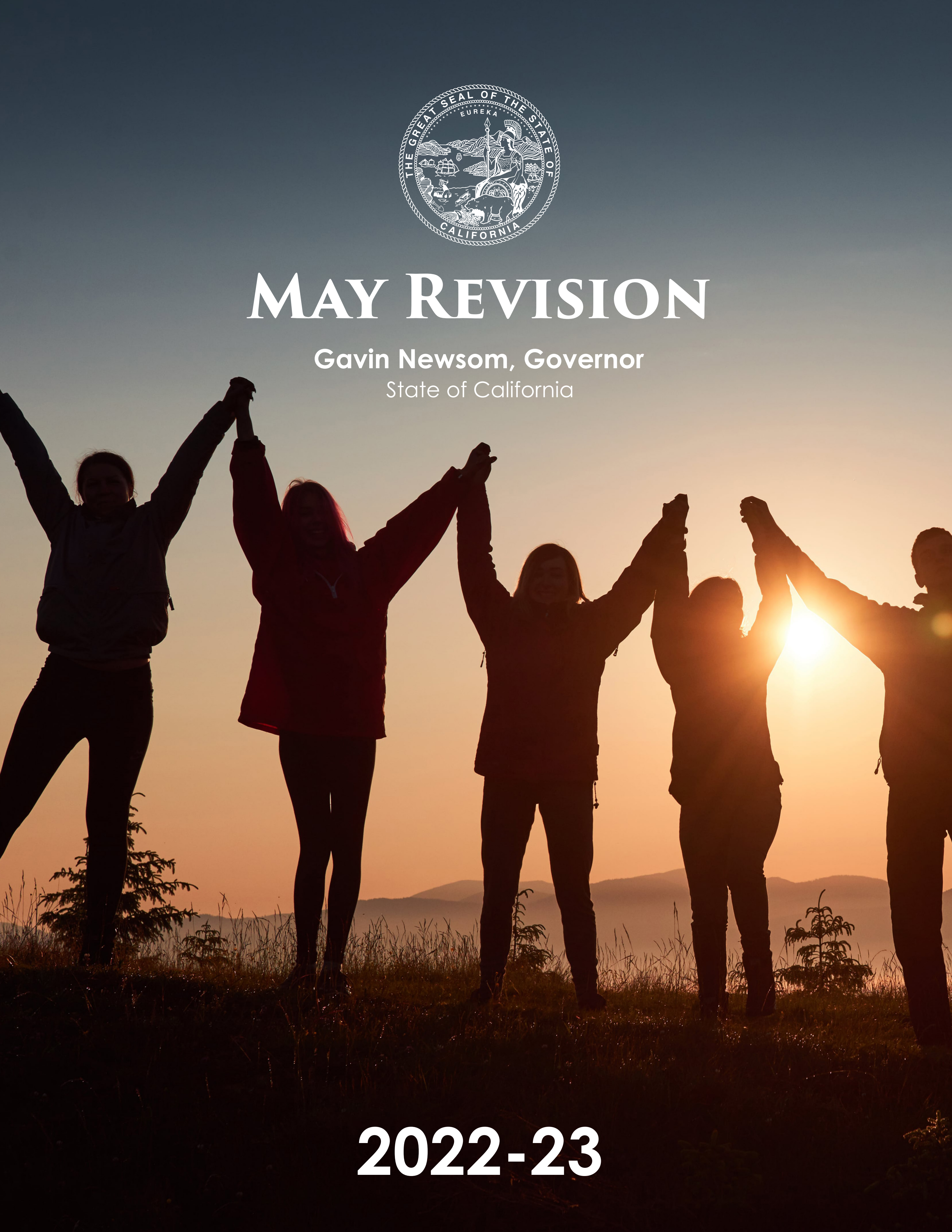

May Revision

Gavin Newsom, Governor
State of California

2022-23

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INTRODUCTION

After two years dominated by COVID-19, the first months of 2022 brought a new set of challenges—elevated global inflation spurred by lingering supply-chain disruption and Russia's war in Ukraine that has sent fuel prices soaring. In addition, increasingly extreme weather due to climate change is leading to more severe heatwaves and drought conditions, worsening wildfires and a massive new strain on the state's electrical grid.

Despite these challenges, California continues to move forward. The state is creating more new jobs than any other state—more than 1 million in the last 12 months alone. California's continued success comes from the creativity and ingenuity of its people, years of smart public investments, and continued fiscal responsibility. General Fund revenues are estimated to be nearly $55 billion higher than January, even after the temporary limitation of business tax credits was restored earlier this year. California's continued growth is rooted in our commitment to expand opportunity for all, especially those most affected by a rapidly changing economy.

The May Revision includes $18.1 billion in direct relief to millions of Californians to help offset rising costs and projects that the minimum wage will be boosted for millions of workers. The May Revision adds to substantial investments to address homelessness and mental health and includes funding to make neighborhoods safer. It supports additional protection from the impacts of wildfire and drought, and bolsters the state's electrical grid to keep Californians safe. All while putting billions of dollars more into state reserves and paying down debts.

The May Revision continues to reflect California values—defending women's right to choose, expanding access to health care for all Californians, and protecting the most vulnerable. It reshapes California public schools, expands access to the state's colleges and universities, and funds the roads, transit systems, broadband infrastructure, and clean energy grid to assure California's success for generations to come.

The Budget must continue to be prudent and the state must be prepared for an uncertain future. While the revenue forecast has been upgraded significantly due to recent cash trends, there is also increased economic uncertainty as the war, global supply chain disruptions, and record rates of inflation persist. The stock market has also declined in recent weeks since the budget forecast was finalized. To prepare for this uncertain future, the May Revision reflects $37.1 billion in budgetary reserves and plans to prepay billions of dollars in state debts and make supplemental deposits into the Rainy Day Fund. The May Revision reflects $49.2 billion in discretionary surplus, and the overall budget plan spends 94 percent of the discretionary surplus on one-time projects.

BROAD-BASED RELIEF

While wages have increased across the board, especially for high-income taxpayers, and corporate profits have surged, the COVID-19 Pandemic significantly destabilized families over the past two years. Persistent supply chain disruptions and labor market frictions have now driven inflation to its highest rates in 40 years, disproportionately affecting the ability of low- and middle-income households to cover every day needs.

Inflation is expected to exceed 7 percent in 2021-22, triggering an accelerated increase of the state's minimum wage for millions of workers to $15.50 per hour regardless of employer size. To further address rising prices and return tax proceeds to Californians, a central component of the May Revision is a broad-based relief package. The package includes a $400 rebate to households based on registered vehicles and a temporary reduction to the diesel sales tax rate that was proposed in March of this year.

The package also includes relief for families hardest hit by the pandemic, including funding for rental assistance, payments for outstanding utility arrearages built up during the pandemic, and covering all family fees for subsidized child care programs. The relief package also continues health care subsidies for the middle class if federal subsidies expire and includes retention bonus payments to approximately 600,000 workers in hospitals and nursing homes.

Addressing Impacts of Extreme Weather

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. The Governor's Budget allocated $22.5 billion over five years toward climate resilience and integrated climate, equity, and economic opportunity across the state's budget to mobilize a coordinated all-of-government response to the climate crisis. The May Revision complements these efforts and provides additional investments to combat the worsening drought, increase energy reliability, and enhance firefighting capabilities. The state is also investing in climate innovation, including lithium production to continue leading the world in climate solutions.

Drought and Water Resilience

This winter, a record-breaking lack of precipitation from January through mid-April pushed California into a third consecutive year of drought. Given the intensification of drought conditions since January, the May Revision allocates an additional $1.6 billion, including the $250 million set aside as a contingency in the Governor's Budget, to continue the state's drought response. These funds are allocated to immediate drought support, including efforts to encourage conservation. The May Revision also allocates funding to further long-term water resilience, including funding to augment loans to drinking water systems, increase water recycling, increase conservation within the agricultural sector, and expand habitat restoration. In addition, the May Revision also includes $75 million to support grants of up to $50,000 to farming and related businesses negatively impacted by the drought.

Energy

The May Revision allocates $8 billion over five years to increase the state's energy system reliability and provide consumers with relief from rising electricity rates. This is in addition to the $2 billion allocated in the Governor's Budget to provide incentives for long-duration-storage projects, renewable hydrogen, and industrial grid support and decarbonization projects. Recent supply chain disruptions, tariff issues, and other factors are negatively impacting the development of new clean energy installations in California, jeopardizing the timely development of projects needed for reliability. This is occurring as 6,000 megawatts of nuclear and gas-fired energy production are scheduled to retire, and new extreme weather patterns are causing more stress on the state's energy grid. New wildfire hardening and transmission costs are placing additional upward pressure on electricity rates that are already rising significantly over the next few years. The May Revision investments are focused on creating strategic energy reserves to maintain reliability, accelerating clean energy projects and innovation, and providing relief to ratepayers.

Wildfires

The Governor's Budget proposed significant new enhancements to continue building forest and wildfire resilience statewide and expanded the state's wildfire response capacity. The May Revision builds on these efforts with additional funding to support expanded fire crews and air attack operations. The Administration also continues to work with firefighter associations on additional proposals that would appropriately staff CAL FIRE to meet the demands of wildland firefighting in a changing climate.

Improving Health Care Access and Affordability

California has advanced multiple measures in recent years to improve health care affordability and expand access. The Governor's Budget proposal to close the remaining gap in preventative coverage for individuals ages 26 to 49, regardless of immigration status will make California the first state to realize the goal of universal access to health coverage for all Californians. In the absence of the federal government extending the federal health insurance premium subsidies, the May Revision proposes $304 million to re-instate state-supported Covered California premium subsidies for the middle class. The May Revision also includes $100 million to develop and manufacture low-cost biosimilar insulin products to increase availability and affordability of insulin in the state.

While other states seek to limit women's ability to receive reproductive care, the May Revision adds $57 million to the Governor's Budget proposals to expand access to reproductive healthcare services and improve clinical infrastructure and expand the workforce in reproductive healthcare services. The investments in the May Revision are focused on grants to reproductive health providers to provide abortion care and reproductive health education and information.

HOMELESSNESS AND MENTAL 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 Governor's Budget proposed an additional $2 billion General Fund over two years to continue the state's efforts to address homelessness by investing in behavioral health housing and encampment cleanup grants. 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 May Revision includes an additional $150 million to fund more Homekey projects and $500 million for the development of interim housing designed to be built quickly, providing an additional type of housing to address homelessness.

The Administration has proposed a new court process to assist people living with untreated schizophrenia or other psychotic disorders. The May Revision includes $64.7 million to fund state department and Judicial Branch costs associated with the new Community Assistance, Recovery and Empowerment (CARE) Court. The Administration continues to work with counties to estimate costs associated with this new court process. In addition, the Governor's Budget, as updated by the May Revision, made significant investments in community treatment and care for individuals suffering from mental illness who are deemed incompetent to stand trial. The Governor's Budget, as updated by the May Revision, 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.

To support the implementation of these and other efforts, the Governor's Budget also included $1.7 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.

EDUCATION AND PARENTS AGENDA

The Budget includes total funding of $128.3 billion for K-12 education. K-12 per-pupil funding totals $16,991 Proposition 98 General Fund—its highest level ever—and $22,850 per pupil when accounting for all funding sources. In addition to this funding, the May Revision includes an additional $1.8 billion General Fund for K-12 school facilities, in addition to the $2.1 billion General Fund included in the Governor's Budget.

The increased revenues in the May Revision result in $19.6 billion Proposition 98 funds above the Governor's Budget 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 May Revision 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 May Revision invests in an initiative to support K-12 schools with meaningful community engagement. The pandemic has also had a significant impact on average daily attendance at K-12 schools in the 2021-22 school year. The May Revision includes fiscal protections for schools that experienced significant attendance declines.

California continues to extend universal transitional kindergarten to all four-year-olds, and to expand the state's subsidized child care system. The May Revision proposes $200 million to develop and repair existing child care infrastructure, especially in low-income communities, and extends family fee waivers and reimburses child care and state preschool providers based on contracted hours of care in lieu of attendance.

CHILDREN'S BEHAVIORAL HEALTH

The COVID-19 Pandemic left many people feeling isolated, especially children and youth. Last year the Budget Act allocated $1.4 billion over multiple years to transform California's behavioral health system for all California children and youth. The May Revision 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. The funding will also establish a center for researching, evaluating, and applying innovative new technologies to improve youth mental health. This will enable 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 the use of emergent technologies to improve assessment, supports, and treatment, particularly as it is provided through the Children and Youth Behavioral Health Initiative.

EXPANDING OPPORTUNITY AND STRENGTHENING CALIFORNIA'S FUTURE

HIGHER EDUCATION

The Administration recently 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 May Revision makes new investments that will strengthen career pathways and support the next generation of inventions and innovations in California by making lasting infrastructure investments at the state's universities, including: $500 million for a new Immunology and Immunotherapy Institute at UCLA that will bring together academics and researchers for collaborative research to maintain California's leading edge in biotechnology; $80 million for a new San Diego State University, Brawley Center to further support education in the Lithium Valley; and $67.5 million for a new engineering and computer science innovation hub at CSU, Fullerton.

INFRASTRUCTURE

The May Revision adds an additional $17 billion in state funds to the $20 billion allocated in the Governor's Budget to accelerate the transition to zero-emission vehicles, modernize the state's transportation system, spur clean energy innovation, advance the state's housing goals, reduce wildfire risk to communities, support drought resiliency and response, among other investments. The May Revision includes an additional $1.1 billion for broadband, $500 million for housing, $500 million for active transportation, and $650 million to expand efforts to build more housing for homeless individuals.

These unprecedented investments are on top of the $13.9 billion in new federal formula 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 good-paying jobs in California. Combined, the state and federal infrastructure investments are projected to add 700,000 jobs.

SAFER COMMUNITIES

COVID-19

The state continues its science- and data-driven fight against COVID-19. The May Revision 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.

PUBLIC SAFETY

The May Revision makes additional investments to support public safety and protect victims of crimes and builds on the $285 million General Fund in the Governor's Budget. The May Revision includes $50 million in local law enforcement grants to support officer wellness. It also includes $30 million for grants to assist minors who are victims of sex trafficking and to continue funding for the Internet Crimes Against Children Task Force Program. The May Revision invests in outreach to victims, including developing new and innovative ways to deliver services to victims. Additionally, it expands fentanyl drug interdiction efforts led by the California Military Department and establishes a new Fentanyl Enforcement Program at the Department of Justice.

BUDGET RESILIENCE AND LOOKING AHEAD

This May Revision reflects a significantly upgraded revenue forecast due to recent cash trends and improvement in key economic indicators. However, the forecast has become more uncertain given Russia's war on Ukraine, high rates of inflation, and anticipated actions by the Federal Reserve to raise interest rates. In addition, capital gains as a percent of the state's personal income are at levels last seen in 1999—just before the dot-com bust. Furthermore, the May Revision forecast was finalized before the recent declines in the stock market.

To prepare for this uncertain future, the May Revision 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 May Revision includes an added inflation adjustment beginning in 2023-24 reflecting that state services are likely to cost more than currently estimated. The May Revision 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 May Revision is projected to be structurally balanced in 2025-26, the last year in the multi-year forecast.

The May Revision reflects $37.1 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 $3.4 billion in the state's operating reserve. The Rainy Day Fund is now at its constitutional maximum (10 percent of General Fund revenues) requiring $476 million to be dedicated for infrastructure investments in 2022-23. Over the multi-year forecast period, the May Revision reflects $4 billion in supplemental deposits into the Rainy Day Fund above what is constitutionally required.

To further build budget resiliency, the May Revision proposes a $6.2 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 May Revision also estimates supplemental payments to reduce state retirement liabilities of $3.4 billion in 2022-23 and an additional $7.6 billion projected over the next three years.

At the Governor's Budget, the State Appropriations Limit or "Gann Limit" was exceeded in the 2020-21 and 2021-22 fiscal years by a small margin. The May Revision does not exceed the limit. However, the limit may be exceeded in future years.

Committing to additional ongoing spending will make it much more difficult to meet all constitutional obligations, even if the economy grows faster than forecast, due to the State Appropriations Limit. Given the uncertain future, it remains essential for the state to focus mainly on one-time expenditures to maintain fiscal stability. Maintaining a balanced budget over the long-term will minimize disruptions to critical programs such as education and health care when revenues decline.

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SUMMARY CHARTS

This section provides various statewide budget charts and tables.

2022-23 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2021-22	2022-23
Prior Year Balance	$37,698	$15,425
Revenues and Transfers	$226,956	$219,632
Total Resources Available	**$264,654**	**$235,057**
Non-Proposition 98 Expenditures	$165,590	$145,071
Proposition 98 Expenditures	$83,639	$82,292
Total Expenditures	**$249,229**	**$227,363**
Fund Balance	**$15,425**	**$7,694**
Reserve for Liquidation of Encumbrances	$4,276	$4,276
Special Fund for Economic Uncertainties	$11,149	$3,418
Public School System Stabilization Account	**$7,293**	**$9,519**
Safety Net Reserve	**$900**	**$900**
Budget Stabilization Account/Rainy Day Fund	**$20,325**	**$23,283**

Note: Numbers may not add due to rounding.

General Fund Expenditures by Agency

(Dollars in Millions)

	2021-22	2022-23	Change from 2021-22 Dollar Change	Change from 2021-22 Percent Change
Legislative, Judicial, Executive	$20,360	$14,896	-$5,464	-26.8%
Business, Consumer Services & Housing	2,291	1,359	-932	-40.7%
Transportation	3,109	1,270	-1,839	-59.2%
Natural Resources	14,287	8,734	-5,553	-38.9%
Environmental Protection	5,326	585	-4,741	-89.0%
Health and Human Services	53,142	67,175	14,033	26.4%
Corrections and Rehabilitation	14,422	14,647	225	1.6%
K-12 Education	81,706	78,012	-3,694	-4.5%
Higher Education	22,337	23,192	855	3.8%
Labor and Workforce Development	1,577	2,126	549	34.8%
Government Operations	11,235	4,938	-6,297	-56.0%
General Government:				
Non-Agency Departments	1,915	2,059	144	7.5%
Tax Relief/Local Government	12,138	658	-11,480	-94.6%
Statewide Expenditures	5,384	7,713	2,329	43.3%
Total	**$249,229**	**$227,363**	**-$21,866**	**-8.8%**

Note: Numbers may not add due to rounding.

2022-23 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	$14,896	$187	$143	$15,225
Business, Consumer Services & Housing	1,359	1,203	937	3,499
Transportation	1,270	16,618	95	17,983
Natural Resources	8,734	1,841	655	11,231
Environmental Protection	585	4,997	14	5,597
Health and Human Services	67,175	33,244	-	100,420
Corrections and Rehabilitation	14,647	4,049	-	18,696
K-12 Education	78,012	327	1,488	79,827
Higher Education	23,192	131	1,090	24,414
Labor and Workforce Development	2,126	981	-	3,106
Government Operations	4,938	274	10	5,221
General Government				
Non-Agency Departments	2,059	1,792	2	3,853
Tax Relief/Local Government	658	3,319	-	3,976
Statewide Expenditures	7,713	-108	-	7,605
Total	**$227,363**	**$68,855**	**$4,434**	**$300,653**

Note: Numbers may not add due to rounding.

General Fund Revenue Sources

(Dollars in Millions)

			Change from 2021-22	
	2021-22	2022-23	Dollar Change	Percent Change
Personal Income Tax	$136,397	$137,454	$1,057	0.8%
Sales and Use Tax	32,750	33,991	1,241	3.8%
Corporation Tax	46,395	38,464	-7,931	-17.1%
Insurance Tax	3,468	3,667	199	5.7%
Alcoholic Beverage Taxes and Fees	430	435	5	1.2%
Cigarette Tax	54	49	-5	-9.3%
Motor Vehicle Fees	36	37	1	2.8%
Other	13,108	8,493	-4,615	-35.2%
Subtotal	**$232,638**	**$222,590**	**-$10,048**	**-4.3%**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-5,682	-2,958	2,724	-47.9%
Total	**$226,956**	**$219,632**	**-$7,324**	**-3.2%**

Note: Numbers may not add due to rounding.

2022-23 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2021-22
Personal Income Tax	$137,454	$4,020	$141,474	$613
Sales and Use Tax	33,991	15,866	49,857	2,298
Corporation Tax	38,464	-	38,464	-7,931
Highway Users Taxes	-	9,221	9,221	705
Insurance Tax	3,667	-	3,667	199
Alcoholic Beverage Taxes and Fees	435	-	435	5
Cigarette Tax	49	1,608	1,657	-183
Motor Vehicle Fees	37	11,209	11,246	532
Other	8,493	23,719	32,212	-7,951
Subtotal	**$222,590**	**$65,643**	**$288,233**	**-$11,713**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-2,958	2,958	-	-
Total	**$219,632**	**$68,601**	**$288,233**	**-$11,713**

Note: Numbers may not add due to rounding.

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K-12 EDUCATION

California provides instruction and support services to roughly 5.9 million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,200 charter schools provides instruction in English, mathematics, history, science, and other core competencies.

The May Revision includes total funding of $128.3 billion ($78.4 billion General Fund and $49.9 billion other funds) for all K-12 education programs.

CALIFORNIA FOR ALL KIDS

Historic revenues present an opportunity for the state to further support education and opportunity for all kids, recruit and retain a well-prepared educator workforce, and reinforce the fiscal stability of the public school system. The May Revision builds upon the Governor's Budget by including a comprehensive package of investments to support these priorities. The Administration's revised spending plan further accelerates the implementation of the California for All Kids plan, which is a whole-child support framework designed to target inequities in educational outcomes among students from different demographic backgrounds, and empower parents and families with more options and more services.

PROPOSITION 98

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

The Guarantee continues to be in Test 1 for 2020-21, 2021-22, and 2022-23. To accommodate enrollment increases related to the expansion of transitional kindergarten, the Governor's Budget proposed rebenching the Test 1 percentage to increase the percentage of General Fund revenues due to the Guarantee, from 38.03 percent to approximately 38.4 percent. The May Revision updates the increased Test 1 percentage from approximately 38.4 percent to approximately 38.3 percent.

The significant increase in revenues projected for 2020-21, 2021-22, and 2022-23 results in a corresponding increase in resources for K-14 schools. Proposition 98 is estimated to be $96.1 billion in 2020-21, $110.2 billion in 2021-22, and $110.3 billion in 2022-23, representing a three-year increase in the minimum Guarantee of $19.6 billion over the level estimated in the Governor's Budget. These funding levels include property tax decreases of $32 million in 2020-21, $659 million in 2021-22, and $804 million in 2022-23.

PROPOSITION 98 RAINY DAY FUND

The Governor's Budget projected a total of $9.7 billion in total payments to the Public School System Stabilization Account between 2020-21, 2021-22, and 2022-23. Although General Fund revenues are projected to increase at May Revision, capital gains revenues have decreased as a share of total funds, bringing these required payments (and the total Account balance) to a total of $9.5 billion.

There is a statutory cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the Account is equal to or greater than 3 percent of the total K-12 share of the Proposition 98 Guarantee. The balance of $7.3 billion in 2021-22 triggers school district reserve caps beginning in 2022-23.

SCHOOL SYSTEM FISCAL STABILITY

LOCAL CONTROL FUNDING FORMULA (LCFF)

The Governor's Budget included an LCFF cost-of-living adjustment of 5.33 percent, the largest cost-of-living adjustment since the creation of the formula. Further, the Governor's Budget proposed addressing declining enrollment as a result of the pandemic by allowing school districts to use the greater of current year or prior year average daily attendance or an average of the three prior years' average daily attendance to calculate LCFF funding. This proposal helps school districts mitigate the fiscal impacts due to declining enrollment, thereby better enabling them to serve their students from one year to the next.

At May Revision, the 2022-23 cost-of-living adjustment is updated to 6.56 percent, now the largest cost-of-living adjustment in the history of LCFF. Additionally, to help local educational agencies address ongoing fiscal pressures, staffing shortages, and other operational needs, the May Revision includes $2.1 billion ongoing Proposition 98 General Fund to increase LCFF base funding. This discretionary, ongoing increase is an important resource for all local educational agencies to mitigate the impacts of rising pension obligations, increased costs for goods and services, and other ongoing local budget concerns. Further, the May Revision includes $101.2 million ongoing Proposition 98 General Fund to augment LCFF funding for county offices of education, which face similar cost pressures to school districts and charter schools.

During the 2021-22 school year, local educational agencies strived to maintain safe access to in-person instruction in public schools. However, the Delta and Omicron surges resulted in significant student and staff absences, and maintaining both in-person and distance learning educational options proved difficult with fewer staff and temporarily high demand for distance learning. To mitigate the fiscal impacts associated with increased absences during the 2021-22 academic year, the May Revision includes further fiscal protections for schools that experienced significant attendance declines in 2021-22 due to the impacts of the Delta and Omicron surges.

To minimize reductions in LCFF funding that would otherwise result due to increased absences, the May Revision proposes allowing all classroom-based local educational agencies to be funded at the greater of their current year average daily attendance or their current year enrollment adjusted for pre-COVID-19 absence rates in the 2021-22 fiscal year. Specifically, the May revision enables local educational agencies to utilize a modified version of 2021-22 average daily attendance to determine their 2021-22 LCFF allocations. The May Revision also proposes further modifying the three-year rolling average to conform with this adjustment. The total ongoing costs associated with these policies is estimated to be $3.3 billion ongoing Proposition 98 General Fund and $463 million one-time Proposition 98 General Fund.

DISCRETIONARY BLOCK GRANT

Local educational agencies have indicated that increasing operational costs, including increasing pension contribution costs, are challenging their operational capacities. To assist districts in responding to these external pressures, the May Revision includes $8 billion one-time Proposition 98 General Fund in discretionary funds, allocated on a per-pupil basis. It is the intent of the Administration that schools will use these one-time funds for purposes, including, but not limited to, protecting staffing levels, addressing student learning challenges, and supporting the mental health and wellness needs of students and staff. Funds received by K-12 local educational agencies will offset applicable mandates debt owed to those entities.

STUDENT-CENTERED SCHOOLS

COMMUNITY SCHOOLS

Community schools partner with education, county, and nonprofit entities to provide integrated health, mental health, and social services alongside high-quality, supportive instruction, with a strong focus on community, family, and student engagement. The 2021 Budget Act included $3 billion Proposition 98 General Fund, available over several years, to expand and strengthen the implementation and use of the community school model to all schools in communities with high levels of poverty. This investment supports a whole-child framework for school transformation to guide local educational agencies in planning and implementing other recent state investments in universal nutrition, before/after school and summer school enrichment and care, universal transitional kindergarten, behavioral health supports, and other similar initiatives.

The Department of Education recently completed its review of first round applications for the community schools planning, implementation, and technical assistance grants. Although local educational agencies were somewhat limited in their ability to apply for funds by staffing issues related to the winter Omicron surge, demand for the funding exceeded expectations; for a $400 million implementation grant round, the Department received applications requesting almost $700 million. In addition to high demand in the first funding round, the Department projects a significant increase in applicants for future rounds of funding (as local educational agency staffing levels recover), and anticipates that the original $3 billion allocation will not be sufficient to meet demand. To this end, the May Revision includes an additional $1.5 billion one-time Proposition 98 General Fund to expand access to the community schools grants to every eligible local educational agency that opts to apply on behalf of its high-need schools.

NUTRITION

In 2020, the U.S. Department of Agriculture allowed states to apply for a waiver of certain requirements connected to the National School Lunch Program and School Breakfast Program. Specifically, California was granted a waiver of income eligibility requirements, which allowed schools to provide subsidized meals to all students regardless of income, and local educational agencies were allowed to receive reimbursement through the federal Seamless Summer Option, which provides a higher reimbursement for meals than the National School Lunch Program and School Breakfast Program. For the 2021-22 school year, schools claiming meals under the Seamless Summer Option received an even higher reimbursement equivalent to the Summer Food Service Program rate. These flexibilities are scheduled to expire on June 30, 2022.

The 2021 Budget Act included $54 million ongoing Proposition 98 General Fund, and the 2022 Governor's Budget included an additional $596 million ongoing Proposition 98 General Fund, to provide universal access to school meals for all K-12 students in California, beyond the expiration of the federal income eligibility waiver. The May Revision includes an additional $611.8 million ongoing Proposition 98 General Fund to augment the state meal reimbursement rate sufficient to maintain meal reimbursement rates beginning in 2022-23. This higher rate of reimbursement will enable local educational agencies to continue offering higher-quality and more diverse meals for students. If the federal government extends the waiver that allows for the allocation of higher federal reimbursement rates, any unused state funding for rate increases in 2022-23 would instead be made available for school kitchen infrastructure grants.

EXPANDED LEARNING OPPORTUNITIES PROGRAM

The 2021 Budget Act included $1 billion ongoing and $753 million one-time Proposition 98 General Fund as the first of a multi-year investment plan to implement expanded-day, full-year instruction and enrichment for all elementary school students, with a focus on local educational agencies with the highest concentrations of low-income students, English language learners, and youth in foster care. At the release of the 2021 Budget Act, the state projected that full fiscal implementation of the program—would not take place until 2025-26.

The 2022 Governor's Budget accelerated the implementation of this program by allocating an additional $3.4 billion ongoing Proposition 98 General Fund to the Expanded Learning Opportunities Program, increasing total ongoing program funding to $4.4 billion. The May Revision increases this investment by an additional $403 million ongoing Proposition 98 General Fund, bringing the ongoing program total to $4.8 billion, and full funding implementation (four years ahead of schedule) of $2,500 for every low-income student, English language learner, and youth in foster care in the state.

Consistent with the implementation plan outlined in the Governor's Budget, beginning in 2023-24, local educational agencies will be required to offer expanded learning opportunities to all low-income students, English language learners, and youth in foster care, and local educational agencies with the highest concentrations of these students will be required to offer expanded learning opportunities to all elementary students.

COMMUNITY ENGAGEMENT INITIATIVE

California's K-12 education accountability system is built on the foundation of local control. Specifically, local educational agencies must develop their annual spending plans—Local Control and Accountability Plans, or LCAPs—in partnership with members of their local communities, with the goal of improving student outcomes and closing achievement gaps. Developing and implementing successful LCAPs necessitates local educational agencies be skilled at, and authentic in, their engagement with students, families, staff, and other community members.

To build the capacity of local educational agencies to engage more effectively with their communities, the 2018 Budget Act included $13.3 million one-time Proposition 98 General Fund, available over five years, to create the Community Engagement Initiative. This program, administered by the California Collaborative for Educational Excellence, disseminates best practices for school-community interaction through peer-to-peer coaching among local educational agencies, who work through an intentional process to improve community relational capacity. Thus far, the Initiative has reached several dozen local educational agencies.

The experience of the COVID-19 Pandemic has furthered the need for positive relationship building between schools and their communities. The May Revision scales up the initiative by providing an additional $100 million one-time Proposition 98 to expand the reach of the program to hundreds of additional local educational agencies. Additionally, the work done by local educational agencies that participate in the initiative will align with work to build community schools, for which community engagement is a core value.

PRE-KINDERGARTEN EDUCATION

Providing every child with access to pre-kindergarten education before they begin school is a key component of improving equity in public education. Parent choice in the type of preschool education that their child receives is equally important, and the state has made significant recent investments in both transitional kindergarten and State Preschool. Building upon these investments, and to support implementation of the expansion of transitional kindergarten while maintaining access to State Preschool and providing parents with choice, the May Revision includes the following investments and programmatic changes:

- **State Preschool Family Fee Waivers**—For the 2022-23 school year, providing $10.8 million one-time Proposition 98 General Fund and $10.8 million one-time non-Proposition 98 General Fund to waive the family share of cost for children participating in the State Preschool Program.
- **State Preschool Funding Hold Harmless**—For the 2022-23 school year, allowing State Preschool contractors to receive full funding allocated to them pursuant to their state contracts, regardless of student attendance.
- **State Preschool Program adjustment factors for students with disabilities and dual language learners**—Increasing the costs to support revised State Preschool Program adjustment factors for students with disabilities and dual language learners from $197.8 million Proposition 98 General Fund and $110.6 million General Fund to $201.8 million Proposition 98 General Fund and $140.6 million General Fund, respectively.
- **Local Assignment Option for Transitional Kindergarten Teachers**—To temporarily increase the pipeline of qualified transitional kindergarten teachers, allows teachers with preschool teaching permits who hold bachelor's degrees that meet basic skills requirements and are enrolled in coursework leading to be assigned as the teacher of record in a credential to teach transitional kindergarten. This flexibility is proposed to sunset on June 30, 2026.

Additionally, the May Revision adjusts the costs to expand eligibility for transitional kindergarten, 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, beginning in the 2022-23 school year, from $639.2 million at the Governor's Budget to $614 million General Fund at the May Revision.

INVESTMENTS IN A WELL-PREPARED EDUCATOR WORKFORCE

TEACHER AND SCHOOL COUNSELOR RESIDENCIES

An important foundation of a whole-child centered school transformation effort is a well-prepared workforce of teachers and school counselors. To increase the pipeline of teachers and school counselors, the May Revision provides $500 million one-time Proposition 98 General Fund to expand residency slots for teachers and school counselors. The May Revision also proposes statute to enable school counselor, social worker, and psychologist candidates to be eligible for the Golden State Teacher Grant Program, which provides incentives to individuals to consider earning a credential and serving at a priority school in California for four years, within eight years after completing a preparation program.

EDUCATOR SUPPORT FOR SCIENCE, TECHNOLOGY, ENGINEERING, AND MATHEMATICS (STEM) INSTRUCTION

Future economic growth in California depends upon a workforce well-prepared to drive innovation, especially in the sciences. STEM coursework can also inspire students by engaging them in hands-on, inquiry-based projects that stimulate curiosity and encourage persistence. Reflecting the importance of this area of study, the state recently updated the Next Generation Science Standards (2013), the Science Framework for California Public Schools (2016), and the California Computer Science Standards (2018), and is engaged in work to update the California Math Frameworks and the California Preschool Learning Foundations.

To support educators in providing effective STEM instruction that engages and inspires students, the May Revision includes $85 million one-time Proposition 98 General Fund to create Pre-K through 12 grade educator resources and professional learning to implement the Next Generation Science Standards, the California Math Framework, the California Computer Science Standards, and the math and science domains of the California Preschool Learning Foundations. These funds will also support the alignment of other state STEM educator support initiatives (i.e., UC Subject Matter Projects, Early Math Initiative, etc.) with this work, to create a cohesive statewide continuum of instructional supports for all STEM educators. Additionally, the May Revision also includes $300 million one-time Proposition 98 General Fund to augment resources available to local educational agencies for professional learning through the Educator Effectiveness Block Grant, with a priority for STEM educator supports.

Finally, the 2021 Budget Act included $5 million one-time General Fund for an institute of higher education or non-profit organization to create a computer science component of the Educator Workforce Investment Grant program (EWIG). EWIG grantees are members of the statewide system of support and develop educator training in strategies for providing high-quality instructional learning experiences aligned to state standards. The May Revision provides an additional $15 million one-time General Fund, available over three years, to continue the work of the EWIG in computer science, and an additional $15 million one-time Proposition 98 General Fund, available over three years, to continue the work of the EWIG in areas of special education and support for English Learners.

Screening For Developmental Disabilities

As evidenced by recent investments in early learning, early literacy, and special education services for young children, the Administration is committed to providing educators with the tools necessary to identify developmental disabilities in children, and provide them with appropriate support services, as early as possible. Significant evidence supports the importance of identifying and providing intervention and supports for children with disabilities early in life to maximize academic and other life outcomes. To that end, the Administration has made multiple investments over the last several years in initiatives that incorporate more identification strategies into public preschool assessment (via the Desired Results Developmental Profile) and in partnership with the University of California San Francisco is creating a dyslexia screening tool that is appropriate for students from diverse language backgrounds. Once these tools have been validated, it is the intent of the Administration that all educators across the state have access to them, that they be broadly utilized, and educators trained in how to use them appropriately to identify students with dyslexia and other processing disorders so that students can receive appropriate reading intervention in the early grades.

K-12 School Facilities

The Kindergarten through Community College Public Education Facilities Bond Act of 2016 (Proposition 51), approved by voters in November 2016, authorized $7 billion in state General Obligation bonds to support K-12 school facilities construction. These funds support new construction, modernization, retrofitting, career technical education, and charter school facility projects. The Governor's Budget allocated the remaining Proposition 51 bond funds—approximately $1.4 billion—to support school construction projects and included approximately $1.3 billion one-time General Fund in 2022-23 and

$925 million one-time General Fund in 2023-24 to support new construction and modernization projects through the School Facility Program.

The May Revision increases that investment by an additional $1.8 billion General Fund, allocating $2.2 billion one-time General Fund in 2021-22, $1.2 billion one-time General Fund in 2023-24, and $625 million one-time General Fund in 2024-25 to support new construction and modernization projects through the School Facility Program. The Administration's plan assumes the Office of Public School Construction continues to process applications according to its existing capacity.

The May Revision also includes approximately $1.8 billion one-time Proposition 98 General Fund for schools to address outstanding school facility maintenance issues. These funds will enable local educational agencies to repair and restore classrooms, multipurpose areas, and school grounds and upgrade and/or replace inefficient and outdated cooling, heating, water, and other energy and resource systems to create greener educational spaces.

Other Significant Adjustments

- **Classified School Employee Summer Assistance Program**—An increase of $80 million ongoing Proposition 98 General Fund for the Classified School Employee Summer Assistance Program, which provides supplemental pay for classified staff during intersessional months when they are not employed.

- **Expanded Learning Opportunities Program Infrastructure**—An increase of $63 million one-time Proposition 98 General Fund, for a total of $1 billion one-time Proposition 98 General Fund, to support Expanded Learning Opportunities Program infrastructure, with a focus on integrating arts and music programming into the enrichment options for students.

- **Categorical Program Cost-of-Living Adjustments**—An increase of $62.1 million Proposition 98 General Fund to selected categorical programs for 2022-23 to reflect a change in the cost-of-living factor from 5.33 percent at the Governor's Budget to 6.56 percent at the May Revision.

- **K-12 Teacher Residency Program Technical Assistance Center**—An increase of $20 million one-time Proposition 98 General Fund to Support a K-12 Teacher Residency Program Technical Assistance Center.

- **Accelerated Reading Support**—An increase of $15 million one-time Proposition 98 General Fund over three years to support 6,000 teachers in completing the coursework necessary to receive a supplementary state certification in reading and literacy.

- **Center on Teaching Careers**—An increase of $1.7 million one-time Proposition 98 General Fund to the Tulare County Office of Education to support the educator recruitment work of the Center on Teaching Careers.

- **California School for the Deaf-Riverside: Athletic Complex Replacement and Expansion**—An increase of $2.5 million General Fund for the study and preliminary plans phases of an overall $43.1 million General Fund project to replace all outdoor sport fields (football, track, softball, and baseball) and add a stand-alone practice soccer field at the Riverside School for the Deaf. The existing fields date to the opening of the school in the 1950s.

HIGHER EDUCATION

California's higher education systems drive unprecedented innovation in the state and the world. Buoyed by historic investments in all facets of higher education and complementary investments in TK-12 education and the workforce, California is expanding access, increasing equity, and better connecting students to career pathways critical to the state's future.

The Administration recently finalized five-year compacts with the University of California (UC) and the California State University (CSU), and a five-year roadmap with the California Community Colleges (CCC) system. These partnerships are designed to close equity gaps, promote inclusive student success, improve time-to-degree completion, reduce students' total cost of attendance, increase the predictability of student costs, expand inclusive access for first-time and transfer students, promote intersegmental collaboration, and support workforce preparedness in high-demand career pipelines. The agreements will spur progress on key implementation priorities with greater transparency and accountability, and are also intended to inform budget and policy decisions in the coming years.

COLLEGE AFFORDABILITY

State support helps to keep the overall cost of attendance down for students attending California's postsecondary education systems. The 2021 Budget Act made significant investments to increase college affordability, including investments in learning-aligned employment opportunities for UC, CSU, and CCC students; education and training grants for displaced workers; funds to establish child savings accounts for low-income students in public secondary schools based on Local Control Funding Formula definitions; a substantial investment in student housing for low-income students; funds to develop zero-textbook-cost degrees; and numerous investments supporting student basic needs and emergency financial aid. Cumulatively, these investments provided nearly $1.8 billion in new funding for college affordability in 2021-22, with commitments for additional investments in learning-aligned employment and student housing that were upheld in the Governor's Budget.

The 2021 Budget Act also expanded the Cal Grant financial aid entitlement to assist students taking a less traditional path to college by eliminating the age and time-out-of-high-school requirements for CCC students, including CCC students with dependent children. Last year, the Middle Class Scholarship was also revamped to focus on reducing students' total cost of attendance.

Additionally, the Governor's Budget maintained commitments to addressing the underlying cost drivers facing students attending college by continuing progress toward the multi-year goal of providing $2 billion over a three-year period to support the construction of affordable student housing.

The multi-year compacts with UC and CSU, and the multi-year roadmap with the CCC Chancellor's Office, are also focused on reducing student costs and improving equity and outcomes, which can increase inclusive student success while reducing total cost of attendance through timely degree completion.

MULTI-YEAR FRAMEWORK FOR HIGHER EDUCATION

At the recommendation of the Governor's Council for Post-Secondary Education, the Governor's Budget announced an ambitious 70-percent postsecondary degree and certificate attainment goal for working-aged Californians by 2030. The multi-year compacts with the UC and CSU, and the roadmap with the CCC Chancellor's Office, articulate shared priorities and commitments between the Administration and each segment of public postsecondary education to meet the needs of California's students and the workforce of the future; close equity gaps between students who are underrepresented, low-income, or disabled and their peers; and better position California to achieve the postsecondary degree and certificate attainment goal for all.

Since the release of the Governor's Budget, the Administration and the segments have refined specific metrics for the goals and commitments set forth in the compacts and the CCC roadmap. Most of the goals articulated for each segment in the Governor's Budget now reflect clear baselines and measurable targets for improvement within defined timelines. In some cases, gaps in currently available data were identified that presented a challenge in establishing reliable baseline information. For these goals, the segments have committed to improving data collection and including reliable baseline information and measurable targets for improvement in early progress reporting. Each segment will report annually—beginning later this year—on specific actions planned and underway to achieve each goal, quantified progress toward achieving each goal, and strategic collaborations with intersegmental partners to advance performance outcomes and benefit students.

The May Revision maintains the Administration's commitment in the compacts for funding equivalent to a five-percent increase in base General Fund resources annually over five years for UC and CSU, contingent on the ability of each segment to advance the shared goals of the compacts. Additionally, the May Revision maintains the Administration's commitment to invest available Proposition 98 resources for the CCCs to support efforts mutually prioritized in the roadmap, and to provide additional fiscal resources to the Chancellor's Office to better support colleges in meeting these goals. The sustained and predictable investments in California's public higher education systems will facilitate their ability to fulfill student-focused, shared goals.

Within the dozens of goals and commitments included in the compacts and roadmap are the following shared priorities, which will drive meaningful change for years to come:

- Expand access to the UC and CSU by increasing California resident undergraduate enrollment by a combined total of more than 22,000 full-time equivalent students between 2023-24 and 2026-27, and ensure CCC transfer students comprise a significant share of this enrollment.
- Take measurable steps to eliminate equity gaps in graduation rates between Pell Grant recipients, underrepresented students, disabled students, and their peers.
- Substantially decrease non-tuition costs for students or increase availability of lower-cost options for instructional materials, housing, food and transportation.
- Take measurable steps toward an aspirational goal of offering every UC undergraduate a pathway for debt-free education by 2029-30.
- Increase intersegmental collaboration to benefit students, including support for implementation of the Cradle-to-Career Data System, adoption of an

intersegmental common learning management system, use of a dashboard or similar tool to identify granular equity data trends to address equity gaps, an integrated admissions platform for all segments, and improved data sharing to support transfer students.

- Take targeted steps to increase the number of students prepared to enter careers in science, technology, engineering and mathematics (STEM) fields; education, including early education, primary, secondary, and postsecondary education; technology; healthcare; climate action; and social work.
- Provide access to high-quality online course offerings for students who want to take coursework in an online learning modality.

UNIVERSITY OF CALIFORNIA

The UC offers formal undergraduate and graduate education. The UC is the public segment authorized to independently award doctoral degrees and is designated as the state's primary academic agency for research. Its ten campuses enroll approximately 290,000 students and the UC extension centers register an additional 500,000 participants in continuing education programs. In 2020-21, the UC awarded more than 85,000 degrees, including more than 65,000 undergraduate degrees.

The May Revision reflects the continuation of the multi-year compact announced in the Governor's Budget, reflecting substantial and sustained funding increases for UC, in exchange for clear commitments to expand inclusive student access, success, equity, and affordability, and to create pathways to high-demand career opportunities.

INVESTMENTS IN INNOVATION

Building on the Governor's Budget investments in climate change research and the creation of several climate/workforce hubs, the May Revision proposes $500 million one-time General Fund to establish a new Institute for Immunology and Immunotherapy, consisting of $300 million in 2022-23 and an additional $200 million planned for this purpose in 2023-24. The Institute will be established at UC Los Angeles (UCLA), bringing together academics and researchers for collaborative research to maintain California's leading edge in biotechnology. The Institute will also serve as a hub and incubator for firms and entrepreneurs in the biotechnology industry and will expand opportunities for students to connect to careers in biotechnology.

DETAILED BUDGET ADJUSTMENTS

ONGOING ADJUSTMENTS

- **UC Labor Centers**—An increase of $13 million ongoing General Fund to support the operations of existing UC Labor Centers and Occupational Safety and Health Programs, and invest in similar new initiatives throughout the UC system.
- **ASSIST Integration for Independent Institutions**—An increase of $1.5 million General Fund, $650,000 of which is ongoing, to integrate member institutions of the Association of Independent California Colleges and Universities onto the ASSIST platform. ASSIST provides prospective transfer students with information on course transferability to four-year institutions.

ADDITIONAL ONE-TIME ADJUSTMENTS

- **Center for Responsible, Decentralized Intelligence**—An increase of $5 million one-time General Fund to support the Center for Responsible, Decentralized Intelligence at UC Berkeley, which promotes research, education, and entrepreneurship in blockchain and Web3.
- **Ralph J. Bunche Center**—An increase of $5 million one-time General Fund to support the Ralph J. Bunche Center for African-American Studies at UCLA.
- **Fire Advisors**—A shift of $2 million one-time General Fund to support UC Fire Advisors, proposed under the California Department of Forestry and Fire Protection in the Governor's Budget. The Administration intends to maintain support for the program at the same level in 2023-24.
- **Prop. 56 Backfill**—An increase of $2.1 million General Fund compared to the Governor's Budget adjustment for this purpose, to maintain funding for graduate medical education at $40 million annually.

CALIFORNIA STATE UNIVERSITY

The CSU provides undergraduate and graduate instruction generally up to the master's degree. The CSU serves approximately 462,000 undergraduate and graduate students across 23 campuses, and also provides opportunities for students to enroll in professional and continuing education programs. In 2020-21, the CSU awarded more than 132,000 degrees.

The May Revision reflects the continuation of the multi-year compact announced in the Governor's Budget, reflecting substantial and sustained funding increases for CSU, in exchange for clear commitments to expand student access, equity, and affordability, and to create pathways to high-demand career opportunities.

CAPITAL INVESTMENTS

The May Revision includes several investments in capital infrastructure, including $80 million one-time General Fund to expand the San Diego State University, Brawley Center in Imperial Valley to support a local workforce pipeline to aid the state's goals for development of the Lithium Valley vision, as reflected in the Climate Change Chapter. Additionally, the May Revision provides CSU $67.5 million toward construction of the CSU Fullerton Engineering and Computer Science Innovation Hub. The investments in the San Diego State University, Brawley Center and the CSU Fullerton Engineering and Computer Science Innovation Hub will expand campus infrastructure to support the growing need for a highly-skilled, STEM-trained workforce for all industries, expand access to a CSU education, and create California-based collaborative solutions to climate change.

Additionally, the May Revision includes an increase of $25 million one-time General Fund to support equipment and facilities for CSU University Farms, providing a total of $75 million for this purpose when combined with the Governor's Budget investment.

ADDITIONAL ADJUSTMENT

- **Foster Youth Support Services**—An increase of $1.5 million General Fund to support First Star Foster Youth Cohorts at CSU East Bay and CSU Northridge.

CALIFORNIA COMMUNITY COLLEGES

The CCCs are the largest system of higher education in the country, serving roughly one out of every four of the nation's community college students, or approximately 1.8 million students. The CCCs provide basic skills, vocational, and undergraduate transfer education with 73 districts, 116 campuses, and 78 educational centers. In 2020-21, the CCCs awarded over 116,000 certificates and 201,000 degrees and transferred over 114,000 students to four-year institutions.

The May Revision reflects the continuation of the multi-year roadmap announced in the Governor's Budget, focusing on equity and student success, enhancing the system's ability to prepare students for California's future. The roadmap builds upon existing efforts taken by colleges toward meeting the goals established in the CCC system's Vision for Success and establishes shared expectations of the community college system for fiscal year 2022-23 and beyond, including investing available Proposition 98 resources for the colleges to support these efforts and providing additional fiscal resources to the Chancellor's Office to better support the colleges in meeting these goals. The roadmap works in tandem with the UC and CSU compacts to increase transfer capacity and streamline transfer pathways between the segments.

SUPPORTING DISTRICTS WITH THE STUDENT CENTERED FUNDING FORMULA

The Administration continues to support the Student Centered Funding Formula (SCFF), which has provided fiscal stability for districts during the COVID-19 Pandemic, and continues to prioritize access and student success. Even with the protections provided by the SCFF, districts continue to face uncertainty related to enrollment declines experienced as a result of the COVID-19 Pandemic and the potential expiration of the regulatory Emergency Conditions Allowance in 2022-23. The Administration expects the stability provisions included within the SCFF will protect district funding levels in 2022-23. Additionally, the May Revision contains significant augmentations to the SCFF that should help districts further support their students and staff.

The one-time and ongoing base investments proposed in alignment with the system's roadmap goals will help strengthen student success, facilitate districts' ability to support student enrollment and retention, and provide districts with additional fiscal stability.

The May Revision includes funding to re-engage students that left the system during the pandemic and to stabilize CCC operations given enrollment declines due to the pandemic. These investments also align with the roadmap:

- **Base Increase**—An increase of $250 million ongoing Proposition 98 General Fund to increase the SCFF's funding rates for the base, supplemental, and success allocations. Additionally, the May Revision proposes $125 million ongoing Proposition 98 General Fund to augment the Formula's basic allocation within the base allocation, in recognition of the significant digital footprints that districts have developed to accommodate long-term shifts in student learning modality demand.

- **Discretionary Block Grants**—An increase of $750 million one-time Proposition 98 General Fund to community college districts for discretionary block grants to address issues related to the pandemic and to reduce long-term obligations.
- **Foster Youth Support Services**—An increase of $10 million ongoing Proposition 98 General Fund, above what was provided in the Governor's Budget, to expand availability of foster youth support services offered by the NextUp program.
- **Student Equity and Achievement**—An increase of $25 million ongoing Proposition 98 General Fund for an approximately five-percent increase to the Student Equity and Achievement program.

CCC CHANCELLOR'S OFFICE SUPPORT

The May Revision includes $2.6 million ongoing non-Proposition 98 General Fund to support shifting 10 positions proposed in the Governor's Budget for 2023-24 to 2022-23, as well as 7 additional positions to support the implementation of the Cradle-to-Career Data System, assist colleges with affordable student housing, and build capacity to accommodate the increase in contracts and reporting requirements. Combined with Governor's Budget investments, these augmentations provide the CCC Chancellor's Office a total of $3.9 million ongoing non-Proposition 98 General Fund for 26 positions in 2022-23, bolstering capacity to support the system.

OTHER BUDGET ADJUSTMENTS

SUPPORTING APPRENTICESHIPS

- **California Healthy School Meals Pathway Program**—An increase of $45 million one-time Proposition 98 General Fund to support the implementation of the California Healthy School Meals Pathway Program, which is a pre-apprenticeship, apprenticeship, and fellowship workforce training pipeline pilot program for school food service workers.
- **Apprenticeship Program Related and Supplemental Instruction (RSI) Rate**—An increase of $16.9 million ongoing Proposition 98 General Fund to align the apprenticeship program RSI rate with the SCFF credit rate, as opposed to the noncredit rate.

ADDITIONAL INVESTMENTS

- **Apportionments Cost-of-Living Adjustment and Growth**—An increase of $83.5 million ongoing Proposition 98 General Fund to reflect a change in the cost-of-living adjustment for apportionments from 5.33 percent to 6.56 percent, and an increase of $1.3 million ongoing Proposition 98 General Fund to sustain 0.5-percent enrollment growth.
- **Deferred Maintenance**—An increase of $1.1 billion one-time Proposition 98 General Fund to support deferred maintenance and energy efficiency projects at community colleges, bringing the cumulative total for Governor's Budget and May Revision investments to more than $1.5 billion, of which $863 million is from 2022-23, $563.5 million is from 2021-22, and $96.5 million is from 2020-21.
- **Local Property Tax Adjustment**—An increase of $113.2 million ongoing Proposition 98 General Fund as a result of decreased offsetting local property tax revenues.
- **CCC Facilities**—General Obligation bond funding of $403 million one-time for the construction phase of 19 projects anticipated to complete design by Spring 2023, the design phases of 2 projects, and both the working drawings and construction for 1 project. This allocation represents the next installment of the $2 billion available to CCCs under Proposition 51.
- **Classified Employee Summer Assistance Program**—An increase of $10 million ongoing Proposition 98 General Fund to establish the Classified Employee Summer Assistance Program for community college classified employees.
- **Foster and Kinship Care Education Program**—An increase of $500,000 ongoing Proposition 98 General Fund to backfill an estimated decrease in federal matching funds provided to Foster and Kinship Care Education programs, maintaining current funding levels.

CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission administers financial aid programs, including the Cal Grant program and the Middle Class Scholarship Program. The state's Cal Grant program is estimated to provide nearly 408,000 financial aid awards to students who meet specified eligibility criteria in fiscal year 2022-23.

The May Revision maintains all financial aid programs, with only caseload adjustments, including support for significant financial aid expansions initiated in the

2021 Budget Act—the CCC Cal Grant entitlement expansion and modification of the Middle Class Scholarship program.

OTHER ADJUSTMENTS

- **Cal Grant Program Caseload Adjustments**—The May Revision reflects updated Cal Grant expenditures based on the latest estimates of enrollment of Cal Grant-eligible students. In total, the May Revision reflects estimated Cal Grant expenditures of approximately $2.2 billion in 2020-21, $2.4 billion in 2021-22, and $2.5 billion in 2022-23.
- **Independent Institutions**—The Administration has also determined that a good-faith effort has been made by independent institutions of higher education toward meeting the statutory Associate Degree for Transfer commitment required to maintain the maximum award amount for students attending independent institutions of higher education at $9,220 for the 2022-23 award year.
- **Financial Aid Programs**—An increase of $410,000 ongoing General Fund for three positions at the California Student Aid Commission to support financial aid programs. Combined with the Governor's Budget, this augmentation provides the California Student Aid Commission $889,000 for eight positions beginning in 2022-23 to support financial aid workload.

SCHOLARSHARE INVESTMENT BOARD

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

The CalKIDS program funds college savings accounts targeted to low-income and underrepresented public school students, in addition to establishing college savings accounts for all newborns.

SIGNIFICANT ADJUSTMENT

- **CalKIDS Implementation**—An increase of $299,000 one-time General Fund and $1.5 million ongoing General Fund beginning in 2023-24, to support the recent expansion of the CalKIDS program, including participant notifications and call center services.

Hastings College of the Law

Hastings College of the Law is affiliated with the UC system, but is governed by its own Board of Directors. Located in San Francisco, it primarily serves students seeking a Juris Doctor degree, but also offers programs leading to Master of Laws; Master of Studies in Law; and Master of Science, Health Policy and Law degrees. In 2020-21, UC Hastings enrolled 944 full-time equivalent students. Of these, 813 were Juris Doctor students.

Significant Adjustments

- **Support for 100 McAllister Street Project**—An increase of $90 million one-time General Fund to support the facility improvement project at the institution's 100 McAllister Street building. This project will provide for the institution's continued use of 252 campus housing units at below market rents, will add at least 5 additional campus housing units, and will renovate space within the facility to be used for academic purposes.
- **Support for Renaming Costs**—An increase of $885,000 to support costs associated with changing the name of the institution, conditioned upon enactment of legislation authorizing a name change.

California State Library

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

Significant Adjustments

- **State Parks Passes**—As referenced in the General Government and Statewide Issues Chapter, an increase of $13.5 million one-time General Fund for the California Department of Parks and Recreation to expand availability of state parks passes offered via local libraries, in partnership with the California State Library.
- **Online Job Training and Workforce Development**—An increase of $1.4 million one-time General Fund to support online job training and workforce development

resources targeting older adults and veterans at California's local libraries, building upon the Governor's Budget investment of $8.8 million to support two additional years of free online job training and workforce development programs available through public libraries.

- **Library Services Modernization and Online Database Subscriptions**—An increase of $570,000 ongoing General Fund to modernize State Library services with an automated loan system, and provide subscriptions to e-books and specialized online databases.
- **Administrative Workload**—An increase of $363,000 ongoing General Fund to support increased administrative and personnel workload.
- **Communications and Outreach to Local Libraries**—An increase of $335,000 ongoing General Fund to expand public outreach and education to California local libraries and patrons in under-served and multilingual communities.

BUREAU FOR PRIVATE POSTSECONDARY EDUCATION

The Bureau for Private Postsecondary Education protects students and consumers through the oversight of California's private postsecondary educational institutions. Many private postsecondary educational institutions offer quality educational programs that help their students succeed in the labor market. Those institutions can help the state reach its educational attainment goals, including closing equity gaps and educating a prepared workforce. However, those institutions that fall short may leave Californians worse off than if they had not enrolled in college, with debt to pay and few usable skills. State-level oversight can serve to distinguish between the two. However, Bureau oversight is neither appropriately targeted nor resourced. To that end, the Administration is committed to working in partnership with the Legislature on statutory reforms to enhance the state's oversight of private colleges to protect consumers and help students reach their educational goals.

Furthermore, a consistent and reliable approach to regulatory oversight of private for-profit institutions must be supported with stable funding. However, the Bureau's fee model is inherently unstable because it is based on the profitability of a nimble industry shaped heavily by external forces. The May Revision provides $24 million General Fund over three years to provide the Bureau with stable funding while the Bureau develops an improved fee model for its licensees.

BROAD-BASED RELIEF

While wages have increased across the board, especially for high-income taxpayers, and corporate profits have surged, the COVID-19 Pandemic significantly destabilized low-income families over the past two years. Persistent supply chain disruptions and labor market frictions have now driven inflation to its highest rates in 40 years, disproportionately affecting the ability of low-income households to cover basic needs.

Inflation is expected to exceed 7 percent in 2021-22, triggering an accelerated increase of the state's minimum wage on January 1, 2023. Under current law, the state's minimum wage will go to $15.50 per hour for all employers. The increase in minimum wage will help millions of households to help address rising costs. To further address rising prices and return tax proceeds to Californians, the May Revision includes additional numerous other proposals to provide broad-based relief to Californians totaling $18.1 billion.

EARLY BROAD-BASED RELIEF PROPOSAL

The May Revision reflects the early budget proposal made by the Administration to provide broad-based relief to millions of Californians facing high gas prices and other inflation-induced price increases.

This proposal would provide a one-time refund of $400 to each eligible owner of a registered vehicle. The proposal caps the number of rebates to two per registered vehicle owner for a total of $800, excludes fleets and corporate-owned vehicles, and excludes vehicles over a certain value. This broad-based refund would return an estimated $11.5 billion back to taxpayers.

To provide relief to millions of Californians who ride transit and rail, the broad-based relief package includes $750 million in incentive grants to transit and rail agencies to provide free transit for Californians for three months. This proposal will provide an amount to agencies based on their 2019 fare revenues.

The broad-based relief package also includes a 12-month pause, effective October 1, 2022, on the General Fund (3.9375-percent rate) portion of the sales tax rate on diesel fuel. This pause will provide relief to the commercial sector that utilizes the bulk of diesel fuel in the state. This pause is estimated to reduce revenues by $327 million in 2022-23 and $112 million in 2023-24. Revenue from this portion of the diesel fuel tax is generally dedicated to the Public Transportation Account (PTA). The May Revision proposes to continue making transfers from the General Fund to the PTA as if the full amount of tax were being collected, thereby having no impact on transportation funding.

Complementing these relief efforts, the Administration proposed to accelerate its $10 billion zero-emission vehicle (ZEV) plan to move California toward clean transportation options that reduce overall dependence on gas and fossil fuels and proposed additional investments in active transportation.

ADDITIONAL RELIEF FOR FAMILIES

In addition to the early action proposals noted above, the May Revision proposes the following additional state actions to provide relief to California families:

EMERGENCY RENTAL ASSISTANCE

The May Revision includes $2.7 billion one-time General Fund in the current year for rental assistance through state and local programs established during the height of the pandemic. Amendments to the 2021 Budget Act (SB 115) authorized a General Fund cashflow loan to continue to make payments to individuals in the federal Emergency Rental Assistance Program while the federal government processes reallocations of unused rental assistance funding from other states. The state continues to seek federal reallocation funding, but the timing and amounts of such reallocations are still unknown. These payments have helped hundreds of thousands of low-income households maintain their housing and avoid eviction.

Additional Utility Payments Support

As part of the Energy Package investments, the May Revision includes $1.2 billion to address residential electric utility arrearages through the Department of Community Services and Development to mitigate the outstanding debt leading to increased utility rates. More information can be found in the Climate Change Chapter. The May Revision also includes $200 million to address residential water and wastewater arrearages. More information on this can be found in the Health and Human Services Chapter.

California Healthcare Premium Subsidy Program

The May Revision includes $304 million General Fund ongoing to re-instate the state-supported healthcare premium subsidy program administered by Covered California when federal subsidies expire on December 31, 2022. The state-supported premium subsidy program, established in the 2019 Budget Act, lowered the required contribution to zero for low-income enrollees, while establishing contribution caps for middle-class enrollees. More information on this can be found in the Health and Human Services Chapter.

Temporary Extension of Child Care and Preschool Family Fee Waivers

The May Revision includes $136 million one-time federal funds for the California Department of Social Services and $21.3 million one-time General Fund ($10.8 million Proposition 98 General Fund, $10.5 million non-Proposition 98 General Fund) for the California Department of Education to waive family fees for state-subsidized preschool and childcare and development services from July 1, 2022 through June 30, 2023.

Hospital and Nursing Facility Worker Retention Payments

The COVID-19 Pandemic has placed a significant burden on those working in hospitals, nursing facilities, and psychiatric hospitals. The May Revision includes $933 million one-time to provide retention payments for workers in hospitals, skilled nursing facilities, and psychiatric hospitals. Retaining essential workers in these settings is a priority of the Administration and these payments are designed to retain this critical workforce. More information on this can be found in the Health and Human Services Chapter.

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Economic Growth, Job Creation, and Expanded Opportunity

California is home to innovative industries that have fundamentally changed the way the world lives and communicates. It is the place where the spark of an idea can transform the world and create substantial economic opportunity. It is a beacon showing others the way toward shared prosperity and climate sustainability. It is also the home to world-leading businesses that embody California values and speak out for LGBTQ+ youth and reproductive freedoms.

The COVID-19 Pandemic triggered the deepest recession since the Great Depression. While the economic toll was steep, economic recovery has been swift. Much of the remarkable rebound was made possible by state and federal support for individuals and small businesses through the initial period of economic distress and the subsequent economic recovery. Most recently, an early action package, enacted in February 2022, took the following steps to support small businesses:

- Restoring the use of business tax credits and net operating losses one year earlier than planned to continue to invest in companies that fueled the recovery.
- Exempting amounts received by businesses from the federal Restaurant Revitalization Fund and Shuttered Venue Operators Grant programs from state income tax and allowing normal deductibility for the expenses related to the grants. This keeps money in the pockets of business owners who experienced some of the greatest losses during the pandemic. These proposals reduced revenues by

$130 million in 2021-22 and $144 million in 2022-23, and will result in nearly $500 million total revenue loss over several years.

- Providing an additional round of grants for eligible small businesses through the California Small Business COVID-19 Relief Grant Program at the Governor's Office of Business and Economic Development (GO-Biz). The early action package included $150 million one-time for this program, bringing the total investment to approximately $4.2 billion ($2.7 billion General Fund and $1.5 billion federal funds).

The May Revision proposes additional grants to small businesses in hard-hit industries, including farms and related businesses impacted by the drought and additional tax relief to small businesses. The May Revision also proposes to extend the California Competes (CalCompetes) tax credit and grant programs and use the program as a tool to attract businesses that share California values, and proposes a new grant program to encourage the development of climate solutions that will create high-paying jobs and spur economic growth. In keeping with the state's commitment to lifting up the values of liberty and freedom, the new tax proposals and climate grants will encourage companies to choose California over states that do not protect LGBTQ+ or reproductive rights.

ECONOMIC GROWTH AND JOB CREATION

CONTINUING THE SUCCESS OF CALIFORNIA COMPETES

The CalCompetes Tax Credit, in effect since 2014, incentivizes businesses to locate or stay in California, and thus to invest, grow, and create quality full-time jobs in the state. Since its inception, GO-Biz has awarded over 1,150 businesses more than $1.6 billion in tax credits for commitments to create almost 145,000 new, full-time jobs and make over $29 billion in capital improvements in the state. CalCompetes is an innovative concept with accountability and transparency at the forefront. Award recipients are required to meet agreed-upon contractual milestones. Unlike any other state tax credit, failure to achieve these milestones results in the tax credits being recaptured by the Franchise Tax Board. Since its inception, CalCompetes has recaptured over $300 million in tax credits, holding awardees accountable to taxpayers. The credits are approved by a five-member committee including two Administration officials, the State Treasurer, and one appointee each by the Assembly Speaker and the Senate Rules Committee. The CalCompetes Tax Credit program is scheduled to sunset after 2022-23.

Building off the success of the CalCompetes Tax Credit, the 2021 Budget Act included $120 million one-time General Fund for a CalCompetes grant program. Grants were aimed at businesses that cannot fully benefit from a nonrefundable tax credit, but still present vital economic development opportunities that are at risk of taking place outside of California. To be eligible for a grant, a business must meet one or more of the following criteria: establish at least 500 net new jobs; make a significant infrastructure investment of at least $10 million over no more than five years; or commit to a high-need, high opportunity area of the state. As with the tax credit, applicants must demonstrate that the CalCompetes award will be a material factor in their decision or ability to create quality full-time jobs in the state that California would otherwise lose to another state. In April 2022, the CalCompetes Committee approved $120 million in grants to eight companies that committed to create more than 7,600 new, full-time jobs in California and bring over $3.3 billion in new capital investments to the state. The grant program is subject to the same accountability measures as the tax credit, including audited results by the Franchise Tax Board that result in recapture of grants in the case of unmet milestones.

To continue the success of CalCompetes, the May Revision proposes the following:

- Extend the CalCompetes Tax Credit program through 2027-28 at the current level of $180 million per year.
- Provide $120 million one-time General Fund for a second year of the CalCompetes grant program. The funding could also be used to provide required matching funds for businesses to qualify for federal funds to address the state and national security priority of increasing domestic semiconductor research, development and manufacturing.
- For both of these programs, CalCompetes shall provide additional consideration to companies that relocate from states that have enacted anti-LGBTQ+ and reproductive rights laws.

ENCOURAGING CLIMATE INNOVATION

The Governor's Budget proposed two new tax credits designed to help California transition to a more resilient climate future. The May Revision converts these tax credits into a single grant program administered by the California Energy Commission (CEC) and equal to the same total amount proposed at the Governor's Budget ($1.05 billion over four fiscal years—$100 million in 2022-23, $325 million in each of 2023-24 and 2024-25, and $300 million in 2025-26). The grant program would provide grants to companies headquartered in California with a focus on research activities into technologies that help California achieve its climate goals. Recipients would provide a return to the state if a company has either an Initial Public Offering or a change in ownership event that results in a greater than 50-percent change in the company's capitalization table. The amount of return to the state if the company has demonstrated success will be reduced if certain contractually specified performance metrics are met. In awarding grants, the CEC shall also consider whether the companies' investments are moving from a state that has enacted anti-LGBTQ+ or reproductive rights laws.

SMALL BUSINESS INVESTMENTS

TAX RELIEF FOR CALIFORNIA BUSINESSES AFFECTED BY THE PANDEMIC

California generally conformed to the federal treatment of Paycheck Protection Program (PPP) grants in April 2021 (Chapter 17, Statutes of 2021). The federal government extended the PPP grant program for an additional two months in spring of 2021, too late to be included in California's 2021 conformity legislation. There are about $8 billion of PPP grants to California businesses that are not currently covered by conformity. This proposal brings the state into full conformity so that no company shall have an additional state tax obligation from the PPP. The May Revision includes a $450 million reduction in revenue over the next five fiscal years, including $160 million in each of 2021-22 and 2022-23, to extend the time window for the federal PPP grants to be excluded from the definition of income for the purposes of state taxation, thereby granting the benefit to Paycheck Protection loans that were previously excluded.

The Main Street Tax Credits I and II were adopted in 2020 and 2021 to provide relief to small businesses that were significantly harmed by the COVID-19 Pandemic and hired and retained new employees in the second half of 2020 and the first half of 2021. To claim the credits, businesses were required to reserve their qualified credit amount with the California Department of Tax and Fee Administration and then subsequently claim the credit on a tax return. Under current law, taxpayers that want to apply the credit against income tax are required to claim the credit on their original return. Many businesses that had reserved credits did not claim the credit on their original 2020 tax return, primarily because they had no tax liability. Under current law these businesses are precluded from claiming any of the credit in future years. The May Revision proposes statutory changes that would allow taxpayers that did not claim the credit on their original return to claim the credit in the subsequent five tax years.

ADDITIONAL RELIEF FOR HARD-HIT INDUSTRIES

The May Revision includes $500 million one-time General Fund in 2022-23 for the California Small Business Hard-Hit Industries Grant Program administered by the Office of the Small Business Advocate (CalOSBA), within GO-Biz, to provide additional relief to those small businesses most affected by the pandemic. This program will focus on economic recovery to accelerate job growth, promote equity and inclusivity, and establish sustained post-recovery growth for the top ten industries hardest hit by the pandemic. Eligible small businesses and nonprofit organizations can receive grants ranging from $10,000 to $50,000, depending on their annual gross revenue.

DROUGHT RELIEF ASSISTANCE FOR SMALL AGRICULTURAL BUSINESSES

As discussed in the Climate Change Chapter, California continues to experience serious drought conditions that damage the state's agriculture sector. Impacted businesses include farmers as well as a network of supportive and directly dependent businesses, such as processing entities, including rice mills, crop inputs, professional services, and warehouses. The potential loss of these businesses threatens the necessary infrastructure to support California's agriculture sector and the communities that depend on it.

The May Revision includes $75 million one-time General Fund in 2022-23 for the California Small Agricultural Business Drought Relief Grant Program to provide direct assistance to eligible agriculture-related businesses that have been affected by severe drought conditions. Grant awards range from $30,000 to $50,000, depending on annual gross revenue decline, and will be prioritized first to businesses located in regions hardest hit by drought impacts, including the Sacramento-San Joaquin Valley, and then to additional areas experiencing drought impacts, as determined by the California Department of Food and Agriculture. This program will be administered by CalOSBA, in consultation with the California Department of Food and Agriculture, and will be modeled after other CalOSBA programs providing relief to small businesses.

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CLIMATE CHANGE

California has a unique opportunity to build upon the state's history of innovation, economic growth and science-based policymaking to lead global efforts to adapt to and mitigate climate change. The state is positioned to simultaneously confront the climate crisis and build a more resilient, just and equitable future for all communities.

Building on the state's climate leadership and the historic $15 billion climate resilience investments in the 2021 Budget Act, the Governor's Budget proposed $22.5 billion over five years to support transformative climate investments in transportation, energy, housing, education, wildfire resilience, drought, and health.

A record-breaking lack of precipitation from January through mid-April pushed California into a third consecutive year of drought. Climate change also continues to cause unprecedented stress on California's energy system–driving high demand and constraining supply—compounded by geopolitical and supply chain issues. Californians also continue to suffer from high prices at the gas pump and on their utility bills.

To address these pressing issues, the May Revision includes an additional $9.5 billion from various fund sources over four years for a total $32 billion to continue to advance the state's Climate and Opportunity Budget, provide equitable climate solutions, protect communities, and support energy reliability.

CLIMATE RESILIENCE

WATER RESILIENCE AND DROUGHT RESPONSE

Climate change is spurring warmer conditions in California and creating larger gaps between significant precipitation events that are vital to water supply. This year, water project operators will make only minimal deliveries to farms and cities, and wildlife managers are taking extraordinary action to relocate salmon to streams with cooler water than can be made available below major reservoirs.

Lessons learned in the 2012 to 2016 drought inform the current state response, which has also benefitted from significant investments, new data tools, and policy shifts over the last several years. This includes new laws related to safe drinking water, drought planning, water conservation, and local management of groundwater. The historic three-year, $5.2 billion investment in California water systems enacted last year has helped to minimize immediate economic and environmental damage from the drought and enabled hundreds of projects by local water suppliers to prepare for and be more resilient to future droughts.

The Governor's Budget proposed an additional drought resilience investment of $750 million General Fund, with a focus on drought relief and promoting water conservation. Given the intensification of drought since January, the May Revision includes an additional $1.3 billion General Fund for drought resilience and response designed to help communities and fish and wildlife avoid immediate negative impacts as a result of extreme drought while continuing to advance projects and programs that prepare the state to be more resilient to future droughts. This funding is proposed for acceleration into the 2021-22 fiscal year given current availability of resources.

Significant Investments include:

- $530 million to support water recycling and groundwater cleanup; advance drinking water and clean water projects that leverage significant federal infrastructure funds; and continue aqueduct solar pilots.
- $553 million to provide grants to urban water districts and smaller community water suppliers for drought-relief projects; support data, research, and public education campaigns; support local technical assistance emergency drinking water response, including the purchase and pre-positioning of water storage tanks; enhance water

rights enforcement and modernization tools; and support food assistance programs for farmworkers impacted by drought.

- $280 million to address fish and wildlife impacts associated with drought and climate change, and to build aquatic habitat and water resilience projects to support implementation of voluntary agreements with water suppliers.
- $187 million to support agricultural water conservation practices; incentivize farmers to install more efficient irrigation equipment and provide on-farm technical assistance; provide direct relief to small farm operators; and support additional water conservation projects.

Drought Resilience and Response
(Dollars in Millions)

Investment Category	Department	Program	2021 Package Total	Accelerated Drought Resilience Package: Governor's Budget	Accelerated Drought Resilience Package: May Revision	Total
Immediate Drought Support	Department of Water Resources	Small Water Suppliers Drought Relief & Urban Water Management Grants	$484	$120	$180	$784
		Water Transfers Pilot Project	$0	$0	$20	$20
	State Water Resources Control Board	Water Rights Modernization and Drought Resilience	$0	$0	$44	$44
	Department of Social Services	Drought Food Assistance	$0	$0	$23	$23
	Various	Data, Research, and Communications	$127	$0	$116.8	$244
		Drought Technical Assistance and Emergency Drought Response	$57	$25	$161	$243
		Drought Permitting, Compliance, Curtailments and Water Right Enforcement	$43	$0	$8	$51
Drinking Water, Water Supply and Reliability, Flood	State Water Resources Control Board	Drinking Water/Wastewater Infrastructure and State Revolving Fund	$1,300	$0	$400	$1,700
		PFAs Support	$100	$0	$0	$100
		Water Recycling/Groundwater Cleanup	$400	$0	$100	$500
	Department of Water Resources	Salton Sea	$220	$0	$0	$220
		Water Conveyance	$200	$0	$0	$200
		Flood	$638	$0	$0	$638
		Aqueduct Solar Panel Pilot Study	$20	$0	$30	$50
		Watershed Climate Studies	$25	$0	$0	$25
	Natural Resources Agency	Clear Lake Rehabilitation	$5.7	$0	$0	$6
Conservation/ Agriculture	Department of Water Resources	SGMA Implementation	$300	$30	$26	$356
		Agriculture and Delta Drought Response Programs	$8	$0	$60	$68
	Department of Food and Agriculture	Relief for Small Farmers	$0	$5	$20	$25
		On-farm Water Use and Agriculture Technical Assistance	$5	$0	$15	$20
		State Water Efficiency and Enhancement Program	$100	$20	$40	$160
	Department of Conservation	Multi-benefit Land Repurposing	$50	$40	$0	$90
	Various	Water Conservation Programs (Small and Urban), Turf Replacement, and State Water Conservation Projects	$0	$185	$26	$211
Habitat/ Nature-Based Solutions	Department of Fish and Wildlife/ Department of Water Rources	Fish and Wildlife Protection	$0	$75	$100	$175
		Improving Drought Resiliency on State-Owned Land and Migratory Bird Habitat	$8	$0	$25	$33
		Studying Salmon and Tribal Co-Management Activities	$0	$0	$7.3	$7.3
		Climate Induced Hatchery Upgrades	$33	$0	$17	$50
	Department of Water Resources	Aquatic Habitat and Drought Resilience and Expediting Large Scale Habitat	$0	$0	$130.6	$130.6
	Various	Additional Nature-Based Solutions	$1,033	$0	$0	$1,033
		Total	**$5,157**	**$500**	**$1,550**	**$7,207**

The May Revision also includes $500 million General Fund in 2025-26, to serve as a multi-year commitment to promote strategic water storage projects in the state that benefit water supply reliability and the environment. California's variable precipitation makes above and below ground water storage crucial, and aquifers and off-stream reservoirs are among the most feasible places to store additional water as a resilience measure into the future. These resources will build upon the $2.7 billion provided in

Proposition 1 under the Water Storage Investment Program to accelerate critical projects as part of a comprehensive and coordinated approach to water resiliency as outlined in the California Water Resilience Portfolio.

In addition, the May Revision includes $1.2 million General Fund ongoing for the Judicial Council to address climate, environmental, and water-related legal disputes and $75 million one-time General Fund to support the California Small Agricultural Business Drought Relief Grant Program to provide direct assistance to eligible agriculture-related businesses that have been impacted by severe drought conditions. See the Judicial Branch Chapter and the Economic Growth, Job Creation, and Expanded Opportunity Chapter for additional details.

In addition to funding in this package, some of the funding proposed for nature-based solutions described below will provide habitat restoration to improve the health of Northern California rivers which will support voluntary agreements with water users.

EXTREME HEAT

Every corner of the state will be impacted in years and decades to come by higher average temperatures and more frequent and severe heat waves. Extreme heat threatens public health and safety, economic prosperity, communities and natural systems. It also poses profoundly disproportionate consequences for the most vulnerable populations, including tribal nations, low-income neighborhoods, communities of color, and older and disabled adults.

In recent years, California has provided historic investments to address extreme heat, including $800 million General Fund over two years in the 2021 Budget Act as part of the Climate Resilience Package. This funding included $300 million to support the implementation of the state's updated Extreme Heat Action Plan. The final plan was informed by input received through a public engagement process and released in April 2022. The proposed allocation of the $300 million advances areas of near-term focus outlined in the Action Plan including:

- $220 million over two years to support cooling of communities at schools and through resilience centers.
- $43 million to protect vulnerable populations and ecosystems from extreme heat impacts through enhanced enforcement of codes, standards, and regulations.

- $20 million to increase understanding of the risks posed by extreme heat and what resources are available to keep communities safe through a public awareness and outreach campaign.
- $17 million to invest in the alignment of the state's response to extreme heat and High Road workforce development and building California's climate-smart workforce through training partnerships and apprenticeships in jobs and careers that address extreme heat.

Extreme Heat
(Dollars in Millions)

Plan or Framework Category	Department	Program	2022-23	2023-24	Total
Cool Communities	Strategic Growth Council	Resilience Centers	$85	$85	$170
	CAL FIRE	Green Schoolyards (Urban Forestry)	$25	$25	$50
Protecting Vulnerable Populations and Ecosystems	Department of Public Health	Enhanced Protections for Vulnerable Populations	$3	$0	$3
	Department of Industrial Relations		$12.25	$12.25	$24.5
	Department of Social Services		$2.75	$5.75	$8.5
	Department of Food and Agriculture	Animal Mortality Management Program	$0.6	$0.6	$1.2
		Origin Inspection Program	$0.25	$0.25	$0.5
		Integrated Pest Management Technical Assistance	$1.075	$1.575	$2.7
	Department of Pesticide Regulation		$1.075	$1.575	$2.7
Increasing Public Awareness	Office of Planning and Research	Community-Based Public Awareness Campaign	$6	$14	$20
Build a Climate Smart Workforce	Workforce Development Board	Extreme Heat High Road Training, Partnerships, and Apprenticeships Programs	$13	$4	$17
		Total	**$150**	**$150**	**$300**

Nature-Based Solutions

California's natural and working lands—forests, wetlands, croplands, grasslands, deserts, and other landscapes—help sustain the state's communities and economy. They are also essential to combating the climate crisis and preserving California's world-renowned biodiversity. Nature-based solutions buffer state residents from climate threats, strengthen and protect cultural connections to the environment, contribute to carbon neutrality, sustain rivers and water supplies, protect fish and wildlife, and provide for outdoor experiences.

California is committed to the goal of conserving 30 percent of the state's lands and coastal waters by 2030. This 30x30 strategy is part of an international movement to conserve natural areas across the planet to protect biodiversity, expand equitable access to nature and its benefits, combat climate change, and build resilience to climate impacts.

The 2021 Budget Act committed $1.4 billion General Fund over three years for multi-benefit nature-based solutions. This included $768 million General Fund over two years to support implementation of the state's Natural and Working Lands Climate Smart Strategy to advance climate-focused land management toward an equitable, resilient, and carbon-neutral future, and the Pathways to 30x30 Strategy to accelerate California's pledge to protect biodiversity, expand access to nature and tackle climate change.

To advance these two initiatives, and reflecting over a year of public input, the Administration's proposed allocation of the $768 million over two years includes:

- $275 million to fund projects that will deliver climate benefits and protect biodiversity, including voluntary conservation acquisitions and easements.
- $213 million to support regional action through investments in Natural Community Conservation Planning programs and projects funded through state conservancies and local and tribal conservation corps.
- $100 million for the Tribal Nature-Based Solutions Program announced in March at the California Truth & Healing Council (See additional details below).
- $90 million for inland wetlands restoration, which delivers multiple benefits including sequestering greenhouse gas emissions, protecting habitat, and advancing economic opportunity.
- $50 million for wildlife corridors, including the Liberty Canyon Wallis Annenberg Wildlife Crossing Project.
- $30 million to accelerate climate smart land management practices across California's diverse landscape including farms, forests, and community green spaces.
- $10 million to support a compost permitting pilot program that will help local government entities and facilities locate and permit small and medium-sized compost facilities, diverting more organic waste away from landfills and into the creation of healthy soils and to support additional strategic nature-based solution investments.

Nature-Based Solutions
(Dollars in Millions)

<table>
<tr><th>Investment Category</th><th>Department</th><th>Program</th><th>2022-23</th><th>2023-24</th><th>Total</th></tr>
<tr><td rowspan="11">Nature-Based Solutions Programs</td><td rowspan="6">Wildlife Conservation Board</td><td>Forest Conservation Program</td><td rowspan="6">$200</td><td rowspan="6">$45</td><td rowspan="6">$245</td></tr>
<tr><td>Oak Woodlands Conservation Program</td></tr>
<tr><td>California Desert Conservation Program</td></tr>
<tr><td>Rangeland, Grazing Land and Grassland Protection Program</td></tr>
<tr><td>California Riparian Habitat Conservation Program</td></tr>
<tr><td>Natural and Working Lands Climate Adaptation and Resiliency Program</td></tr>
<tr><td>Department of Fish & Wildlife</td><td rowspan="2">Nature-Based Solutions Wetlands Restoration Program</td><td>$54</td><td>$0</td><td>$54</td></tr>
<tr><td>Delta Conservancy</td><td>$36</td><td>$0</td><td>$36</td></tr>
<tr><td>Department of Conservation</td><td>Multi-benefit Land Repurposing Program</td><td>$0</td><td>$20</td><td>$20</td></tr>
<tr><td>Department of Food & Agriculture</td><td>Healthy Soils Program</td><td>$0</td><td>$10</td><td>$10</td></tr>
<tr><td>CAL FIRE</td><td>Wildland Grazing (Fire Prevention Grant Program)</td><td>$5</td><td>$5</td><td>$10</td></tr>
<tr><td rowspan="5">Supporting Regional Action</td><td>State Conservancies</td><td>Support for Nature-Based Solutions</td><td>$60</td><td>$60</td><td>$120</td></tr>
<tr><td>Department of Fish and Wildlife & Santa Monica Mountains Conservancy</td><td>Wildlife Corridors (including Liberty Canyon)</td><td>$50</td><td>$0</td><td>$50</td></tr>
<tr><td>Department of Fish and Wildlife</td><td>Natural Community Conservation Program Planning and Land Acquisition</td><td>$36</td><td>$0</td><td>$36</td></tr>
<tr><td>Department of Conservation</td><td>Climate Smart Land Management Program</td><td>$14</td><td>$6</td><td>$20</td></tr>
<tr><td>Wildlife Conservation Board</td><td>Resource Conservation Investments Strategies</td><td>$2</td><td>$3</td><td>$5</td></tr>
<tr><td>Expanding Educational and Economic Opportunities for Youth Climate Leaders</td><td>Conservation Corps</td><td>Local and Tribal Nature-Based Solutions Corps</td><td>$35</td><td>$17</td><td>$52</td></tr>
<tr><td>Partnering with California Native American Tribes</td><td>Natural Resources Agency</td><td>Tribal Nature-Based Solutions Program</td><td>$100</td><td>$0</td><td>$100</td></tr>
<tr><td rowspan="3">Additional Strategic Investments</td><td>CalRecycle</td><td>Compost Permitting Pilot Program</td><td>$0.5</td><td>$7</td><td>$7.5</td></tr>
<tr><td>Natural Resources Agency</td><td>Nature-Based Solutions Partnerships and Improvements</td><td>$0.25</td><td>$1.75</td><td>$2</td></tr>
<tr><td>Natural Resources Agency</td><td>CA Nature Support</td><td>$0.25</td><td>$0.25</td><td>$0.5</td></tr>
<tr><td></td><td></td><td>Total</td><td>$593</td><td>$175</td><td>$768</td></tr>
</table>

In addition to the nature-based solutions investments described above, the May Revision proposes additional funding to further build climate resilience in California.

Other Adjustments:

- **Coastal Restoration and Protection**—$50 million one-time General Fund for the State Coastal Conservancy for the acquisition of real property. Building climate resilience may require acquisition of critical shoreline properties to protect natural resources, provide for public access, and implement the state's nature-based solutions agenda.
- **California Climate Information System**—$18.3 million one-time General Fund for the integration and analysis of the most current climate monitoring data to provide information and decision-making tools for all entities that are working on the climate crisis. This funding will support the initial planning and development of the system, which will international sources that can be used by all interested parties to better inform the ultimately comprise a central hub for climate data from local, state, federal, and state's climate work and future state investments.

STRENGTHENING PARTNERSHIPS WITH CALIFORNIA NATIVE AMERICAN TRIBES

California Native American tribes and people have stewarded the lands and waters within the current boundaries of the state since time immemorial. This stewardship is intertwined with tribes' deep connection to place, their natural and cultural resources, and sacred ceremonial and cultural areas. The May Revision recognizes the important role that tribes play in conserving lands, promoting best practices in enhancing fish and wildlife conditions, and meeting the state's goals as outlined in various climate-related plans.

The California Natural Resources Agency has worked to develop a robust tribal affairs program and strengthen coordination and collaboration with all tribal affairs programs across the departments, commissions, and conservancies under the Agency. This focused work and the core commitment to partnering with California Native American tribes in the Pathways to 30x30 and Natural and Working Lands Climate Smart strategies seek to further the Agency's mission to restore, protect, and manage the state's natural, historical and cultural resources for all.

The May Revision includes $100 million one-time General Fund for the Tribal Nature-Based Solutions program to support tribal initiatives that advance shared climate and biodiversity goals as called for in Executive Order N-82-20 to accelerate the use of nature-based solutions to combat the climate crisis. This program will advance tribal initiatives including research, development and implementation of traditional knowledge and tribal expertise, workforce training, capacity building and technical support, tribal nature-based climate conservation programs, increased access and co-management of lands, and ancestral land return. This program will be informed through a tribally led and informed process with the goal of strengthening partnerships with California Native American tribes in the funding and implementation of tribal nature-based solutions.

The Administration is also proposing the establishment of a Tribal Natural Resources Council, which is in direct response to the request from over 70 different California Native American tribes during government-to-government consultations on the Nature-Based Solutions Executive Order N-82-20, aimed at fostering inclusive partnerships and collaboration with tribes in addressing the biodiversity crisis and accelerating nature-based solutions. This Council will support the Agency's efforts to develop and implement the Tribal Nature-Based Solutions program and other tribal affairs programs and policies. The Council will have diverse regional representation and include federally and non-federally recognized California Native American tribal leaders.

Wildfire and Forest Resilience

The ongoing impact of climate change on California's wildlands continue to drive critically dry fuel conditions and longer, more severe fire seasons. The May Revision recognizes these conditions and its impact on firefighting operations and makes further investments to enhance CAL FIRE's fire protection capacity, which builds upon the Governor's January proposal to invest an additional $1.2 billion investment over two years in a comprehensive wildfire and forest resilience strategy to continue to reduce the risk of catastrophic wildfires. See the Emergency Response Chapter for additional detail.

Cap-and-Trade Expenditure Plan

The May Revision builds on the Cap and Trade Expenditure Plan in the Governor's Budget by targeting additional investments to programs that identify and mitigate methane emissions and protect disadvantaged communities. Specifically, the Administration proposes investing an additional $120 million from Cap and Trade auction proceeds to two programs including:

- **Methane Satellites**—$100 million Greenhouse Gas Reduction Fund on a one-time basis to expand the number of satellites launched for methane observations, which would provide weekly measurement of large methane emissions in the state and enhance enforcement capabilities. This data will allow California to identify the source of these emissions, work with programs to hold emitters accountable for violations, and further reduce the amount of short-lived climate pollutants in the atmosphere.
- **AB 617 Community Air Protection Program**—$20 million Greenhouse Gas Reduction Fund on a one-time basis for the Community Air Protection Program, which reduces emissions in communities with disproportionate exposure to air pollution through targeted air monitoring and community emissions reduction programs. The Governor's Budget included $240 million to support AB 617 investments; this additional allocation will bring the total proposed investment to $260 million.

ENERGY

Climate change is causing unprecedented stress on California's energy system—driving high demand and constraining supply. Extreme weather events from climate change—including heat waves, wildfires, and the impact of drought on hydropower capacity, combined with other factors such as supply-chain disruptions—are jeopardizing California's ability to build out the electric infrastructure in the time frame and at the scale needed.

The state has mandated more energy procurements than ever, accelerated projects, and postponed the planned retirement of power plants that generate thousands of megawatts. California has also implemented a range of emergency measures in 2020 and 2021 to reduce demand and increase supply at critical moments.

California's energy transition requires that the growth in the electricity system is clean, reliable and affordable. The Governor's Budget included $2 billion for a Clean Energy Investment Plan to support innovation and deployment of clean energy technologies in the energy system. The May Revision includes an additional $8 billion investment to further increase the state's energy system's resilience, increase reliability and affordability, and accelerate the deployment of the resources needed to achieve California's clean energy transition, and provide debt relief to California households impacted by the COVID-19 Pandemic.

Energy Reliability, Relief and Clean Energy Investments
(Dollars in Millions)

Investment Category	Program	Agency	2021-22	2022-23	Multiyear Total
Ratepayer Relief	California Arrearage Payment Program	CSD	$0	$1,200	$1,200
	Capacity Building Grants	CPUC	$0	$30	$30
Reliability	Investments in Strategic Reliability Assets	DWR	$1,500	$445	$4,250
	Distributed Electricity Backup Assets	CEC	$550	$0	$950
	Residential Solar & Storage	CPUC	$0	$70	$970
	Transmission & Energy Financing	IBank	$0	$250	$250
	Demand Side Grid Support	CEC	$200	$0	$295
Clean Energy	Carbon Removal Innovation	CEC	$0	$50	$100
	Energy Data Infrastructure & Analysis	CEC	$0	$5	$5
			$2,250	**$2,050**	**$8,050**
		Total Package		**$8,050**	

ESTABLISHMENT OF STRATEGIC ELECTRICITY RELIABILITY

To support reliability during the energy transition, the May Revision includes $5.2 billion to invest in a Strategic Electricity Reliability Reserve. The resources from which the Reserve will be developed may include existing generation capacity that was scheduled to retire, new generation, new storage projects, clean backup generation projects, diesel and natural gas backup generation projects with emission controls and all required permits, and customer side load reduction capacity that is visible to and dispatchable by the California Independent System Operator (CAISO) during grid emergencies.

The Strategic Electricity Reliability Reserve will be a statewide resource capable of providing up to 5,000 megawatts available when the grid is stressed. This will increase the state's ability to withstand extreme and coincident climate events, but will not take the place of the longstanding obligations of all load serving entities to procure sufficient resources to maintain reliability.

In 2021, California increased the planning reserve margin requirements for most load serving entities in order to better incorporate the impacts of climate change and extreme weather. These actions will be coupled with the California Energy Commission updating its energy planning standards to further promote electricity reliability by ensuring that all load serving entities that are members of the CAISO adequately incorporate the impacts of climate change and extreme weather into their planning reserve margins.

The May Revision also proposes $295 million over multiple years to support the CEC in developing demand-side grid support initiatives. These efforts will help reduce energy demand on the grid during peak energy times.

Accelerating Clean Energy and Storage Projects

Achieving the state's climate and energy goals will require a diverse portfolio of clean and reliable sources of electric power. The May Revision accelerates the needed build out of clean energy and storage projects by providing a new streamlined permitting option at the California Energy Commission for qualifying projects. This proposal prioritizes the development of projects needed to enhance energy reliability while also providing opportunities for public, tribal, and local government engagement and environmental review.

The Governor's Budget proposed $45 million to advance the state's offshore wind resource. The May Revision proposes a new pathway at the California Energy Commission for offshore wind developers to voluntarily partner with the state to help engage communities and stakeholders. It also looks to further build capacity in communities to encourage engagement in the Public Utilities Commission processes that shape the state's energy future.

The May Revision proposes $970 million for the Public Utilities Commission to provide residential solar and storage system incentives, including for low-income households. This consists of $670 million for solar and storage systems for low-income households. This also includes $300 million for additional storage installations paired with existing residential solar systems.

Transformation of California's energy system and decarbonization of the economy requires careful consideration of electricity rates and new ways of allocating electricity service costs. The May Revision proposes statutory revisions to allow the Public Utilities Commission to adjust electricity rates to predetermined fixed charges with considerations of low income customers. This rate reform effort will reduce charges attached to volumes of electricity consumed, help control rate volatility, and enable creation of better price signals that will enhance widespread electrification efforts.

Clean Energy Financing

The May Revision also includes $250 million to leverage additional state financing tools dedicated to supporting the development of strategic clean energy projects that will assist the state in meeting its reliability, affordability and climate goals. Projects will be identified in coordination with the Public Utilities Commission and the California Energy Commission, and in consultation with the CAISO, as appropriate. To the extent possible, the program will look to maximize the involvement of third-party capital, including from the federal Department of Energy and the private sector, in order to increase the impact of the state-provided funds. The initial priority of this new financing will be to support the development of new transmission to deliver to the CAISO system, clean, firm electricity from new resources located in the Salton Sea region. This investment will support the state's goals for development of Lithium Valley in Imperial County.

CALIFORNIA ARREARAGE PAYMENT PROGRAM

Established in the 2021 Budget, the California Arrearage Payment Program (CAPP) directed $1 billion in federal American Rescue Plan Act funding towards financial assistance to reduce or eliminate past due energy bill balances accrued by customers economically impacted by the COVID-19 Pandemic. Under CAPP, administered by the Department of Community Services and Development, over 1.5 million residential and commercial accounts received CAPP benefits. CAPP bill credits were automatically applied to qualified customers' energy utility bill accounts.

While CAPP made a significant impact on reducing or eliminating Californian's energy debts, public and investor-owned energy utilities are reporting that arrearages have continued to grow for customers. The May Revision includes funding of $1.2 billion to relieve California households by addressing energy arrearages.

CARBON REMOVAL

While the state is making bold efforts to aggressively reduce carbon emissions, more must be done. Both the California Air Resources Board and the California Energy Commission anticipate carbon removal will be needed for the state to achieve its greenhouse gas reduction and energy goals.

The May Revision includes $100 million to support carbon removal projects by providing match funding to supplement grants that projects receive from the federal government and non-profit foundations. This funding will be critical to providing in-state projects a competitive advantage when applying for funds, especially the federal funding available from the U.S. Department of Energy through the Infrastructure Investment and Jobs Act.

CLIMATE INNOVATION

In addition to the Administration's energy reliability, relief and clean energy package described above, to further support the development of clean technology in California, the May Revision converts two green tax credits proposed in the Governor's Budget—the Innovation Headquarters Credit and Credit for Green Energy Technologies—into a single Climate Innovation Grant program administered by the California Energy Commission. The grant would be funded at $1.05 billion over four fiscal years—$100 million in 2022-23, $325 million in each of 2023-24 and 2024-25, and $300 million in 2025-26—equal to the total amount proposed at Governor's Budget for both credits. The grant program would focus on research activities into technologies that help California achieve its climate goals. Grant recipients would be required to be headquartered in California. The grant would include a contractual obligation that would require repayment of grant amounts plus some return to the state if a recipient either has an Initial Public Offering or a change in ownership event that results in a greater than 50- percent change in the company's capitalization table. The amount of return to the state if the company has demonstrated success will be reduced if certain contractually specified performance metrics are met. In awarding grants, the CEC shall also consider whether the companies' investments are moving from a state that has enacted anti- LGBTQ+ or reproductive rights laws.

LITHIUM VALLEY DEVELOPMENT

As emphasized in the Governor's Budget, lithium is a critical resource as the state—and the world—move toward a clean energy future.

Building on the proposal described in the Governor's Budget, the May Revision will spur growth of infrastructure to support the development of geothermal and lithium extraction facilities in the Salton Sea region. This infrastructure will support an economic supply chain hub that includes in-region lithium and battery production while providing opportunities for communities in the region to benefit from this economic development.

The May Revision proposes to:

- Accelerate development by streamlining geothermal permitting, including strong environmental protections, in coordination with California Native American tribes.

- Provide $5 million to support the development of geothermal energy and lithium recovery in the Salton Sea region through evaluation, community planning and engagement.
- Incentivize projects that manufacture, process, or recover lithium through a sales and use tax exclusion, making $45 million available over three years for these incentives.
- Provide for local governments and residents to benefit from the development and extraction of lithium by establishing a tax per ton of lithium extraction, placing reporting and fee requirements on lithium extraction activities, and providing funds to contribute to the maintenance, operations, and restoration of Salton Sea, and grants to support disadvantaged communities in the region.
- Create pathways for local residents to benefit from jobs created by the new industries. The May Revision proposes $80 million to expand training at the San Diego State University, Brawley Center in the Imperial Valley. (See Higher Education Chapter)

HEALTH AND HUMAN SERVICES

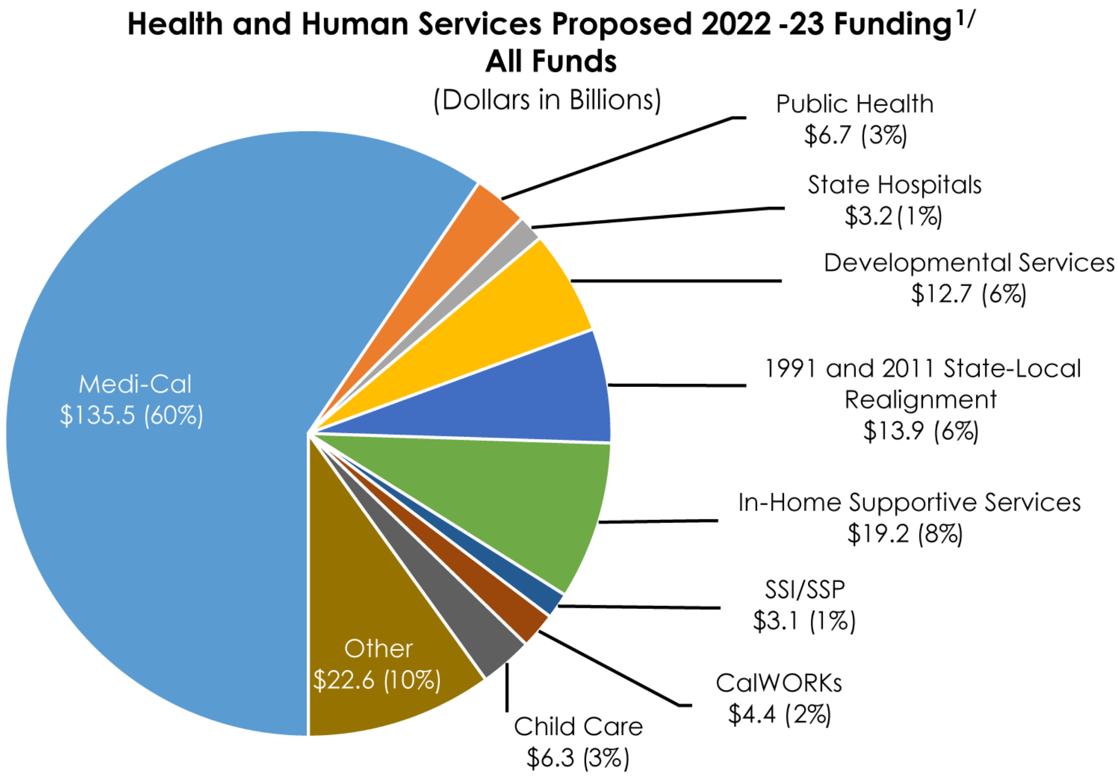
The Health and Human Services Agency (CalHHS) oversees departments and state entities that provide health and social services to the most vulnerable and at-risk Californians while providing public health services to all Californians. The May Revision includes $227.6 billion ($67.4 billion General Fund and $160.2 billion Other Funds) for all health and human services programs in 2022-23.

HEALTH CARE AFFORDABILITY AND EXPANDING AVAILABILITY OF SERVICES FOR ALL CALIFORNIANS

The May Revision continues to build on efforts to improve the affordability and availability of health coverage. These investments include promoting affordable health coverage for lower and middle income Californians, access to reproductive health care, access to low cost insulin, and investments in the electronic health data exchange. These proposals build on the Governor's Budget proposal to expand full-scope Medi-Cal eligibility to all income-eligible Californians regardless of immigration status and will improve care, reduce costs, and benefit millions of Californians.

REPRODUCTIVE HEALTH

To protect the right to safe and accessible reproductive health care services, the May Revision includes $57 million General Fund to maintain and improve availability of safe



[1/] Totals $227.6 billion for support, local assistance, and capital outlay. This figure includes reimbursements of $21 billion and excludes $2.5 million in Proposition 98 funding in the Department of Developmental Services and Department of Social Services budgets and county funds that do not flow through the state budget.

Note: Numbers may not add due to rounding.

Major Health and Human Services Program Caseloads

	2021-22 Revised	2022-23 Estimate	Change
Medi-Cal	14,374,000	14,463,500	89,500
California Children's Services (CCS) [1/]	9,206	12,812	3,606
CalWORKs	306,053	368,633	62,580
CalFresh	2,594,435	2,669,900	75,465
SSI/SSP (support for aged, blind, and disabled)	1,141,109	1,121,398	-19,711
Child Welfare Services [2/]	97,462	95,410	-2,052
Foster Care	51,936	51,612	-324
Adoption Assistance	85,939	85,885	-54
In-Home Supportive Services	583,516	600,627	17,111
State Hospitals [3/]	7,526	8,289	763
Regional Centers	371,388	400,485	29,097
DDS State-Operated Residential and Community Facilities [4/]	322	322	0
Vocational Rehabilitation	110,557	124,810	14,253

[1/] Represents unduplicated quarterly caseload in the CCS Program. Does not include Medi-Cal CCS beneficiaries.

[2/] Represents Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement service areas on a monthly basis. Due to transfers between each service area, cases may be reflected in more than one service area.

[3/] Represents the year-end population at State Hospitals, county Jail-Based Competency Treatment programs, and Kern Admission, Evaluation and Stabilization center.

[4/] Represents the year-end population. Previously listed as "Developmental Centers."

and accessible reproductive health care. These new proposals build on the $68 million included in the Governor's Budget to support access to reproductive health care services.

- **Uncompensated Care Funding for Reproductive Health Services**—$40 million General Fund one-time, available over six years, for the Department of Health Care Access and Information to award grants to reproductive health care providers to offset the cost of providing care to low and moderate income individuals who do not have health care coverage for abortion care services.
- **California Reproductive Justice and Freedom Fund**—$15 million General Fund one-time for the Department of Public Health to award grants to community-based reproductive health, rights, and justice organizations to conduct medically accurate and culturally competent outreach and education on sexual health and reproductive health issues.
- **Comprehensive Reproductive Rights Website**—$1 million General Fund one-time for the Department of Public Health to develop and maintain a website providing accurate and updated information to the public on the right to abortion care under state law, information about reproductive health care providers, and options for coverage for reproductive services including state-funded coverage and programs.
- **Research on the Unmet Needs for Reproductive Health Care Services**—$1 million General Fund one-time for the Department of Public Health to research the unmet needs for access to reproductive health care services.

AFFORDABILITY IN COVERED CALIFORNIA

California has worked to improve affordability of Covered California plans by creating a California premium subsidy program in the 2019 Budget Act. During the federal Public Health Emergency, the federal government provided enhanced federal subsidies under the American Rescue Plan Act (ARPA), which will expire at the end of 2022. If federal action is not taken to extend ARPA premium subsidies for 2023 and beyond, the May Revision proposes $304 million to reinstitute California's premium subsidy program that was in effect in 2020 and 2021. The program included premium subsidies for middle income Californians who did not qualify for subsidies under the Affordable Care Act prior to the enactment of ARPA. The 2021 state subsidy program design would continue providing premium support to lower-income Californians and would be modified to provide additional support to individuals with incomes between 400 and 600 percent of the federal poverty level compared to the 2021 program design.

REDUCING THE COST OF INSULIN

The downstream impacts of the market failure for affordable insulin impacts California and its residents. National data suggests as many as 1 in 4 diabetics cannot afford their insulin, and thus ration or stop taking insulin altogether. Affordable insulin is critical for Black, Brown, and lower income Americans because they are much more likely to have severe diabetes-related complications, such as renal disease and amputations. The May Revision includes $100 million General Fund one-time for the CalRx Biosimilar Insulin Initiative to implement partnerships for increased generic manufacturing of essential medicines under Chapter 207, Statutes of 2020 (SB 852). Through a contractual partnership, the Department of Health Care Access and Information (HCAI) will invest $50 million towards the development of low-cost interchangeable biosimilar insulin products and an additional $50 million towards a California-based insulin manufacturing facility.

CalRx biosimilar insulin products are expected to be a fraction of the current market price of over $300 per vial and would disrupt market forces that keep insulin products unnecessarily high. Many Californians, such as the uninsured, underinsured, and those with high deductible plans would benefit significantly from low-cost insulin that is broadly available.

FACILITATING INCREASED HEALTH AND HUMAN SERVICES INFORMATION EXCHANGE

Chapter 143, Statutes of 2021 (AB 133) established the Health and Human Services Data Exchange Framework (DxF) to begin in July 2022. The DxF is a single data sharing agreement and common set of policies and procedures that will govern the exchange of health and human services information among health care and social services entities, as well as government agencies. A statewide data exchange framework will help all Californians—and the health and human service providers and organizations that care for them—have timely, secure access to the electronic information necessary to address their health and social needs as well as reduce duplicative or unnecessary treatments through more timely information sharing while saving costs system-wide. The May Revision includes a two-year, $50 million grant program to provide technical assistance to small or under-resourced providers, particularly small physician practices, rural hospitals, and community-based organizations, as well as education and technical assistance for entities new to health information exchange.

ADDRESSING THE BEHAVIORAL HEALTH NEEDS OF CALIFORNIA'S MOST VULNERABLE

The state has made substantial investments to address the behavioral health challenges Californians face as a result of the COVID-19 Pandemic, and significant demand on the existing systems of care and workforce. The May Revision builds upon those investments and focuses on leveraging new investments to increase capacity to implement the programs designed to address these critical issues.

ADDRESSING URGENT NEEDS AND EMERGENT ISSUES IN CHILDREN'S BEHAVIORAL HEALTH

The stress, trauma, and social isolation caused by the COVID-19 Pandemic intensified an already existing mental health crisis among children and youth, particularly for youth of color, low-income communities, LGBTQ+ youth, and other vulnerable groups. Equally concerning is the increase in youth suicide rates over the last decade. Mental health is now the leading cause of hospitalization for children under 18 years of age in California. A recent study shows that 40 percent of transgender individuals have attempted suicide, with suicide risk being highest in transgender youth. The suicide rate for Black youth in California doubled between 2014 and 2020. A recent survey of students found that 14 percent of California 7th graders and 15 percent of 9th and 11th graders considered suicide. The May Revision includes $290 million General Fund one-time investments to implement a multi-pronged approach to address the urgent youth mental health crisis. The funding will also establish a center for researching, evaluating, and applying innovative new technologies to improve youth mental health. This will enable 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.

Prevent Youth Suicide:

- **Youth Suicide Prevention Program**—$40 million General Fund to develop and implement a data-driven targeted community-based youth suicide prevention program for youth at increased risk of suicide such as Black, Native American, Hispanic, and foster youth.
- **Crisis Response**—$50 million to provide grants to pilot school and community-based crisis response and supports following a youth suicide or youth suicide attempt and

pilot a new approach of designating youth suicide and youth suicide attempts as a reportable public health event, which would trigger screening and resource connections at the local level for the impacted community.

Support Wellness and Build Resilience of Children, Youth, and Parents:

- **Wellness and Mindfulness Programs**—$85 million over two years for grants for wellness and mindfulness programs in schools and communities and expansion of parent support and training programs.
- **Video Series**—$15 million to develop and distribute a video series for parents to build their knowledge, tools and capacity to support the behavioral health of their children.
- **Career Development**—$25 million to identify and support the early career development of 2,500 highly talented and culturally diverse high school students interested in mental health careers.
- **Assessment and Intervention**—$75 million for next generation digital supports for remote and metaverse based mental health assessment and intervention.

COMMUNITY ASSISTANCE, RECOVERY AND EMPOWERMENT (CARE) COURT

CARE Court is a new court process to deliver community-based behavioral health services and supports to Californians living with untreated schizophrenia spectrum or other psychotic disorders. CARE Court is intended to serve as an upstream intervention for the most severely impaired Californians to prevent avoidable psychiatric hospitalizations, incarceration, and Lanterman-Petris-Short Mental Health Conservatorship.

The May Revision includes the following investments to administer CARE Court:

- **Supporter Program**—$10 million General Fund ongoing to the Department of Aging for the CARE Court Supporter Program to help the participant understand, consider, and communicate decisions by providing the tools to make self-directed choices to the greatest extent possible.
- **Training and Technical Assistance**—$15.2 million General Fund in 2022-23, $1.1 million General Fund annually between 2023-24 and 2026-27, and $1.3 million General Fund

annually ongoing for the Department of Health Care Services to provide training and technical assistance to counties, data collection, and evaluation.

- **Judicial Branch**—$39.5 million General Fund in 2022-23 and $37.7 million ongoing for the Judicial Branch to conduct CARE Court hearings and provide resources for self-help centers.

The Administration continues to work with counties to estimate costs associated with this new court process.

OPIOID RESPONSE

Building on the Governor's Budget opioid response investments, the May Revision includes an additional one-time $41.8 million Opioid Settlements Fund in 2022-23 resulting from additional projected settlement proceeds. The May Revision allocates the additional funding as follows:

- **Workforce Training**—$29.1 million for substance use disorder provider workforce training at the Department of Health Care Services, for a total of $51.1 million for this program.
- **Naloxone Distribution**—$10 million for the naloxone distribution project targeting unhoused populations, for a total of $15 million for this program.
- **Public Awareness Campaign**—$2.7 million for a public awareness campaign targeted towards youth opioid education and awareness and fentanyl risk education at the California Department of Public Health, for a total of $40.8 million for this program.

SUPPORT FOR AGING AND COMMUNITY LIVING

To further the Administration's goals of advancing inclusive, equitable communities for individuals of all ages and abilities and their families, the May Revision includes $36.3 million General Fund in 2022-23 and ongoing funding to continue the implementation of the Master Plan for Aging.

The May Revision proposes investments in the following programs to further support home and community living:

- **Community Living Fund**—$10 million one-time General Fund available for three years for the Community Living Fund, administered by the Department of Rehabilitation, which will assist non-Medi-Cal eligible older adults and persons with disabilities, including older adults, in transitioning from nursing homes to independent living.
- **Home and Community-Based Services (HCBS) Infrastructure Planning and Development**—$4 million one-time General Fund to develop a statewide roadmap for the Department of Aging, in partnership with the Department of Health Care Services, and to support the development of home and community-based services for individuals regardless of income in underserved areas.
- **Caregiver Resource Centers**—The May Revision transfers $14.9 million ongoing General Fund and oversight of California's Caregiver Resource Center program from the Department of Health Care Services to the Department of Aging and includes an additional $545,000 ongoing General Fund for statewide training and technical assistance. California's 11 Caregiver Resource Centers provide critical services to family caregivers including counseling, training, care planning, and respite.
- **Long-Term Care Ombudsman Outreach Campaign**—$3.5 million one-time General Fund to support a Long-Term Care Ombudsman outreach campaign to raise awareness of the resources available to residents and families in skilled nursing, assisted living, and other residential facilities.
- **Aging and Disability Institute of Learning and Innovation**—$682,000 ongoing General Fund to establish the Aging and Disability Institute of Learning and Innovation (Institute), which will develop a comprehensive adult learning management system to support local network leaders, home and community care providers, volunteers, and the Long Term Care Ombudsman. The Institute will create a platform to develop content and improve training to further quality, efficiency, and access to services for older adults.
- **Emergency Preparedness and Response**—$400,000 ongoing General Fund to develop strategies, tools, and resources to help older adults, individuals with disabilities, family caregivers, and local partners prepare for and respond to state emergencies and natural disasters.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health care program that provides comprehensive health care services at no or low cost for low-income individuals. The federal government mandates that a range of basic services be included in the program and the state provides additional optional benefits. The Department also oversees county-operated community mental health and substance use disorder programs, the California Children's Services and the Primary and Rural Health Programs.

The Medi-Cal budget is $121.9 billion ($25.1 billion General Fund) in 2021-22 and $135.5 billion ($36.6 billion General Fund) in 2022-23. The May Revision assumes that caseload will increase by approximately 6.6 percent from 2020-21 to 2021-22 and increase by 0.6 percent from 2021-22 to 2022-23. Medi-Cal is projected to cover approximately 14.5 million Californians in 2022-23, over one-third of the state's population.

Unwinding the COVID-19 Public Health Emergency Continuous Coverage Requirement

The federal COVID-19 Public Health Emergency (PHE) is currently set to expire on July 15, 2022, and the U.S. Department of Health and Human Services has committed to providing at least a 60-day notice prior to the official end date. To prepare for the end of the PHE, the Administration has developed the COVID-19 PHE Unwinding Operational Plan to help inform and prepare Medi-Cal beneficiaries, providers, managed care plans, counties, and other stakeholders of the upcoming changes. The Unwinding Operational Plan will outline continuation, modification, or conclusion of over 100 programmatic flexibilities in eligibility and enrollment, telehealth, benefit and reimbursement, HCBS services, provider enrollment and state fair hearings. The Administration proposes to continue those flexibilities that have shown to provide improvements to the delivery of health care services for beneficiaries. The May Revision proposes $176.5 million ($71.2 million General Fund) to permanently extend four flexibilities: (1) separate payments to Federally Qualified Health Centers for COVID-19 vaccinations; (2) presumptive eligibility for older adults and individuals with disabilities; (3) reimbursement rate at 100-percent of Medicare for oxygen and respiratory durable medical equipment; and (4) maintain 10 percent rates for Intermediate Care Facilities for the Developmentally Disabled. Many of the proposed changes have been developed in collaboration with stakeholders, and some were already included in the Governor's Budget.

Additionally, DHCS is preparing to resume regular Medi-Cal eligibility operations, including annual redeterminations of beneficiary eligibility. Under the continuous coverage requirement in the federal Families First Coronavirus Response Act, the state is required to maintain enrollment of nearly all Medi-Cal enrollees through the end of the month in which the PHE ends. When the continuous coverage requirement expires, California will have a total of 14 months to initiate and complete redeterminations for nearly all of California's Medi-Cal beneficiaries. This significant and complex undertaking will require the partnership of counties, Medi-Cal managed care plans, community-based organizations (CBOs), and other state and local partners. The May Revision continues to include $146 million ($73 million General Fund) over two fiscal years for additional county workload costs to support their work performing Medi-Cal eligibility determinations

During this process, the Administration will prioritize a seamless process and maximizing continuity of coverage for Medi-Cal beneficiaries. Accordingly, the Administration has prepared for the resumption of redeterminations through the following proposals:

- **Health Enrollment Navigators Project**—The May Revision includes $60 million ($30 million General Fund), available over four years, to continue the Health Enrollment Navigators Project. Health enrollment navigators help eligible beneficiaries retain Medi-Cal coverage by assisting with annual renewals, reporting updated contact information, and engaging in outreach regarding application assistance and enrollment. Health enrollment navigators will also provide more targeted outreach and enrollment to support individuals newly eligible for Medi-Cal through coverage expansions, such as the expansion for all income-eligible Californians regardless of immigration status.
- **Coverage Ambassadors**—DHCS is enlisting counties, CBOs, state and local government partners, Medi-Cal managed care plans, providers, and others to be Coverage Ambassadors to amplify messaging on various platforms related to the continuity of coverage for beneficiaries in preparation for the end of the PHE.
- **Media and Outreach Campaign**—An April 1 Budget proposal included $25 million ($12.5 million General Fund) for a media and outreach campaign to encourage beneficiaries to update their contact information with their counties, and to educate beneficiaries of the implications of their eligibility once the COVID-19 PHE ends.
- **Transitions to Covered California**—DHCS and Covered California are actively working to implement Chapter 845, Statutes of 2019 (SB 260) to support a seamless transition of eligible individuals from Medi-Cal coverage to a Covered California health plan.

Overall, these efforts, in collaboration with key partners, aim to prioritize individuals who will still be eligible for Medi-Cal or Covered California coverage to remain in coverage once regular eligibility redeterminations resume.

REFORMING SKILLED NURSING FACILITY FINANCING TO ADVANCE QUALITY, VALUE, AND EQUITY

Currently, the state provides annual cost-based increases and quality incentive payments to skilled nursing facilities, funded partly by a Quality Assurance Fee equivalent to 6-percent of facility revenues. The resulting revenue draws down additional federal funding to support nursing facility payments. The existing framework, authorized initially in 2004 and last extended in 2020 sunsets on December 31, 2022. The May Revision proposes to reform the funding framework to better incentivize value, quality, and workforce. Building on the average 4-percent annual increase proposed in the Governor's Budget, the May Revision includes $280 million ($132.7 million General Fund) for the new Workforce and Quality Incentive Program for payment to facilities that meet quality benchmarks or make substantial improvements.

A long-term funding framework that assures the long-term financial viability of these vital Medi-Cal providers is predicated on enabling nursing facilities to invest in quality patient care, improving workforce retention, and empowering the voices of essential workers responsible for the health and safety of nursing home residents.

HOSPITAL AND NURSING FACILITY WORKER RETENTION PAYMENTS

The May Revision proposes $933 million for one-time payments to approximately 600,000 California hospital and nursing facility workers who have been at the front-lines delivering care to the most acute patients during the COVID-19 Pandemic. The ongoing response to COVID-19 has significantly impacted California's workforce working in hospitals and nursing facilities. Retaining essential workers in these settings is a priority of the Administration and these payments are designed to help retain this critical workforce. To recognize the tireless work of these workers and to support the retention of workers in an environment of high vacancies and turnover, the state will provide a baseline payment and will increase the payment up to $1,500 if employers commit to fully matching the additional amount.

EQUITY AND PRACTICE TRANSFORMATION PAYMENTS

Building on the $400 million ($200 million General Fund) proposed at the Governor's Budget, the May Revision proposes an additional $300 million ($150 million General Fund), available over five years, for Equity and Practice transformation payments. These payments will focus on advancing equity, addressing COVID-19 driven health disparities, and improving quality measures in children's preventive, maternity, and behavioral health care. The May Revision proposes $100 million ($50 million General Fund) to further support early childhood-focused efforts, including grants focused on encouraging health care provider integration with other early-childhood focused programs. Additionally, the May Revision proposes $200 million ($100 million General Fund) for grants and technical assistance to allow small physician practices to upgrade their clinical infrastructure, such as electronic health record systems, data collection and reporting capabilities, implementation of care management systems, and other activities that will allow the adoption of value-based and other payment models that improve health care quality while reducing costs.

Significant Adjustments:

- **2021-22 Budget**—The Budget reflects lower Medi-Cal expenditures of approximately $1.8 billion General Fund in 2021-22 compared to the Governor's Budget. The majority of the current year decrease results from lower base program cost and COVID-19 related caseload costs, the shift of state-only claiming adjustment payments, and the resolution of deferred federal claims.
- **Year-Over-Year**—The May Revision projects Medi-Cal expenditures of $36.6 billion General Fund in 2022-23, an increase of $11.5 billion General Fund compared with the revised 2021-22 expenditures. A majority of the year-over-year increase was estimated at Governor's Budget, and the major drivers of the additional $3.5 billion increase is attributable to projected state-only claiming adjustment payments, base program cost increases, increase in projected federal fund deferral payments, and increased COVID-19 caseload in 2022-23.
- **Medi-Cal Caseload Impact**—The May Revision projects an average monthly caseload of 14.4 million beneficiaries in 2021-22 and 14.5 million in 2022-23, and includes $8.9 billion total funds ($2.5 billion General Fund) in 2021-22 and $9.9 billion total funds ($2.8 billion General Fund) in 2022-23 for caseload attributable to the COVID-19 PHE. Due to the recent renewal of the federal COVID-19 PHE through July 15, 2022, caseload is projected to continue growing through October 2022

rather than June as assumed at Governor's Budget, peaking at 14.9 million beneficiaries in October 2022.

- **CalHOPE Extension**—The May Revision includes $10.9 million General Fund in 2021-22 and proposes $80 million General Fund in 2022-23 and $40 million General Fund in 2023-24 to continue providing crisis counseling after Federal Emergency Management Agency grant funding ends through December 2023. CalHOPE provides safe, secure, and culturally sensitive emotional support for Californians. The CalHOPE phone line and CalHOPE Connect partners with 30 community-based organizations and over 400 peer crisis counselors.
- **Los Angeles County Misdemeanor Incompetent to Stand Trial Services and Supports**—The May Revision includes one-time $100 million General Fund for Los Angeles County to support access to community-based treatment and housing for individuals found incompetent to stand trial for misdemeanor charges. This replaces lease revenue bond authority that was competitively awarded to Los Angeles County through the Board of State and Community Corrections.
- **Doula Benefit**—The May Revision proposes an increase to the maximum reimbursement rate per birth from an average of $450 to $1,094 per birth to better align with rates in other Medicaid programs as well as an implementation shift from July 2022 to January 2023. The estimated annual cost is $10.8 million ($4.2 million General Fund).
- **Village San Francisco and Yurok Tribe of California Regional Wellness Center**—The May Revision includes one-time $15 million General Fund to support the construction of a Regional Wellness Center for substance abuse and behavioral health services for the Yurok Tribe of California. The May Revision also proposes one-time $15 million General Fund to support the construction of the Village San Francisco, Friendship House facility that will offer health care, behavioral health, and social support services.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Department’s major programs include CalWORKs, CalFresh, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare Services, Adult Protective Services, Community Care Licensing, Disability Determination

Services, and Child Care and Nutrition. The May Revision includes $42.4 billion ($16.5 billion General Fund) for DSS programs in 2022-23.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The CalWORKs program, California's version of the federal Temporary Assistance for Needy Families (TANF) program, provides temporary cash assistance to low-income families with children to meet basic needs. It also provides welfare-to-work services so that families may become self-sufficient. Eligibility requirements and benefit levels are established by the state. Counties have flexibility in program design, services, and funding to meet local needs. Total TANF expenditures are $8.5 billion (state, local, and federal funds) in 2022-23. The amount budgeted includes $6.5 billion for CalWORKs program expenditures and $2 billion in other programs. Other programs include expenditures for Child Welfare Services, Foster Care, Department of Developmental Services programs, the Statewide Automated Welfare System, California Community Colleges Child Care and Education Services, Cal Grants, and the Department of Child Support Services. The average monthly CalWORKs caseload is estimated to be 367,000 families in 2022-23.

Significant Adjustments:

- **CalWORKs Grant Increase**—The May Revision reflects an 11-percent increase to CalWORKs Maximum Aid Payment levels, which is estimated to cost $296.2 million in 2022-23. These increased grant costs are funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund.

IN-HOME SUPPORTIVE SERVICES

The IHSS program provides domestic and related services such as housework, meal preparation, and personal care services to eligible low-income individuals with disabilities, including children, and adults aged 65 and older. These services are provided to assist individuals to remain safely in their homes and prevent more costly out-of-home care, such as nursing homes. The May Revision includes $19 billion ($6.5 billion General Fund) for the IHSS program in 2022-23. Average monthly caseload in this program is estimated to be 601,000 recipients in 2022-23.

Significant Adjustments:

IHSS Permanent Back-up Provider System—$34.4 million ($15.4 million General Fund) ongoing to establish a permanent back-up provider system for IHSS recipients to avoid disruptions to caregiving due to an immediate need or emergency. A portion of the funding is for transition activities, and will allow counties to maintain existing emergency back-up provider services until October 2022 when the permanent system is implemented.

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

The federal SSI program provides a monthly cash benefit to individuals with disabilities, including children, and adults aged 65 or older who meet the program's income and resource requirements. In California, the SSI payment is augmented with an SSP grant. These cash grants help recipients meet their basic needs and living expenses. The federal Social Security Administration administers the SSI/SSP program, making eligibility determinations, computing grants, and issuing combined monthly checks to recipients. The state-only Cash Assistance Program for Immigrants (CAPI) provides monthly cash benefits to aged, blind, and disabled individuals who are ineligible for SSI/SSP due solely to their immigration status. The May Revision includes $3.1 billion General Fund in 2022-23 for the SSI/SSP program. The average monthly caseload in this program is estimated to be 1.1 million recipients in 2022-23. A 5.9-percent federal SSI cost-of-living adjustment and 24-percent SSP increase took effect on January 1, 2022, bringing the maximum SSI/SSP grant levels to $1,040 per month for individuals and $1,766 per month for couples. CAPI benefits are equivalent to SSI/SSP benefits.

CHILDREN'S PROGRAMS

Child Welfare Services include family support and maltreatment prevention services, child protective services, foster care services, and adoptions. California's child welfare system provides a continuum of services to children who are either at risk of or have suffered abuse and neglect. Program success is measured in terms of improving the safety, permanence, and well-being of children and families served. The May Revision includes $988.8 million General Fund in 2022-23 for services to children and families in these programs. When federal and 1991 and 2011 Realignment funds are included, total funding for children's programs is in excess of $9.2 billion in 2022-23.

Significant Adjustments:

- **Family Finding and Engagement Grant**—$150 million one-time General Fund available over five years for a county-optional program to supplement foster caregiver recruitment and retention. The resources will support statewide training and technical assistance on evidence-based best practices for intensive family finding and engagement services. Each participating county must provide matching funding and build a network of support for youth such that permanent connections and homes are established.
- **Caregiver Approvals**—$50 million General Fund annually beginning in 2022-23 to assist counties in reducing approval timelines for foster caregiver applications. The resources will allow counties to hire additional staff to reduce pending and probationary resource family applications.

IMMIGRATION SERVICES

DSS funds qualified organizations and administers programs that provide critical services to immigrants in California.

Significant Adjustments:

- **Rapid Response Efforts**—$175 million one-time General Fund for Rapid Response efforts to provide additional support for migrant arrivals at the Southern California border and funding for other emergent issues.
- **California Immigrant Justice Fellowship**—$2.5 million General Fund one-time in both 2022-23 and 2023-24 for the California Immigrant Justice Fellowship.

CHILD CARE

To transform the state's child care system, the Administration continues to implement key recommendations from the Master Plan for Early Learning and Care. The May Revision continues to make comprehensive improvements in the state's early learning and care system by building upon the historic investments included in the 2021 Budget Act. Child care and nutrition programs were transferred from the California Department of Education (CDE) to DSS, effective July 1, 2021. Federal funding continues to be instrumental in providing for the recovery and stability of families, and for the workforce and programs serving them.

The May Revision includes $6.3 billion ($2.7 billion General Fund) for child care programs, including continued support for the historic multi-year commitment to rate increases and supplemental funding to providers in the first collective bargaining contract ratified last year. It also continues commitments to expand child care access by 200,000 slots by 2025-26.

The May Revision includes $270 million for 36,000 additional subsidized slots compared to 2021-22. When combined with the slots funded in the 2021 Budget Act, this brings the total to over 145,000. The May Revision also includes $413 million to support a full year of rate increases while the state continues to work with partners and stakeholders toward a single reimbursement rate structure that addresses quality standards for equity and accessibility, while supporting positive learning and developmental outcomes for children. The Administration and CCPU continue to work collaboratively through Joint Labor Management Committees to reach agreement regarding the establishment of healthcare and retirement benefits trusts for CCPU-represented providers.

Significant Adjustments:

- **Extension of Family Fee Waivers**—The May Revision proposes extending family fee waivers for state-subsidized preschool and childcare and development services from July 1, 2022 through June 30, 2023. The May Revision includes $136 million federal funds for DSS and $21.3 million ($10.8 million Proposition 98 General Fund, $10.5 million non-Proposition 98 General Fund) for CDE for these waivers.
- **Hold Harmless: Reimbursement for Authorized Hours of Care**—The May Revision proposes to reimburse voucher-based child care providers and preschool providers for authorized hours of care, who otherwise would be reimbursed for actual hours of care, from July 1, 2022 through June 30, 2023. The May Revision includes $114 million ($6 million General Fund, $108 million federal funds) for DSS.
- **Child Care and Development Infrastructure Grant Program Augmentation**—The May Revision includes $200.5 million ($100 million General Fund, $100.5 million federal funds) in 2022-23 for minor renovation and repair focused on child care deserts and low-income communities.
- **Alternative Payment Program (APP) Capacity Grant**—The May Revision includes $20 million General Fund to assist APPs in developing capacity to serve additional slot commitments.

OTHER SIGNIFICANT ADJUSTMENTS:

- **Minor Victims of Commercial Sexual Exploitation**—$25 million one-time General Fund for prevention, intervention, and services for youth who have been the victims of sex trafficking.
- **Assistance for Promise Neighborhoods**—$12 million one-time General Fund available over three years to support Promise Neighborhoods in Chula Vista, Corning, Hayward, and Mission.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) provides individuals with intellectual and developmental disabilities a variety of services, as an entitlement, that allow them to live and work independently or in supported environments. The May Revision builds on historic DDS investments made in the 2021 Budget Act—including an estimated $1.2 billion General Fund by 2025-26 to fully implement service provider rate reform, and prioritizes system stability, workforce development, service access and equity, and outcome-based initiatives that are grounded in person-centered principles. The May Revision includes $12.7 billion ($7.6 billion General Fund) and estimates that approximately 400,485 individuals will receive services by the end of 2022-23.

PROMOTING WORKFORCE STABILITY

The May Revision includes $185.3 million General Fund one-time in 2022-23 and $1.1 million ($881,000 General Fund) and seven positions ongoing to address challenges in recruiting and retaining regional center service coordinators and direct support professionals (DSPs). This proposal complements 2021 Budget Act investments providing pay differentials to DSPs who can communicate with consumers in languages or mediums other than English and establishing a DSP training program with tiered certification levels that result in corresponding pay differentials. Specifically, the May Revision includes the following multi-prong strategy:

- **Training Stipends**—$127.8 million to provide up to two $500 training stipends (with an additional $150 for taxes and administration) for DSPs.
- **Internships for Workers who Provide Direct Services**—$22.5 million to implement a three-month training and internship program intended to establish an entry point

into DSP career paths. This proposal also includes up to two $500 retention stipends for workers.

- **Tuition Reimbursement Program**—$30 million to establish a tuition reimbursement program for regional center service coordinators pursuing advanced degrees in health and human services-related fields.
- **Pilot for Remote Supports**—$5 million to pilot a program aimed at developing remote supports using technology systems to increase consumer independence and, when chosen and safe, reduce in-person and around-the-clock services.

EARLY START ELIGIBILITY: DEVELOPMENTAL DELAY THRESHOLDS AND FETAL ALCOHOL SYNDROME

The May Revision includes $6.5 million General Fund in 2022-23, increasing to $29.5 million General Fund in 2024-25, to support adjustments in identifying children with qualifying signs of developmental delays. This proposal includes statutory changes revising the Early Start qualification threshold from a 33 percent delay to a 25 percent delay in one of the specified assessment areas; separating communication delay assessments into expressive and receptive categories; and highlighting Fetal Alcohol Syndrome as a risk factor for intellectual and/or developmental delays. These changes are intended to engage families sooner with early intervention services. Following Early Start, and depending on subsequent assessments, some children may continue receiving services through Provisional Eligibility or Lanterman Act Services.

Significant Adjustments:

- **Service Access and Equity Grant Program**—$11 million General Fund one-time in 2022-23 to increase the resources currently available for DDS to award to regional centers and community-based organizations through its Service Access and Equity Grant Program, which focuses on supporting strategies to reduce disparities and increase equity in regional center services.
- **Financial Management Services for Self-Determination Program Participants**—$7.2 million ongoing ($4.4 million General Fund) to support participants in the Self-Determination Program by amending statute to move the cost of Financial Management Services out of their individual budgets.

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health (CDPH) is charged with protecting and promoting the health and well-being of the people of California. The Budget includes $6.7 billion ($1.1 billion General Fund) in 2022-23 for the Department. During the COVID-19 Pandemic, federal support—including Federal Emergency Management Agency public assistance, Coronavirus Relief Funds, and various federal grants—has allowed the state to increase spending on public health response efforts by billions of dollars. In addition, the recently enacted American Rescue Plan Act of 2021 provided over $2 billion to state and local public health efforts.

As the COVID-19 Pandemic evolves from an acute crisis to an ongoing public health concern, the state's strategy for responding to COVID-19 will evolve. The May Revision reflects the changing nature of COVID-19, including the end of some policies that the state and federal government enacted in response to the pandemic, as well as the implementation of the state's SMARTER Plan approach to COVID-19 going forward.

THE SMARTER PLAN AND THE NEXT PHASE OF COVID-19

California's SMARTER Plan reflects upon what the state has done and how the state has learned to respond to COVID-19 over the last two years. The Administration will use the lessons of the last two years to approach mitigation and adaptation measures through effective and timely strategies. Throughout the pandemic the state has leaned on science and relied on tools and strategies that create protection. This includes vaccines, masks, tests, isolation and quarantine, improving ventilation, and community outreach within the hardest-hit communities. Moving forward, based on the evolving conditions of the virus, the state will be prepared to use these different strategies in more precise and targeted ways, integrating new innovations and information to protect the state.

The main points of the SMARTER plan are as follows:

- **Shots**—Vaccines are the most powerful weapon against hospitalization and serious illness.
- **Masks**—Properly worn masks with good filtration help slow the spread of COVID-19 or other respiratory viruses.

- **Awareness**—The state will continue to stay aware of how COVID-19 is spreading and of evolving variants. The state will communicate clearly how people should protect themselves and coordinate state and local government response.
- **Readiness**—COVID-19 isn't going away and the state needs to be ready with the tools, resources, and supplies needed to quickly respond and keep public health and the health care system well prepared.
- **Testing**—Getting the right type of tests—PCR or antigen—to where they are needed most. Testing will help California minimize the spread of COVID-19.
- **Education**—California will continue to work to keep schools open and children safely in classrooms for in-person instruction.
- **Rx**—Evolving and improving treatments will become increasingly available and critical as a tool to save lives.

In order to implement the SMARTER Plan, the May Revision includes:

- **Staffing**—$100 million for medical surge staffing in 2022-23 to allow CDPH to support upfront staffing costs for facilities needing additional staff during COVID-19 surges, until facilities can be invoiced and reimburse the state for such costs. Effective April 1, 2022, facilities are required to reimburse the state for deployed staff. Additionally, the May Revision includes $40 million in resources for vaccine staff in 2022-23 to prepare for the release of vaccines for children under five, continue second boosters for eligible populations, and increase staffing capacity at pediatric sites.
- **Testing**—$530 million in 2022-23 to purchase additional antigen test kits, support school testing with end-to-end vendors and laboratory network costs, and continue rapid testing and treatment sites.
- **Vaccines**—$93 million in 2022-23 for expanded programming prioritizing vaccination of children under 5, additional boosters for eligible populations over 50 or otherwise at higher risk, and mobile vaccination sites through the end of budget year. In addition, $230 million is for the Office of Community Partnerships and Strategic Communications to continue supporting COVID-19 vaccine-related public education and outreach campaigns previously implemented by CDPH. Of this amount, $130 million was included for CDPH in the Governor's Budget and will be transferred to the Office at the May Revision.

- **Enhanced Surveillance**—$16 million in 2022-23 to continue activities to that allow tracking and monitoring of transmission of COVID-19 through wastewater surveillance, epidemiologic data analysis, modeling of future data trends, and research on the long-term impacts of COVID-19.
- **Test to Treat Therapeutics**—$158 million in 2022-23 to implement a Test-to-Treat Program for therapeutic treatment targeted at uninsured and underinsured populations.
- **Border Operations**—$468 million for border operations that will continue the state's COVID-19 response and humanitarian assistance at the southern border including in anticipation of increased arrivals and the need for additional support services. California's national model of care and community partnership provides COVID-19 testing and vaccine services, support services, and temporary shelter for migrants so they may safely continue with their immigration proceedings after their release from short-term federal immigration custody. The California model prioritizes the state's border communities and the wellbeing of migrants.
- **Operations Support**—$183 million for the COVID-19 call center, contractor support and contract costs, and the Public Health Reserve Corps.
- **Emergency Contingency Funds**—$250 million to support unanticipated COVID-19 emergency response needs.

Other Significant Adjustments:

- **Sickle Cell**—$5 million for the Networking California Sickle Cell Care Initiative.
- **LGBTQ+ Youth**—$5 million for grants to counties and experienced community-based organizations to partner to improve capacity, training, and culturally responsive care to the unique needs and protections of LGBTQ+ youth.

DEPARTMENT OF STATE HOSPITALS

The Department of State Hospitals (DSH) administers the state mental health hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed patients.

The May Revision includes $3.2 billion ($3 billion General Fund) in 2022-23 for support of the Department. The patient population is expected to reach 8,289 by the end of

2022-23, including patients receiving competency treatment in jail-based settings and community-based settings.

FELONY INCOMPETENT TO STAND TRIAL WAITLIST SOLUTIONS

The Department of State Hospitals continues to experience a significant growth in trial court referrals of individuals found incompetent to stand trial (IST) on felony charges. Additionally, the winter COVID-19 Omicron surge further impacted DSH's operations resulting in further growth in the waitlist of individuals deemed felony IST pending placement in a treatment program. As of the end of April 2022 there were 1,915 individuals deemed IST awaiting treatment. The Governor's Budget proposed funding for IST solutions, informed by the Incompetent to Stand Trial Solutions Workgroup convened last fall, to address the waitlist and to break the cycle of criminalization for individuals deemed felony IST. Based on feedback from stakeholder engagement and updated caseload projections, the May Revision includes $535.5 million General Fund in 2022-23, increasing to $638 million General Fund per year in 2025-26 and ongoing, to support the following changes to the proposed solutions:

- **Early Stabilization and Community Care Coordination**—To provide immediate solutions to support access to treatment for the over 1,900 individuals currently found IST on felony charges and waiting in jail, the May Revision includes additional funding for county sheriffs for custody supports, enabling stabilization teams increased access to ISTs.
- **Expand Diversion and Community-Based Restoration Capacity**—To increase the community infrastructure required to support the felony IST population, the May Revision includes additional funding to support county overhead to support the administration of the community-based restoration and diversion programs. The May Revision also includes increased investments into community housing that will be required to serve DSH identified populations for a minimum of 30 years.
- **Improve IST Discharge Planning and Coordination**—To reduce ISTs cycling through the criminal justice system by increasing coordination with county behavioral health departments to provide treatment records when ISTs are returned from DSH to the court, enabling counties to plan for continuity of treatment when the IST is released from jail.
- **Improve the Quality of Alienist Evaluations**—To improve the quality of IST determinations and decisions regarding the need for medications.

OTHER HEALTH AND HUMAN SERVICES ADJUSTMENTS

- **California Arrearage Payment Program**—Established in the 2021 Budget Act, the California Arrearage Payment Program (CAPP), administered by the Department of Community Services and Development, directed $1 billion in federal American Rescue Plan Act funding towards financial assistance to reduce or eliminate past due energy bill balances accrued by customers economically impacted by the COVID-19 Pandemic. The May Revision includes one-time funding of $1.2 billion to help address additional residential energy arrearages accumulated by California households impacted by the COVID-19 Pandemic. For more information see the Energy Section in the Climate Change Chapter.
- **Low-Income Household Water Assistance Program**—The Low Income Household Water Assistance Program (LIHWAP), also administered by the Department of Community Services and Development, provides financial assistance to low-income Californians to help manage their residential water utility costs. The May Revision includes one-time funding of $200 million for residential wastewater and water arrearages.

1991 AND 2011 REALIGNMENT

Realignment shifted administrative and fiscal responsibility to counties for a variety of programs, along with a dedicated source of funding. 1991 Realignment provides funding for social and health programs and 2011 Realignment provides funding for local public safety programs. Additionally, both 1991 and 2011 Realignment provide funding for mental health and child welfare programs. The programs for 1991 and 2011 Realignment are funded through two sources: state sales tax and vehicle license fees.

These fund sources are projected to increase by 11.5 percent from 2020-21 to 2021-22 and increase by 5 percent from 2021-22 to 2022-23.

1991 Realignment Estimate at 2022 May Revision
($s in Thousands)

Amount	CalWORKs MOE	Health	Social Services	Mental Health	Family Support	Child Poverty	Totals
2020-21 State Fiscal Year (Actuals)							
Base Funding							
Sales Tax Account	$742,048	$2,860	$2,296,188	$-	$440,789	$102,919	$3,584,804
Vehicle License Fee Account	363,383	1,017,203	216,223	-	185,798	290,884	2,073,493
Subtotal Base	**$1,105,432**	**$1,020,063**	**$2,512,411**	**$-**	**$626,588**	**$393,803**	**$5,658,297**
Growth Funding							
Sales Tax Growth Account:	$10,839	$62,193	$113,784	$115,314	$-	$148,661	$450,791
Caseload Subaccount	-	-	(113,784)	-	-	-	(113,784)
General Growth Subaccount	(10,839)	(62,193)	-	(115,314)	-	(148,661)	(337,007)
Vehicle License Fee Growth Account	4,280	53,748	-	104,743	-	128,475	291,246
Subtotal Growth	**$15,119**	**$115,941**	**$113,784**	**$220,057**	**$-**	**$277,136**	**$742,037**
Total Realignment 2020-21[1/]	**$1,120,551**	**$1,136,005**	**$2,626,195**	**$220,057**	**$626,588**	**$670,939**	**$6,400,334**
2021-22 State Fiscal Year (Projected)							
Base Funding							
Sales Tax Account	$752,888	$84,167	$2,409,972	$115,314	$421,675	$251,580	$4,035,595
Vehicle License Fee Account	367,663	1,044,791	210,941	93,203	181,259	409,116	2,306,974
Subtotal Base	**$1,120,551**	**$1,128,959**	**$2,620,913**	**$208,517**	**$602,934**	**$660,695**	**$6,342,569**
Growth Funding							
Sales Tax Growth Account:	$-	$104,923	$70,065	$212,827	$-	$250,799	$638,614
Caseload Subaccount	-	-	(70,065)	-	-	-	(70,065)
General Growth Subaccount	-	(104,923)	-	(212,827)	-	(250,799)	(568,549)
Vehicle License Fee Growth Account	--	--	-	--	-	--	--
Subtotal Growth	**$-**	**$104,923**	**$70,065**	**$212,827**	**$-**	**$250,799**	**$638,614**
Total Realignment 2021-22[1/]	**$1,120,551**	**$1,233,882**	**$2,690,978**	**$421,344**	**$602,934**	**$911,495**	**$6,981,183**
Change From 2022 Governor's Budget	$-	*$50,474*	*($56,956)*	*$118,628*	$-	*$140,867*	*$253,014*
2022-23 State Fiscal Year (Projected)							
Base Funding							
Sales Tax Account	$752,888	$140,149	$2,480,037	$328,141	$470,616	$502,379	$4,674,209
Vehicle License Fee Account	367,663	1,044,791	210,941	93,203	181,259	409,116	2,306,974
Subtotal Base	**$1,120,551**	**$1,184,940**	**$2,690,978**	**$421,344**	**$651,875**	**$911,495**	**$6,981,183**
Growth Funding							
Sales Tax Growth Account:	$-	$31,217	$77,071	$63,320	$-	$74,618	$246,226
Caseload Subaccount	-	-	(77,071)	-	-	-	(77,071)
General Growth Subaccount	-	(31,217)	-	(63,320)	-	(74,618)	(169,155)
Vehicle License Fee Growth Account	-	16,886	-	34,252	-	40,364	91,502
Subtotal Growth	**$-**	**$48,103**	**$77,071**	**$97,572**	**$-**	**$114,981**	**$337,728**
Total Realignment 2022-23[1/]	**$1,120,551**	**$1,233,043**	**$2,768,049**	**$518,916**	**$651,875**	**$1,026,476**	**$7,318,911**
Change From 2022 Governor's Budget	$-	*$12,514*	*($55,414)*	*$155,715*	*$56,244*	*$184,572*	*$353,630*

[1/] Excludes $14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.

2011 Realignment Estimate at 2022 May Revision

($ millions)

	2020-21	2020-21 Growth	2021-22	2021-22 Growth	2022-23	2022-23 Growth
Law Enforcement Services	**$2,633.8**		**$2,936.5**		**$3,346.5**	
Trial Court Security Subaccount	567.0	30.3	597.3	41.0	638.3	18.0
Enhancing Law Enforcement Activities Subaccount[1]	489.9	242.4	489.9	262.7	489.9	297.5
Community Corrections Subaccount	1,366.0	227.0	1,593.0	307.5	1,900.5	135.0
District Attorney and Public Defender Subaccount	41.6	15.1	56.7	20.5	77.2	9.0
Juvenile Justice Subaccount	169.4	30.3	199.6	41.0	240.6	18.0
Youthful Offender Block Grant Special Account	*(160.0)*	-	*(188.6)*	-	*(227.4)*	-
Juvenile Reentry Grant Special Account	*(9.3)*	-	*(11.0)*	-	*(13.3)*	-
Growth, Law Enforcement Services		**545.0**		**672.7**		**477.5**
Mental Health[2]	**1,120.6**	28.1	**1,120.6**	38.1	**1,120.6**	16.7
Support Services	**3,885.6**		**4,419.5**		**5,142.9**	
Protective Services Subaccount	2,397.2	252.9	2,650.1	342.7	2,992.8	150.4
Behavioral Health Subaccount	1,488.4	281.0	1,769.4	380.7	2,150.1	167.2
Women and Children's Residential Treatment Services	*(5.1)*		*(5.1)*		*(5.1)*	
Growth, Support Services		**562.1**		**761.5**		**334.3**
Account Total and Growth	**$8,747.0**		**$9,910.7**		**$10,421.8**	
Revenue						
1.0625% Sales Tax	8,002.7		9,145.2		9,618.3	
General Fund Backfill[3,4,5]	12.0		12.9		16.1	
Motor Vehicle License Fee	732.3		752.6		787.4	
Revenue Total	**$8,747.0**		**$9,910.7**		**$10,421.8**	

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).

[1]Base Allocation is capped at $489.9 million. Growth does not add to the base.

[2]Base Allocation is capped at $1,120.6 million. Growth does not add to the base.

[3]General Fund backfill pursuant to Section 11 of Chapter 34, Statutes of 2019 for sales tax exemptions pursuant to Revenue and Taxation Code Sections 6363.9 and 6363.10.

[4]General Fund backfill pursuant to Article XIII, Sec 36(d) for the sales tax exemption pursuant to Public Resources Code 26011.8 established by Chapter 690, Statutes of 2019.

[5]General Fund backfill for Administration proposed amendments to Public Resource Code 26011.8, which expands California Alternative Energy and Advanced Transportation Financing Authority sales tax exemption for taxpayers involved in Lithium extraction, processing, or manufacturing.

Housing and Homelessness

Housing

Prior to the COVID-19 Pandemic, California's housing stock fell short of demand. In recent years, the state has invested billions in incentives for housing production, including $10.3 billion in the 2021 Budget Act. However, the development of affordable housing also takes commitment from local governments and developers to plan, zone, and build housing in locations throughout the state to support the needs of the communities that can benefit from affordable housing the most.

With the significant state investments over the last three years, more housing will come online. To support individuals during the worst of the economic impacts associated with the COVID-19 Pandemic, the state rapidly launched the nation's largest emergency rental assistance program, serving over 275,000 households across the state, with the majority of funds provided to the very lowest-income households. The state has also deployed new programs for homeowner mortgage forbearance relief, housing counseling, expanded local and regional planning grants to assist local governments prepare for the upcoming Regional Housing Needs Allocation (RHNA) cycle, and provided additional resources to build and preserve affordable housing.

The May Revision adds $500 million to accelerate affordable housing production aligned with the state's climate agenda. The May Revision builds upon the $1.5 billion in investments proposed in the Governor's Budget.

EQUITABLE HOUSING PRODUCTION AND CLIMATE RESILIENCY

The May Revision proposes an additional $500 million one-time General Fund over 2023-24 and 2024-25 to remove barriers to build more downtown-oriented and affordable housing through funding adaptive reuse—namely, converting existing infrastructure, underutilized retail space, and commercial buildings into residential uses. When added to the $100 million one-time General Fund included in the Governor's Budget, total adaptive reuse investments total $600 million over three years.

The pandemic has changed the way we work, including the use of office space, providing opportunities for innovative adaptive reuse. Many commercial sites are in infill areas and downtown-oriented places, which are already well-served by public transit and are closer to daily destinations like jobs, schools, and healthcare for new residents. Encouraging infill and adaptive reuse furthers several key Administration objectives, including combating climate change, accelerating housing production, and promoting equitable and affordable access to housing.

HOMELESSNESS

The COVID-19 Pandemic highlighted the vulnerability of California's homeless population and the complexity in solving this crisis. The 2021 Budget Act included a historic level of investments to address homelessness—$12 billion over two years—that invested in a comprehensive approach toward services and supports to provide shelter, housing, long-term supportive services, and help prevent individuals from becoming homeless.

The Governor's Budget included $2 billion General Fund over two years to expand access to housing for individuals with complex behavioral health needs and grants to local governments to address encampments.

The May Revision builds on those investments by providing additional interim bridge housing solutions and includes funding to support the administration of the Community Assistance, Recovery and Empowerment (CARE) Court framework—a new process for local courts to deliver supports for individuals with specific behavioral health needs. The May Revision also continues to invest in community restoration and diversion placements and services for individuals deemed incompetent to stand trial. See the Health and Human Services Chapter for more details.

INTERIM TO PERMANENT HOUSING PLACEMENTS

Through partnerships with local governments, the Homekey Program has been a critical cornerstone of the state's approach to address homelessness. Awards from Homekey 2.0 continue to be announced and cumulatively have already helped to facilitate more than 10,000 new units of housing for Californians experiencing homelessness. Local governments have requested approximately $2.3 billion in funding out of the $1.3 billion available in 2021-22. The May Revision proposes an additional $150 million in the current year, for a total of $2.9 billion in Homekey funding over two years.

The May Revision also includes $500 million over two years to house unsheltered individuals on state-owned land through grants to local governments for interim housing and site preparation. Interim housing placements will provide bridge housing for unsheltered individuals who can be transitioned into long-term housing placements that will be created over the next few years through the Behavioral Health Continuum Infrastructure Program, the Community Care Expansion Program, and additional rounds of the Homekey Program.

TRANSITIONAL HOUSING

One of the challenges formerly incarcerated individuals face upon reentry is finding housing. This challenge is particularly acute for individuals who did not have stable housing prior to entering prison. The inability to secure housing can impede successful community reintegration upon release and lead to increased recidivism.

The California Department of Corrections and Community Rehabilitation (CDCR) established the Returning Home Well Program during the pandemic to provide emergency transitional housing services to individuals who would otherwise be at risk of being unhoused at the time of their release. The Governor's Budget included $10.6 million General Fund annually for three years to continue Returning Home Well while providing the opportunity to assess the ongoing needs of the released population.

The May Revision builds on this investment by adding $3 million one-time General Fund to provide transitional housing to youth discharged from CDCR's Division of Juvenile Justice by the Board of Juvenile Hearings in 2022-23. Transitional housing will be available to youth who are at risk of homelessness upon their release to support them in successfully reentering their communities. For more information, see the Criminal Justice Chapter.

LOCAL HOMELESSNESS PLANS AND ACCOUNTABILITY

The California Interagency Council on Homelessness (Cal-ICH) is responsible for advancing California's coordinated response to the homelessness crisis and for holding local jurisdictions accountable for effectively expending state homelessness resources. The Secretary of the Business, Consumer Services and Housing Agency and the Secretary of the California Health and Human Services Agency serve as co-chairs of Cal-ICH, both responsible for implementing cohesive, integrated approaches to administering state resources through existing programs and also budget investments.

As a condition of receiving funding through the Homeless Housing, Assistance and Prevention (HHAP) Program, local governments are required, by June 30, 2022, to submit local homelessness action plans to Cal-ICH. These local homelessness plans will provide the baseline information to measure the progress of local jurisdictions as they outline the steps that will be taken to achieve outcomes. In addition, the state will employ local homelessness action plans submitted by overlapping cities, counties, and Continuums of Care as a tool to create stronger regional coordination, aligned goals, and joint opportunities for impact and accountability.

As part of the 2021 Budget Act, $1 billion is currently available for HHAP in 2022-23. The Administration is committed to extending HHAP at current levels for additional years beyond 2022-23, pending further discussion with the Legislature to meaningfully increase outcomes and accountability on local HHAP spending to focus on highest priority needs, such as encampment resolution, Homekey operating sustainability, and CARE Court housing supports.

TOTAL HOUSING AND HOMELESSNESS INVESTMENTS

The May Revision reflects the Administration's ongoing commitment to equitably build more affordable and climate-smart housing for Californians and expand access to housing for vulnerable populations, including individuals with complex behavioral health conditions and people living in unsheltered settings. In total, the Budget includes $9.1 billion for housing resources and $9.4 billion for homelessness resources in 2022-23, as detailed below.

2022-23 Affordable Housing Funding at May Revision
(Dollars in Millions)

Department	Program	Total Funding	
Department of Housing and Community Development [1/]	Veterans and Affordable Housing Bond Act Programs (Prop 1)	$431.9	
	No Place Like Home Program	$400.0	
	Building Homes and Jobs Fund Programs (SB 2)	$233.8	
	Federal Funded Programs for Housing	$260.2	2/
	Infill Infrastructure Grant Program	$225.0	3/
	Adaptive Reuse	$50.0	3/
	Veterans Housing and Homelessness Prevention	$75.0	
	Affordable Housing and Sustainable Communities Program (General Fund)	$75.0	3/
	Portfolio Reinvestment Program (Preservation) (General Fund)	$50.0	3/
	Various	$13.0	
	State Excess Sites (General Fund)	$25.0	3/
	Mobilehome Park Rehabilitation and Resident Ownership Program (General Fund)	$25.0	3/
	Office of Migrant Services	$5.6	
California Housing Finance Agency [4/]	Low-Moderate Income Housing	$50.0	
	Single Family First Mortgage Lending	$2,500.0	
	Homeowner Assistance Fund (American Rescue Plan Act)	$1,055.0	
	Multifamily Conduit Lending	$1,300.0	
	Multifamily Permanent Lending	$350.0	
	Single Family Down Payment Assistance/Homebuyer Assistance	$140.0	5/
	Mixed-Income Loan Program	$93.4	3/
Tax Credit Allocation Committee	Low Income Housing Tax Credits (State)	$641.4	6/
	Low Income Housing Tax Credits (Federal)	457.9	7/
	Farmworker Housing Assistance Tax Credits	$4.6	
Strategic Growth Council	Affordable Housing and Sustainable Communities (GGRF)	$407.0	8/
Department of Veterans Affairs	CalVet Farm and Home Loan Program (Prop 1)	$150.0	
Judicial Council	Legal Assistance for Renters and Homeowners	$20.0	
Office of Emergency Services	Domestic Violence Housing First Program	$23.0	
	Transitional Housing Program	$17.0	
	Specialized Emergency Housing	$10.0	
	Domestic Violence Assistance, Equality in Prevention and Services, Human Trafficking Victim Assistance, North American Domestic Violence and Sexual Assault	-	9/
California Department of Corrections and Rehabilitation	Returning Home Well	$10.6	
	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	-	9/
Board of State and Community Corrections	Transitional Housing for Division of Juvenile Justice Youth	$3.0	
Department of Public Health	Housing Opportunities for Persons with AIDS (HOPWA)	$5.0	
	Housing Plus Program	$1.0	
	HIV Care Program	-	9/
California Community Colleges California State University University of California	Higher Education Student Housing Grant Program	$750.0	10/
Total		**$9,108.4**	

1/ Notwithstanding multiyear or continuous appropriations, these estimates depict HCD's appropriations for the 2022 Budget Act.

2/ This amount reflects programs that receive federal funds, such as the Community Development Block Grant program.

3/ Note the Governor's Budget proposes an outyear appropriation for this program in 2023-24.

4/ CalHFA is self-supporting and its single family and conduit lending programs do not rely on the state General Fund. Funding estimates are based on lending activities from 2020-21, market demand for homeownership, available program resources, volume cap allocation, and multifamily lending pipeline projections.

5/ This program receives no General Fund allocation and is continuously financed based on market demand. This estimate is based on last year's lending activities and market demand for the first mortgage homeownership product.

6/ This includes $500 million state tax credits allocated in the 2021 Budget Act.

7/ This represents the estimated 9 percent and 4 percent tax credits available in 2022 and the remaining 9% federal disaster credits from 2021.

8/ The Affordable Housing and Sustainable Communities program amount reflects 20 percent of projected Cap and Trade revenues and $22 million that is proposed to be reappropriated from the 2014 Budget Act.

9/ The state provides a number of wrap-around supportive services through these programs including housing, which cannot be separated from the program's overall budget.

10/ The 2022-23 Governor's Budget funds for the Higher Education Student Housing Grant Program represent the second year of a total $2 billion investment planned over a three-year period. The 2021 Budget Act provided $500 million for this purpose to increase availability of affordable student housing.

Homelessness Funding at 2022-23 May Revision
(Dollars in Millions)

Department	Program	Total Funding
Department of Housing and Community Development	Continued Homekey Acquisitions	$1,300.0
	Interim Housing	$500.0 [1/]
	Federal Funded Programs for Homelessness	$148.0 [2/]
	Foster Youth Housing Navigators	$5.0
	Transitional Housing Program	$17.0
California Interagency Council of Homelessness	Flexible Aid	$1,000.0
	Homeless Landscape Assessment	$0.6
	Encampment Resolution Efforts	$500.3
Office of Emergency Services	Various Homeless Youth Programs	$1.0
	Youth Emergency Telephone Network	$0.6
Department of Social Services	CalWORKS Housing Support Program	$285.0
	Housing and Disability Advocacy Program	$175.0
	Bringing Families Home	$92.5
	Home Safe Program	$92.5
Department of Health Care Services	Behavioral Health Continuum Infrastructure Program	$1,724.7 [3/]
	Behavioral Health Bridge Housing	$1,500.0 [4/]
	Naloxone Distribution Project for Individuals Experiencing Homelessness	$15.0
	Housing and Homelessness Incentive Program	$1,299.6 [5/]
	Project for Assistance in the Transition from Homelessness	$8.8
Department of State Hospitals	IST Sub-Acute Bed Capacity Expansion	$88.5 [6/]
	Community-Based Restoration (CBR)	$78.4 [6/]
	IST Solutions	$398.2 [6/]
Department of Transportation	Encampment Relocation Coordinators and Homeless Services Liaisons	$2.7
	Clean California - additional Hazardous Material Removal	$25.0
	Hazardous Material Removal at Encampments	$20.6
California Community Colleges	Basic Needs Funding - Student Hunger and Homelessness Programs	$30.0 [7/]
	Rapid Rehousing	$9.0 [7/]
California State University	Basic Needs Funding - Student Hunger and Homelessness Programs	$15.0 [7/]
	Rapid Rehousing	$6.5 [7/]
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	$15.0 [7/]
	Rapid Rehousing	$3.5 [7/]
Total		**$9,358.0**

1/ This amount includes $250 million General Fund in 2022-23 and $250 million General Fund in 2023-24.

2/ This amount reflects programs that receive federal funds, such as the Emergency Solutions Grant and the National Housing Trust Fund programs.

3/ Of the $2.2 billion total funds over 2021-22 and 2022-23, $1.7 billion is General Fund and $530 million is CFRF. 2022-23 includes $277.5 million carried over from 2021-22.

4/ The proposal includes $1 billion General Fund in 2022-23 and $500 million General Fund in 2023-24.

5/ This program is part of the Home and Community-Based Services Spending Plan. This proposal includes $650.2 million ($325.1 million Federal Fund) in 2022-23 and $649.4 million ($324.7 million in Federal Fund) in 2023-24.

6/ The state provides a number of wrap-around supportive services through these programs, which cannot be separated from the balance of the program's general budget.

7/ These Basic Needs funding programs support basic needs partnerships for low-income students facing housing or food insecurity. These amounts exclude basic needs funding provided in the 2019 and 2021 Budget Acts to address student mental health. Program funding reflected for UC Basic Needs and UC/CSU/CCC Rapid Rehousing was provided on an ongoing basis in the 2019 Budget Act. Program funding reflected for CCC and CSU Basic Needs was provided on an ongoing basis In the 2021 Budget Act.

PANDEMIC RESPONSE AND FEDERAL ASSISTANCE

As the COVID-19 Pandemic evolves from an acute crisis to an ongoing public health concern, the state's strategy for managing COVID-19 has and will need to continue to adapt. The May Revision responds to the changing nature of COVID-19 by implementing the state's "Shots, Masks, Awareness, Readiness, Testing, Education, and Rx" (SMARTER) Plan approach to COVID-19. Additional details regarding the SMARTER Plan can be found on covid19.ca.gov/smarter.

The Administration will use the lessons of the last two years to implement mitigation and adaptation measures through effective and timely strategies. Throughout the pandemic, California has relied on science and tools that protect its population, including vaccines, masks, tests, isolation and quarantine, improving ventilation, and community outreach within the hardest-hit communities. In the future, California will be prepared to apply a variety of strategies in more precise ways, integrating new innovations and information to protect Californians from variants of the virus. California's path forward will also be predicated on individual actions that will collectively yield better outcomes for neighborhoods, communities, and the state.

IMPLEMENTATION OF THE SMARTER PLAN

The SMARTER Plan, which establishes metrics for the state to continue to respond to the pandemic as well as a roadmap for ongoing emergency preparedness, includes new activities such as test-to-treat therapeutics, wastewater surveillance, and research on the long-term health impacts of COVID-19. The May Revision includes additional resources to support the continuation of COVID-19 response efforts and activities in 2022-23, in alignment with the SMARTER Plan. Specific adjustments for the California Department of Public Health (CDPH) include:

- **Medical Staffing**—$100 million in total to support upfront staffing costs for facilities needing additional medical surge staff during COVID-19 surges consistent with the SMARTER Plan. Effective April 1, 2022, facilities are required to reimburse the state for deployed staff. Additionally, the May Revision includes $40 million for staff to prepare for the release of vaccines for children under five years old, continue second boosters for eligible populations, and increase staffing capacity at pediatric sites.
- **Testing**—$530 million in total for purchasing additional antigen test kits, supporting school testing activities with end-to-end vendors, continuing rapid testing and treatment sites, and supporting laboratory network costs.
- **Vaccines**—$93 million in total to prioritize vaccination of youth under five years old, additional boosters for eligible populations over 50 years old, and continuation of mobile vaccination sites through the end of 2022-23. In addition, $230 million is for the Office of Community Partnerships and Strategic Communications to support COVID-19 vaccine-related public education and outreach campaigns previously implemented by CDPH. Of this amount, $130 million was included for CDPH in the Governor's Budget and will be transferred to the Office at the May Revision.
- **Enhanced Surveillance**—$16 million in total to continue activities that allow tracking and monitoring of transmission of COVID-19 through wastewater surveillance, epidemiologic data analysis, modeling of future data trends, and research on the long-term impacts of COVID-19.
- **Test-to-Treat Therapeutics**—$158 million in total to implement a Test-to-Treat Program for therapeutic treatment targeted at low-income, uninsured, and underinsured populations.
- **Border Operations**—$468 million for border operations that will continue the state's COVID-19 response and humanitarian activities at the southern border in anticipation of increased arrivals. California's national model of care and community partnership provides COVID-19 testing and vaccine services, support services, and temporary shelter for migrants so they may safely continue with their immigration proceedings after their release from short-term federal immigration

custody. The California model prioritizes the state's border communities and the wellbeing of migrants. An additional $9 million is provided for the California Office of Emergency Services to continue its portion of these border response operations.

- **Operations Support**—$183 million for the COVID-19 call center, contractor support and contract costs, and the Public Health Reserve Corps.
- **Emergency Contingency Funds**—$250 million to support unanticipated COVID-19 emergency response needs.

ADDRESSING COVID-19 RESPONSE COSTS

To minimize the net General Fund impact of direct COVID-19 emergency response costs, the Administration continues to maximize the use of various federal funds and the Federal Emergency Management Agency (FEMA) Public Assistance Program. The 100 percent FEMA reimbursement of COVID-19 emergency response costs has been extended through June 30, 2022. These costs will be reimbursed at a 90 percent FEMA cost-share starting July 1, 2022. The May Revision assumes that FEMA reimbursement of COVID-19 costs will end on September 30, 2022. The process to compile, submit, and receive funding from FEMA is lengthy for most disasters. Given the national scale and scope of the response effort, this process is expected to be even more protracted and FEMA approval is uncertain in some areas.

At the Governor's Budget, $1.25 billion General Fund in estimated COVID-19 costs were included for 2022-23. Additionally, as part of the early action package, $1.9 billion General Fund was appropriated to fund COVID-19 direct response costs for departments in 2021-22. An additional $1.08 billion General Fund is included in the May Revision for a total of $2.33 billion General Fund in 2022-23. The following chart summarizes the activities and proposed funding levels for 2022-23 compared to 2021-22 as revised by the early action package. From 2019-20 through 2022-23, direct emergency response costs are estimated to be $15.6 billion.

COVID-19 Direct Response Activities
2022-23 May Revision Compared to 2021-22 Revised Budget

Cost Category [1/]	2021-22 Revised Total Funding [2/]	2022-23 May Revision	Change Over 2021-22 Revised
Statewide Testing	$1,430,621,000	$659,759,000	-$770,862,000
Vulnerable Populations and Other Support Services [3/]	$0	$420,025,000	$420,025,000
Vaccine Distribution and Administration	$789,128,000	$364,501,000	-$424,627,000
State Response Operations	$773,115,000	$332,636,000	-$440,479,000
Contingency	$0	$250,000,000	$250,000,000
Therapeutics	$0	$158,129,000	$158,129,000
Hospital and Medical Surge	$561,019,000	$110,149,000	-$450,870,000
Contact Tracing	$20,590,000	$18,284,000	-$2,306,000
Surveillance	$0	$16,465,000	$16,465,000
Hotels for Healthcare Workers	$33,237,000	$1,056,000	-$32,181,000
Procurements	$59,317,000	$859,000	-$58,458,000
Information Technology (CalREDIE)	$6,000,000	$0	-$6,000,000
Project Hope	$84,000	$0	-$84,000
Housing for the Harvest	$69,000	$0	-$69,000
Totals	**$3,673,180,000**	**$2,331,863,000**	**-$1,341,317,000**

[1/] An additional $8.4 million was appropriated to the Department of General Services in 2021-22 from 2019-20 Mission Tasking.

[2/] Includes Control Section 11.91 transfers.

[3/] In April 2021, $360 million General Fund was provided through the Disaster Response Emergency Operations Account (DREOA) to the California Department of Public Health for administering emergency response activities at the border, of which $57.4 million will be carried over to 2022-23.

FEDERAL RELIEF

To address the direct and indirect effects of COVID-19, the federal government enacted six stimulus bills (not including the Infrastructure Investment and Jobs Act). Together, these funds are helping to pay for emergency response, testing and contact tracing, health care, and vaccinations. In some cases, these funds continue to directly support the unemployed and K-12 schools. Families and individuals have also benefited from expansions of the federal Child Tax Credit, Earned Income Tax Credit, and partial tax exemptions on unemployment benefits, as well as expanded financial assistance for health coverage. Combined with direct payments and other assistance to individuals and families, hospitals and medical providers, businesses, higher education institutions and college students, local housing authorities, airports, farmers, and local government, California and its economy are benefiting from approximately $603 billion provided through these stimulus bills.

Coronavirus State Fiscal Recovery Funds

California received $27 billion in State Fiscal Recovery Funds (SFRF) from the American Rescue Plan Act of 2021 to respond to the COVID-19 public health emergency and its negative economic impacts, replace lost revenue, and to make investments in water, sewer, and broadband infrastructure.

For revenue loss replacement, states are permitted to use an amount of SFRF equivalent to their calculated lost revenue to fund government services. At the Governor's Budget, Finance updated California's estimated revenue loss to $11.2 billion, up from $9.2 billion reflected in the 2021 Budget Act. As a result, through the early action package, the Legislature shifted $1.9 billion in support for several programs from SFRF to either the General Fund or other state funds.

Finance has further updated its revenue loss calculation using a fiscal year methodology permitted under the U.S. Treasury's Final Rule released in January 2022. The new calculation results in a total revenue loss of up to $15.7 billion, or up to $4.5 billion more than the early action package. Finance continues to review and finalize this revenue loss calculation.

To maximize funding flexibility and reduce departmental reporting burdens, the May Revision shifts an additional $2 billion in SFRF-funded programs (i.e., Governor's Office of Business and Economic Development's Revitalize California Tourism, Scholarshare Investment Board's Statewide Child Savings Account, and California Student Aid Commission's Education and Training Grants for Displaced Worker projects) to the General Fund. The May Revision assumes that a further $2.4 billion of shifted programs will be excluded from the State Appropriations Limit. The Administration will provide a final allocation plan to the Legislature after Finance finalizes its revenue loss estimate. Similar to early action adjustments, the May Revision proposal results in no net General Fund costs, since this shift would be offset with a like amount of savings resulting from the additional revenue loss funding. The proposal also will not change total funding levels for any of the impacted programs. The chart below summarizes the SFRF funding plan and the proposed shifts in fund source.

Revised Allocation of $27 Billion Coronavirus State Fiscal Recovery Fund
(Dollars in Millions)

Coronavirus State Fiscal Recovery Fund Allocations	2022-23 Governor's Budget [1/]	2022-23 May Revision	Difference
Address Public Health Impacts	**$738.8**	**$738.8**	**$0.0**
COVID-19 Direct Response Costs	$208.8	$208.8	$0.0
Behavioral Health Continuum Infrastructure Program	$530.0	$530.0	$0.0
Address Negative Economic Impacts	**$11,328.8**	**$9,353.4**	**-$1,975.4**
Address Increased Homelessness and Housing Shortages	$4,750.0	$4,750.0	$0.0
Community Care Expansion	$450.0	$450.0	$0.0
Relief for Unpaid Water and Energy Utility Bills and Arrearages	$2,000.0	$2,000.0	$0.0
Child Savings Accounts to Address Equity Gap and Increase Opportunities for Higher Education	$1,407.9	$0.0	-$1,407.9
Small Business Grants	$1,500.0	$1,500.0	$0.0
Training and Education Support for Displaced Workers	$472.5	$0.0	-$472.5
Emergency Financial Aid for Community College Students	$250.0	$250.0	$0.0
Youth Workforce Development	$185.0	$185.0	$0.0
Californians for All College Service Program	$127.5	$127.5	$0.0
Revitalize California Tourism	$95.0	$0.0	-$95.0
Legal Aid for Renters	$80.0	$80.0	$0.0
Federal Tracking, Accountability, and Cost Recovery	$10.9	$10.9	$0.0
Replace Lost State Revenue	**$11,158.3**	**$13,133.7**	**$1,975.4**
Broadband Infrastructure, Access, and Affordability	**$3,772.4**	**$3,772.4**	**$0.0**
Reserve for Accountability and Oversight	**$18.6**	**$18.6**	**$0.0**
Total	**$27,017.0**	**$27,017.0**	**$0.0**

[1/] This column incorporates an early action shift of $1.9 billion in programs funded by the State Fiscal Recovery Fund to either the General Fund or other state funds to maximize funding flexibility and streamline federal reporting activities in the 2021 Budget Act.

EMERGENCY RESPONSE

Some of the most challenging emergencies in state history have occurred over the past few years, often concurrently, including the COVID-19 Pandemic and catastrophic wildfires. While the pandemic is evolving from an acute crisis to an ongoing public health challenge, climate change continues to intensify and lengthen the wildfire season in California. In 2021, the state experienced 5 of the 20 largest wildfires in its history, and California communities continue to rebuild from successive climate change-driven catastrophic wildfire seasons. Accordingly, the May Revision builds on recent investments to continue to enhance the state's ability to prepare for, respond to, and recover from future disasters and protect vulnerable communities.

OFFICE OF EMERGENCY SERVICES

The state is responsible for mitigating the effects of disasters and for protecting Californians' lives and property. The Governor's Office of Emergency Services (Cal OES) serves as the state's leadership hub during all major emergencies and disasters. This includes responding, directing, and coordinating local, state and federal resources and mutual aid assets across all regions to support the diverse communities across the state.

Cal OES also builds disaster resilience by supporting local jurisdictions and communities through planning and preparedness activities, training, and facilitating the immediate response to an emergency through the longer-term recovery phase. During this process, Cal OES serves as the state's overall coordinator and agent to secure federal government resources through the Federal Emergency Management Agency. The May

Revision includes $2.3 billion ($807.6 million General Fund) and 1,777 positions for Cal OES.

STRENGTHENING CALIFORNIA'S EMERGENCY RESPONSE CAPACITY AND CAPABILITIES

The May Revision proposes $183.4 million ($153.9 million General Fund) and 50 positions to address the more frequent, complicated, and often simultaneous emergencies and disasters across the state. This includes:

- **Enhancing Emergency Warning and Response**—$8.1 million General Fund ($5.2 million ongoing) and 19 positions for the California State Warning Center to better analyze, monitor, coordinate, and inform decisionmakers on critical emergency incidents and disasters. The Warning Center identifies potential emerging threats 24 hours a day, 365 days a year. This proposal will increase training, improve staff retention, and establish an alternate site to strengthen operational readiness.
- **Safeguarding the Availability and Delivery of Emergency Supplies and Commodities**—$114.3 million General Fund one-time to provide warehouse space, purchase new and replace expiring personal protective equipment, increase commodity supply for an all-hazard event, and secure logistic support equipment. This proposal will support California's ability to act quickly and help ensure appropriate resources are available across the state for all emergencies.
- **Modernizing Technology and Data Analytics**—$19 million General Fund ($10.5 million ongoing) and eight positions to modernize Cal OES's technology and data capabilities through new technology and updating outdated systems. Reliable data analytics have proven more important than ever to make data-informed decisions impacting the state's emergency response and overall recovery strategy.
- **Responding to the Pandemic**—$29.5 million General Fund one-time to continue COVID-19 testing efforts and provide resources to activate the state's mutual aid system in the event of future outbreaks. For additional information, please see the Pandemic Response and Federal Assistance chapter.
- **Improving Emergency Training**—$7.2 million General Fund ($5.8 million ongoing) and 23 positions to provide a greater selection and more relevant courses for emergency management professionals and emergency responders at the California Specialized Training Institute. This improved curriculum will allow the

Institute to broaden its course offerings to reflect current and future challenges facing the emergency management community.

- **Strengthening Southern California Response**—$5.4 million General Fund one-time for design of a permanent Southern Regional Emergency Operations Center at the former Fairview Developmental Center in Costa Mesa. This new facility will provide coordination response efforts between federal, state, and local partners in the Southern California region, and it will be the critical focal point for mobilizing Southern California disaster response assets and intelligence.

Other Adjustments:

- **Providing Local Law Enforcement Mutual Aid Deployment Resources**—$25 million General Fund ongoing and five positions to provide local law enforcement support during disasters and emergencies. This funding will reduce local costs, accelerate response time, and provide sustainable participation of all 58 counties within the State Law Enforcement Mutual Aid system by minimizing funding considerations from the decision-making process.
- **Nonprofit Security Grant Program**—$50 million General Fund one-time to provide security assistance to nonprofit organizations at risk of hate-motivated violence, which includes members of the Asian American Pacific Islander, LGBTQ+, Black, and Jewish communities. Security enhancement projects include reinforced doors and gates, high-intensity lighting and alarms, and other security-related improvements.
- **Internet Crimes Against Children Task Force**—$5 million General Fund one-time to support the Internet Crimes Against Children Task Force Program, which helps state and local law enforcement agencies develop an effective response to technology-facilitated child sexual exploitation and combatting underground child pornography rings. This investment maintains the level of state resources provided to this effort in each of the last three years.

Additionally, the May Revision reflects $47 million one-time General Fund for the Department of Toxic Substances Control to remove soil with elevated lead concentrations in Greenville, which was discovered during debris cleanup following the 2021 Dixie Fire.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

The Department of Forestry and Fire Protection (CAL FIRE) provides resource management and wildland fire protection services covering 31 million acres. It operates 234 fire stations and also staffs local fire departments as funded by those local governments. CAL FIRE also contracts with six counties within the state to provide wildland fire protection services. The Budget includes $3.7 billion ($2.7 billion General Fund) and 10,572 positions for CAL FIRE.

The ongoing impact of climate change on California's wildlands continue to drive critically dry fuel conditions and longer, more severe fire seasons. The May Revision recognizes these conditions and their impact on firefighting operations, and makes further investments to enhance CAL FIRE's fire protection capacity.

ENHANCING CAL FIRE'S FIRE PROTECTION SURGE CAPACITY FOR THE 2022 FIRE SEASON

Drought conditions persist in California, creating heightened fire conditions and danger. January, February and March 2022 were the driest consecutive first quarter on record, and predominantly dry weather is expected to worsen these conditions over the next several months. As a result, significant fire potential will remain above normal throughout California.

The May Revision includes $83.1 million General Fund one-time to augment CAL FIRE's fire protection resources through December 2022 given current drought conditions, increasing fire severity and size, and declining inmate camp populations. This funding will allow CAL FIRE to continue to staff 16 additional firefighter fire crews, provide chainsaw operators to support California Military Department (CMD) force package fire crews, expand training center capacity to accommodate these crews, and fund additional vehicle repair/maintenance costs as well as associated administrative cost.

CAL FIRE STAFFING AND OPERATIONAL ENHANCEMENTS

The May Revision proposes $150.2 million ($141.7 million General Fund) and 465 positions to enhance CAL FIRE's capabilities to meet the demands of wildland firefighting in a changing climate.

- **CAL FIRE Staffing to Support Fire Crews**—$104.4 million General Fund ($49.9 million ongoing) and 270 positions, phased in over four years, to provide the necessary CAL FIRE staffing component of two Governor's Budget fire crew proposals. Combined, these proposals will add 8 new year-round California Conservation Corps (CCC) and CMD fire crews (four crews each) and convert 16 existing seasonal CCC and CMD crews to year-round crews (6 CCC and 10 CMD). These proposals will increase the overall number of permanent hand crews available to: (1) respond to wildfires throughout the year, (2) implement high-priority fuel reduction projects to protect communities from wildfire, and (3) participate in prescribed fire and other fuels treatment projects to achieve more resilient landscapes.
- **Direct Mission Support**—$37.8 million ($29.3 million General Fund) in 2022-23, $35.6 million ($27.5 million General Fund) ongoing and 190 positions to enhance staffing, improve operational effectiveness, and provide critical administrative and program support necessary to sustain CAL FIRE's direct mission functions in an increasingly complex environment.
- **Emergency Surge Capacity and Response Enhancements**—$8 million General Fund and 34 positions in 2022-23, $7.6 million in 2023-24 and 2024-25, and $968,000 and five positions ongoing to reflect the staffing components of two Governor's Budget proposals. These proposals will (1) purchase 4 additional S70i Fire Hawk helicopters and (2) contract for 10 exclusive use helitankers each year for the next three years while the state awaits the delivery of retardant dropping C-130 aircrafts from the federal government.

SUPPORTING CALIFORNIA FIREFIGHTERS

Over the past decade, firefighters from CAL FIRE have battled and endured 14 of the 20 largest wildfires in the state's history. Current fuel conditions and persistent drought appear to indicate above-average fire activity in 2022.

In recognition of the heavy toll of successive wildfire seasons, the Administration is engaging with representatives from firefighter associations on options to appropriately staff CAL FIRE to promote the health and wellness of CAL FIRE firefighters.

JUDICIAL BRANCH

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, the Habeas Corpus Resource Center, and the Judicial Council. The trial courts are funded with a combination of General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. Other levels of the Judicial Branch receive most of their funding from the General Fund. The May Revision includes total funding of $5.1 billion ($3.1 billion General Fund and $2 billion other funds) in 2022-23 for the Judicial Branch, of which $2.8 billion is provided to support trial court operations. The Judicial Council is responsible for managing the resources of the Judicial Branch.

TRIAL COURT FACILITIES

In a continued effort to address judicial workload needs and provide timely access to justice, the Governor's Budget included $42.6 million General Fund in 2022-23 and $42.3 million ongoing for 23 additional superior court judgeships, including associated security costs. The May Revision provides an additional $24.3 million one-time General Fund to modify existing court facilities and $29.6 million one-time General Fund for the construction of new courtrooms to accommodate the additional superior court judgeships.

The May Revision also includes $15.7 million one-time General Fund to address fire, life, and safety issues in three trial court facilities. Specifically, the May Revision includes the following:

- **San Diego County Superior Court Hall of Justice**—An April 1 proposal included $27.1 million one-time General Fund to repair existing elevators, escalators, and air conditioning. The May Revision includes an additional $2.6 million one-time General Fund to address increased project costs due to inflation, bringing the total amount available for this project to $29.7 million.
- **San Diego County Superior Court East County Regional Center**—An April 1 proposal included $13.5 million one-time General Fund to address egress deficiencies identified by the State Fire Marshal. The May Revision includes an additional $1.8 million one-time General Fund to address increased project costs due to inflation, bringing the total amount available for this project to $15.3 million.
- **Orange County Superior Court Central Justice Center**—The May Revision includes $11.3 million one-time General Fund to address increased project costs for an existing facility modification project. This is in addition to the $4 million in 2021-22 and $48.8 million in 2022-23 provided in the 2021 Budget Act to address fire, life, and safety deficiencies for this facility and to allow for it to continue operations.

JUDICIAL TRAINING FOR ENVIRONMENTAL ISSUES

The May Revision includes $1.2 million ongoing General Fund to establish a unit within the Judicial Council to provide training, technical assistance, and legal support to judicial officers and court personnel on water law, climate change, and environmental issues. Specifically, these resources will be used to develop a training program to expand subject matter expertise among judicial officers and allow the Judicial Council to develop an array of resources to provide judicial officers and court personnel with consulting and training and reference materials, as well as provide legal advice and technical assistance, on environmental issues.

SIGNIFICANT ADJUSTMENTS:

- **Community Assistance, Recovery, and Empowerment (CARE) Court**—The May Revision includes $39.5 million General Fund in 2022-23 and $37.7 million ongoing for the Judicial Branch to conduct CARE court hearings and provide resources for self-help centers. See the Health and Human Services Chapter for more information.
- **Trial Court Trust Fund Backfill**—The May Revision includes $33.7 million ongoing General Fund to continue backfilling the expected revenue decline in the Trial Court Trust Fund in 2022-23. This brings the total amount available for the backfill in 2022-23 to $151.5 million.

- **AB 177 Trial Court Backfill**—The May Revision includes an ongoing reduction of $3.1 million General Fund to backfill trial courts for revenue losses from the repeal of fees by Chapter 257, Statutes of 2021 (AB 177). The associated revenue loss for all courts is lower than expected, totaling $10.3 million instead of the $13.4 million estimated in the Governor's Budget.
- **Trial Court Employee Benefit Adjustment**—The May Revision includes a $7.9 million ongoing General Fund reduction to reflect updated health benefit and retirement rate changes for trial court employees. This brings the total additional amount available for trial court employee benefits in 2022-23 to $20.9 million.
- **State Court Facilities Construction Fund (SCFCF) Backfill**—The May Revision removes the $40 million one-time General Fund backfill of the SCFCF that was included in the Governor's Budget because the backfill is no longer necessary as there is a sufficient fund balance to maintain current service levels.

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CRIMINAL JUSTICE

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) incarcerates people convicted of the most serious and violent felonies, supervises those released to parole, and provides rehabilitation programs to help them reintegrate into the community. The Department strives to facilitate the successful reintegration of the individuals in its care back to their communities equipped with the tools to be drug-free, healthy, and employable members of society by providing education, treatment, and rehabilitative and restorative justice programs. The May Revision includes total funding of $13.9 billion ($13.3 billion General Fund and $603.2 million other funds) for CDCR in 2022-23. Of this amount, $3.7 billion General Fund is for health care programs, which provide incarcerated individuals with access to mental health, medical, and dental care services that are consistent with the standards and scope of care appropriate within a custodial environment.

The COVID-19 Pandemic has affected every aspect of prison operations, and the state has taken swift action to mitigate the spread of the virus. These actions and other factors have significantly impacted current population projections. The average daily adult incarcerated population for 2021-22 is now projected to be 99,590, a decrease of 5 percent since the Governor's Budget. By comparison, on December 15, 2021, the adult incarcerated population was 99,699 and as of April 27, 2022, the population was 96,581—a difference of 3,118, or 3 percent.

Spring projections indicate the adult incarcerated population is temporarily trending upward and is expected to increase by 3,342 individuals between 2021-22 and 2022-23, primarily because CDCR resumed intake of individuals sentenced to prison who remain in county jails awaiting transfer to state prison. The population is then projected to resume long-term downward trends in 2023-24, reaching 95,655 in 2024-25.

The Governor's Budget projected an overall parolee average daily population of 42,963 in 2022-23. The average daily parolee population is now projected to increase by 628 to 43,591 in 2022-23, an increase of 1.5 percent from the Governor's Budget projections. The parole population is projected to decline to 37,818 by June 30, 2026.

COVID-19 Update

Active COVID-19 cases have declined significantly statewide since the peak of the Omicron surge in January, when CDCR reported 6,375 active incarcerated adult COVID-19 cases and 5,113 active staff cases. As of May, CDCR was tracking just 352 active incarcerated adult and 304 active staff cases, allowing CDCR to return to normal operations in nearly all of its facilities consistent with its Roadmap to Reopening, while continuing to monitor for and respond to outbreaks.

In light of improvements in the containment of COVID-19 and refined projections, the May Revision includes a total of $240.1 million for COVID-19 prevention and response activities, a decrease of $184.6 million compared to the Governor's Budget. These resources will enable CDCR to continue taking proactive measures and precautions to protect the incarcerated population and staff, which include testing, utilizing masks and other personal protective equipment, and providing extra cleaning and sanitation services.

Increased Intake to State Prisons

In March 2020, the state halted intake of incarcerated persons from county jails to reduce the risk of COVID-19 entering the state prison system. CDCR resumed intake on a limited basis in August 2020, although public health conditions subsequently necessitated halting intake again in November 2020 and in January 2022. Since February, CDCR has resumed intake while maintaining precautions including requiring testing and symptom screening prior to intake.

The Department also requires quarantine of all new arrivals for a minimum of ten days in its reception centers. At the height of the pandemic, counties held 10,755 incarcerated persons on behalf of the state. As of May, around 1,500 incarcerated individuals remained in county jails awaiting transfer to state prison; it is currently estimated that the backlog will be cleared by this June.

The state has provided $243.9 million General Fund to counties for holding incarcerated persons on behalf of the state, reflecting payments for individuals held in county jails between March 2020 and August 2021. Current projections suggest a total of up to approximately $44.9 million in additional reimbursements may be issued in 2021-22 as the backlog is reduced and then eliminated.

PRISON CAPACITY AND CLOSURE

The adult prison population has steadily declined over many years, which presented opportunities for CDCR to eliminate its reliance on contract prison capacity. CDCR terminated its final remaining contract to house incarcerated persons out-of-state in June 2019. CDCR terminated its final in-state contract correctional facility in May 2021. In total, the termination of these contracts has saved the state hundreds of millions of dollars in annual expenditures. Consistent with the 2021 Budget Act, the Department closed Deuel Vocational Institution in Tracy in September 2021, achieving savings of $150.3 million General Fund annually beginning in 2022-23.

On April 13, 2021, CDCR announced its intent to close a second prison, the California Correctional Center (CCC) in Susanville, as well as minimum security portions of the California Correctional Institution (CCI) and California Training Facility (CTF).

On September 27, 2021, CDCR closed 567 and 500 minimum security beds at CCI and CTF, respectively. As of April 2022, the incarcerated population at CCC was 1,758. The closure of CCC would result in estimated annual savings of $122 million.

On July 28, 2021, the City of Susanville filed litigation in the Lassen County Superior Court challenging the closure of CCC, and a preliminary injunction was issued in September, prohibiting CDCR from taking any action to further the closure of CCC. The injunction remains in effect and the process of closing CCC is currently on hold.

Although the closure of CCC is currently on hold pending litigation, the Administration is committed to right-sizing California's prison system to reflect the needs of the state. Based on current projections that exhibit ongoing declines in the incarcerated population, and understanding that future policy changes may significantly affect long-range population projections, it may be possible to close three additional state prisons by 2024-25.

Staff Misconduct and Disciplinary Process Improvements

The Governor's Budget included comprehensive resources for CDCR to improve and enhance the process by which the Department handles complaints filed by incarcerated individuals that include allegations of staff misconduct. CDCR began implementation of the new process using a phased approach in January 2022, and will roll out the new process to all institutions during 2022-23.

Additionally, the Governor's Budget included $2.3 million General Fund in 2022-23 and $3.6 million ongoing for the Office of the Inspector General (OIG) to oversee and monitor CDCR's new staff misconduct process. The May Revision includes $5.6 million General Fund in 2022-23 and $11.4 million ongoing for the OIG to monitor staff complaints that are handled by institutions and to reflect refinements to the staffing levels for the OIG to monitor CDCR's centralized screening process and investigations conducted by the Office of Internal Affairs. This augmentation will provide the OIG with a total of $7.9 million General Fund in 2022-23 and $15.1 million ongoing to monitor CDCR's staff misconduct process.

Division of Juvenile Justice

Consistent with Chapter 337, Statutes of 2020 (SB 823), the Division of Juvenile Justice (DJJ) ceased intake of new youth on July 1, 2021, with limited exceptions. DJJ is scheduled to close on June 30, 2023, pursuant to Chapter 18, Statutes of 2021 (SB 92). The May Revision reflects an estimated average daily population of 641 youth in 2021-22 and 430 youth in 2022-23, which represents a decrease of 16 and 114 youth in 2021-22 and 2022-23, respectively, compared to the Governor's Budget estimates.

Currently, DJJ estimates there will be approximately 300 youth remaining in its care on June 30, 2023. DJJ released its transition plan for these youth on February 9, 2022. Through the transition process, DJJ will work with youth, their Interdisciplinary Treatment Teams, their families, state and county officials, and community stakeholders to develop individualized transition plans and ongoing treatment strategies.

The May Revision population-related adjustments reflect a decrease of $6 million General Fund and 32.5 positions in 2021-22, and a decrease of $15.7 million and 95 positions in 2022-23, as compared to Governor's Budget estimates. Additionally, the May Revision reflects a decrease of $87.8 million and 554.7 positions in 2023-24 and ongoing in recognition of DJJ's closure at the end of 2022-23.

TRANSITIONAL HOUSING

One of the challenges formerly incarcerated individuals face upon reentry is finding housing. This challenge is particularly acute for individuals who did not have stable housing prior to entering prison. The inability to secure housing can impede successful community reintegration upon release and lead to increased recidivism.

CDCR established the Returning Home Well Program during the pandemic to provide emergency transitional housing services to individuals who would otherwise be at risk of being unhoused at the time of their release. The Governor's Budget included $10.6 million General Fund annually for three years to continue Returning Home Well while providing the opportunity to assess the ongoing needs of the released population.

The May Revision builds on this investment by adding $3 million one-time General Fund to provide transitional housing to youth discharged by the Board of Juvenile Hearings in 2022-23. Transitional housing will be available to youth who are at risk of homelessness upon their release to support them in successfully reentering their communities.

SIGNIFICANT IMPROVEMENTS

- **Data Collection and Evaluation**—The May Revision includes $6 million one-time General Fund to enhance CDCR's data collection and evaluation capabilities regarding the outcomes of formerly incarcerated individuals.

- **Utilities and Waste Disposal Funding Update**—CDCR has recalculated utilities and waste removal expenditures using the methodology proposed in the Governor's Budget. Therefore, the May Revision includes a funding increase of $6.9 million ongoing General Fund to prevent a budget shortfall in 2022-23. This increase will establish sufficient funding based on current expenditures.

LOCAL PUBLIC SAFETY

CRIMINAL JUSTICE INVESTMENTS FOR SAFE AND SECURE COMMUNITIES

The May Revision adds various criminal justice investments to improve community policing; increase access to services; and add to the efforts of locating, identifying, and preventing missing Indigenous persons from tribal lands.

OFFICER WELLNESS GRANTS

Supporting peace officers' physical, mental, and emotional health is fundamental to creating safer communities and building meaningful relationships. The May Revision includes $50 million one-time General Fund to fund grants intended to improve general officer health and well-being, build resiliency, decrease stress and trauma, and improve community trust and relations.

These funds build on $5 million one-time General Fund included in the Governor's Budget for the Commission on Peace Officer Standards and Training to develop a Law Enforcement Wellness Program to support officers' overall health. The grants will be distributed by the Board of State and Community Corrections to counties and cities to support eligible programs.

MOBILE PROBATION CENTERS

Increasing access to probation services, particularly among individuals who are unhoused and struggling to meet supervision requirements, is critical to enhance public safety and successfully support their reintegration. The May Revision includes $20 million one-time General Fund to establish a competitive grant program for counties to create mobile probation centers, modeled after a program established by Placer County.

Grant funding will help with one-time investments, such as the purchase of vehicles and technology, including computers, internet, phones, televisions, and video communication. The mobile service centers will facilitate court appearances and pre-trial check-ins; complete needs assessments; and identify housing, employment, and other related services.

GRANTS FOR MISSING AND MURDERED INDIGENOUS PERSONS

President Biden proclaimed May 5, 2022, as Missing or Murdered Indigenous Persons Awareness Day. California has one of the largest Native American populations in the United States, and research has found that Indigenous people experience violence and trauma disproportionately higher than the general population.

To address these disparities, the May Revision includes $12 million General Fund over three years to establish a competitive grant program to help California tribes locate and identify missing Indigenous persons. These funds will be available to provide resources for tribal police and prosecutors, counseling services, education, and other activities.

VARIOUS ADJUSTMENTS

Proposition 47 Savings—In November 2014, voters passed Proposition 47, which requires misdemeanor rather than felony sentencing for certain property and drug crimes and permits incarcerated persons previously sentenced for these reclassified crimes to petition for resentencing. Proposition 47 established a fund to invest savings from reduced prison utilization to prevention and support community programs.

The Department of Finance estimates net General Fund savings of $161.1 million in the 2022-23 May Revision. This is an increase of $13.8 million over the 2022-23 Governor's Budget projection, due to updated diversion impact estimates. These funds will be allocated according to the formula specified in the initiative, which requires 65 percent be allocated for grants to public agencies to support various recidivism reduction programs (such as mental health and substance use treatment services), 25 percent for grants to support truancy and dropout prevention programs, and 10 percent for grants for victims' services. This additional funding will bring the total allocated for these programs to approximately $608.4 million General Fund since the passage of Proposition 47.

Post Release Community Supervision—The Governor's Budget estimated $23.2 million one-time General Fund for county probation departments to supervise the temporary increase in the average daily population of individuals on Post Release Community Supervision (PRCS) as a result of the implementation of Proposition 57. Based on updated estimates, the May Revision includes $20.9 million one-time General Fund, or a decrease of $2.3 million from Governor's Budget projections, corresponding with fewer releases of incarcerated individuals than had been projected in Fall 2021.

Community Corrections Performance Incentive Grant—The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. In recent years, the pandemic has dramatically affected prison populations and the criminal legal system, skewing existing SB 678 metrics and not necessarily reflecting actual county performance.

Due to these ongoing issues, the May Revision contains a total of $123.8 million General Fund annually through 2024-25 to provide county probation departments with a consistent level of funding based on prior performance, so county probation departments are not unduly impacted by lingering impacts of the pandemic on probation populations, law enforcement practices, or court processes.

VICTIM SERVICES

Crime victims and their families bear significant physical, emotional, and financial burdens. The May Revision reflects the Administration's continuing commitment to both assist crime victims and their families in recovering from such traumas, and to proactively make strategic investments to protect those who face a high risk of victimization by including the following:

- **Innovative Pilot Program for Victim Services**—$30 million one-time General Fund, to be spent over three years, to establish an innovative pilot program to provide victim services across California. This could include operating satellite offices for trauma recovery centers or other victim services providers in hard-to-reach and/or rural areas.
- **Media Outreach to Victims of Violent Crime**—$3 million one-time Restitution Fund to conduct an outreach campaign to raise awareness of statewide victim support services, while targeting hard-to-reach populations.

DEPARTMENT OF JUSTICE

As chief law officer of the state, the Attorney General has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice (DOJ). The Department provides legal services on behalf of the people of California; serves as legal counsel to state agencies; provides oversight, enforcement, education, and regulation of California's firearms laws; provides evaluation and analysis of physical evidence; and supports the data needs of California's criminal justice community. The May Revision includes total funding of approximately $1.2 billion, including $443.5 million General Fund, to support DOJ.

FENTANYL ENFORCEMENT

The Governor's Budget included $6 million annually through 2024-25 and $500,000 ongoing to support regional task forces combating organized retail theft, and $5 million ongoing General Fund to support DOJ participation in anti-crime task forces around the state. The May Revision builds upon these investments by providing an additional $7.9 million General Fund in 2022-23, and $6.7 million ongoing, to establish the Fentanyl

Enforcement Program. This brings the total additional resources for DOJ task forces to $18.9 million in 2022-23.

SIGNIFICANT ADJUSTMENTS

In addition to these augmentations, the May Revision includes the following additional significant adjustments to DOJ's budget:

- **Medi-Cal Fraud and Elder Abuse: Medicaid Patient Abuse Prevention Act**—$7.8 million ($6.1 million Federal Trust Fund, $1.2 million False Claims Act, and $474,000 General Fund) in 2022-23, and $7.1 million in 2023-24 and ongoing to fully maximize DOJ's federal grant award to support increased Medicaid fraud and elder abuse investigation and enforcement pursuant to changes in federal law.
- **Reparations Task Force**—$1.5 million one-time General Fund for external consultants to develop and finalize task force recommendations, and cover travel and per diem costs for task force members pursuant to Chapter 319, Statutes of 2020 (AB 121). This investment is in addition to $2.2 million General Fund over two years for the task force provided in the 2021 Budget Act.

CALIFORNIA MILITARY DEPARTMENT

The Governor's Budget included $20 million General Fund in 2022-23 to expand the California Military Department's existing drug interdiction efforts supporting the four High Intensity Drug Trafficking Areas in California. The May Revision increases this investment to a total of $30 million General Fund ($15 million in 2022-23 and $15 million in 2023-24) to bolster the Department's existing efforts to prevent drug-trafficking transnational criminal organizations throughout the state, with a particular focus on assisting federal, state, local, and tribal law enforcement agencies in combatting fentanyl.

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LABOR AND WORKFORCE DEVELOPMENT

The Governor's Budget made historic investments in workforce development, recognizing the critical role workforce training plays in providing opportunity for all Californians, especially those being impacted by a changing economy and world. These include: $550 million to expand climate workforce strategies and a historic $1.7 billion investment for workforce development. The May Revision adjusts the Governor's Budget proposal and makes strategic investments to further expand workforce training to create a more inclusive economy. The May Revision also proposes funding for the Employment Development Department for fraud prosecution and investigation and to modernize its information technology systems.

APPRENTICESHIPS

With the goal of creating 500,000 earn-and-learn opportunities and apprenticeships by 2029, California's workforce strategy continues to support pathways to quality jobs so that more Californians can share in the state's economic growth. Through investments informed by industry demand and worker needs—through pre-apprenticeship, apprenticeship, and high quality earn-and-learn programs—the state's higher education and workforce systems are building the state's future workforce and creating economic opportunities, especially for individuals and communities historically left behind.

The May Revision adjusts the plan included in the Governor's Budget to fill gaps in funding for apprenticeship intermediaries and programs for both support and training to increase apprenticeship opportunities for women, people of color, and individuals with disabilities and other barriers who historically do not participate at high rates in traditional apprenticeships.

SUPPORTING APPRENTICESHIPS

- **California Healthy School Meals Pathway Program**—As referenced in the Higher Education Chapter, the May Revision includes an increase of $45 million one-time Proposition 98 General Fund to support the implementation of the California Healthy School Meals Pathway Program, which is a pre-apprenticeship, apprenticeship, and fellowship workforce training pipeline pilot program for school food service workers.

- **Apprenticeship Program Related and Supplemental Instruction (RSI) Rate**—As referenced in the Higher Education Chapter, the May Revision includes an increase of $16.9 million ongoing Proposition 98 General Fund to align the apprenticeship program RSI rate with the Student Centered Funding Formula credit rate, as opposed to the noncredit rate.

CLIMATE AS A WORKFORCE STRATEGY

As described in the Climate Change Chapter, the May Revision includes a multi-faceted approach to addressing the climate crisis through economic and workforce development opportunities in the clean energy economy in communities across the state. The proposals direct investments to expand opportunities and create high-quality jobs, while advancing a healthy and more equitable California. These investments include:

- **Protections from Extreme Heat**—$24.5 million General Fund to the Department of Industrial Relations to protect vulnerable populations through targeted outreach and education in multiple languages for employers and employees, and increased strategic enforcement before and during heat events to protect workers from heat-related illness and wildfire smoke hazards.

- **Extreme Heat Workforce**—$17 million General Fund over two years to the California Workforce Development Board to expand high road training partnerships in industry sectors that support the state's response to extreme heat, such as heating, ventilation and cooling, cool roofs, urban forestry, climate smart natural resource management, as well as other industries identified through collaboration with other state agency partners.

Employment Development Department

The Employment Development Department (EDD) has spent years preparing to modernize its benefit systems. The pandemic emphasized the importance of these efforts while also informing a new approach that improves customer service. The 2021 Budget Act included $11.8 million one-time General Fund to reengage the planning and modernization of the Department's benefit systems.

EDDNext—Long-Term Modernization

The May Revision includes $136 million ($68 million General Fund) in one-time resources for EDDNext, a five-year plan to modernize EDD. This includes efforts on EDD's benefit systems, call center improvements, simplifying forms and notices, including user testing and engagement, developing data analysis tools to continue curbing fraudulent benefit claims, and upgrading department training and tools to increase the pace of application processing.

The first-year investment includes $64.7 million to upgrade and replace parts of EDD's benefit services systems to provide improved customer service delivery, as well as to enhance overall program adaptability. Some immediate improvements include call center redesign, online portal enhancements to improve the online experience for claimants and employers, and expanded fraud data analytics. This first-year investment will also include design and planning of the future system, as well as efforts to improve claim forms usability. These resources will be critical to the long-term success of EDD.

Identity Theft Awareness, Fraud Investigation Support and Prosecution

During the peak of the pandemic, EDD implemented anti-fraud vendor services, including front-end technology to block foreign and suspicious Internet Protocol addresses, improvements to applicant identity verification, and services to screen and validate claim integrity. While the Governor's Budget included $35.2 million to continue these vendor service contracts through 2024-25, additional efforts are necessary to increase awareness of identity theft and take action to identify and prosecute individuals found to have fraudulently claimed benefits.

The May Revision includes $23.6 million ($10.9 million General Fund) in 2022-23, $12 million ($5.1 million General Fund) in 2023-24, and $9 million ($3.5 million General

Fund) in 2024-25 to support ongoing EDD fraud investigation and interdiction efforts. Proposed investments include an identity theft awareness and prevention campaign, funding for district attorneys' offices to continue prosecution of criminal fraud cases, and expanded fraud detection and prevention capabilities in the State Disability Insurance and paid family leave programs.

TRANSPORTATION

The May Revision continues the Governor's Budget commitment to move to a multi-modal zero-emission transportation future that delivers climate and health benefits, and creates a foundation for the development of sustainable communities. In addition to the sizeable investments proposed in 2021 and the Governor's Budget, the May Revision also reflects the funding proposed as part of the early broad-based relief package released in March 2022.

EARLY BROAD-BASED RELIEF PACKAGE

The May Revision reflects the Administration's proposal to allocate an additional $500 million for the Active Transportation Program. This funding increases the proposed investments in the transportation infrastructure package to $9.6 billion. The early broad-based relief package also proposed to accelerate $1.75 billion for implementation of zero-emission vehicles and related infrastructure.

The May Revision also reflects $750 million in incentive grants to transit and rail agencies to provide free transit for Californians for three months, which was part of the early broad-based relief package. The state will provide an amount to agencies based on their 2019 fare revenues. In return, transit and rail agencies are required to provide free transit for at least three months.

FEDERAL INFRASTRUCTURE INVESTMENT AND JOBS ACT (IIJA)

The federal IIJA provides a significant investment in the nation's infrastructure, authorizing over $500 billion for transportation over five years. The IIJA provides a $200 billion augmentation to existing and new transportation programs for highway, transit, highway safety, motor carrier, research, hazardous materials, and rail programs.

Under this measure, California is estimated to receive over $38 billion of formula-based transportation funding for the following programs over the next five years:

- Existing surface transportation, safety, and highway performance apportioned programs.
- A new bridge replacement, rehabilitation, preservation, protection, and construction program.
- A new program that will support the expansion of an electric vehicle (EV) charging network.
- A new program to advance transportation infrastructure solutions that reduce greenhouse gas emissions.
- A new program to help states improve resiliency of transportation infrastructure.
- Improving public transportation options across the state, with increased formula funding for transit.

The May Revision includes 295 positions and $50 million annually for Caltrans to administer and implement the state and local transportation funding provided by the IIJA. Additionally, 626 positions and $144 million has been budgeted to provide engineering and design support associated with the increased project workload.

GENERAL GOVERNMENT AND STATEWIDE ISSUES

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

DATA AND INFORMATION TECHNOLOGY

California continues to reimagine the way state services are developed and provided to better support California residents. Building upon lessons learned from previous efforts, creating the Office of Data and Innovation and investing in short-term information technology projects will result in a more efficient and responsive government for all.

OFFICE OF DATA AND INNOVATION

The May Revision includes $4.8 million ongoing General Fund and 6 positions, and $20 million one-time General Fund, in 2022-23 for the Digital Innovation Services Revolving Fund to consolidate the Office of Digital Innovation, the Government Excellence and Transformation Center (proposed in the Governor's Budget), and the CalData Program into the Office of Data and Innovation, as a department under the Government Operations Agency.

The Office of Data and Innovation will be established as a standalone department in 2023-24, to facilitate more efficient state operations and support one-time projects targeted at improving user experiences through the Digital Innovation Services Revolving Fund. The Office of Data and Innovation will provide statewide guidance and operational support to state departments, including establishing a CalAcademy Training Program, developing user research and innovation services for departmental use, and coordinating California's data strategy across state government.

Technology Modernization and Stabilization Efforts

The May Revision includes $55.7 million one-time General Fund in 2022-23, and $711,000 ongoing General Fund and 4 positions to support the modernization of critical state infrastructure. This investment augments the $25 million one-time General Fund provided to the California Department of Technology (CDT) in the 2021 Budget Act for Technology Modernization Funding.

Of the funding provided, $25 million will be used to fund additional projects through the Technology Modernization Funding process, and $30 million to support short-term remediation efforts identified by CDT's Stabilization Services Assessment team to prevent potential system failure. CDT selected four projects in December 2021 at a total cost of $6.6 million through the first round of Technology Modernization Funding project applications. The second round of proposals is being evaluated and those selected to receive funding are expected to begin in Summer 2022.

Broadband Middle-Mile Initiative

The May Revision includes $600 million one-time General Fund in 2023-24 and $500 million one-time General Fund in 2024-25 to CDT to support the completion of the Broadband Middle-Mile Initiative. The 2021 Budget Act provided $3.25 billion to CDT for the purpose of building an open-access middle-mile broadband network. Revised estimates produced by CDT indicate a need for this additional funding to complete the Broadband Middle-Mile Initiative due to increased costs of labor and supplies.

Additional Modernization Projects

In addition to the Office of Data and Innovation and CDT efforts, there is a continued focus to support significant modernization projects. The May Revision includes the following proposals:

- $136 million one-time funding ($68 million General Fund) for the Employment Development Department (EDD) to continue planning and begin implementing various improvements to EDD leave benefit programs. In 2021-22, the EDD engaged in a business process re-engineering effort to analyze EDD's business operating model and assess existing technologies and pandemic lessons. This resulted in a roadmap for a multi-phase effort intended to promote responsible service, implement sustainable business operations and advance technical innovation that will ultimately improve customer service across EDD's unemployment insurance, disability insurance, and paid family leave benefit programs.
- $108 million one-time funding ($57.6 million General Fund) for the Department of Social Services to continue design, development, and implementation activities for the Child Welfare Services—California Automated Response and Engagement System (CARES) project. Lessons learned from proof of concept activities completed in 2021-22 informed the next iteration of development work, CARES Version 1 and Version 2. The project is replacing a legacy system with a modern technology application that aids child welfare stakeholders in assuring the safety and well-being of children at risk of abuse and neglect.
- $19 million one-time General Fund for the California Office of Emergency Services (CalOES) to implement projects replacing manual processes and legacy systems such as Grants Management, Interagency Recovery, and Human Resources Tracking. This builds upon current modernization efforts and existing technologies to enhance CalOES's ability to respond to increasingly complex disasters more efficiently. It also includes staff resources to strengthen the department's Information Security Program.
- $4.3 million one-time Special Funds for the Department of Consumer Affairs to continue business modernization efforts for five more boards and bureaus. The Business Modernization Cohort 2 is moving into project development activities and will begin implementing their selected software consistent with the Department's overall Business Modernization Plan. This will bring additional online services for professional licensing applicants such as application submission, tracking and electronic payments via an online portal.

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The May Revision increases employee compensation by $217.6 million in 2022-23 ($132.2 million General Fund) and $143.0 million ongoing ($70.5 million General Fund) to reflect updated estimates to the dental and vision premium rates, changes to enrollment in health and dental plans, updated employment information for salary increases and other post-employment benefit contributions, telework stipends, and Division of Juvenile Justice recruitment and retention differentials.

The May Revision also reflects a decrease of $329 million General Fund in 2022-23 for retiree health and dental benefits reflecting lower-than-expected retirements and updated enrollment information.

Through the collective bargaining process, the state's 21 employee bargaining units agreed to prefund retiree health benefits. Additionally, as determined annually by the California Department of Human Resources (CalHR), related excluded and exempt employees also prefund retiree health benefits. As a result, more than $5.2 billion is currently set aside in the prefunding trust fund to pay for future retiree health benefits, which has an estimated $95.2 billion unfunded liability to be paid down by 2046. By the end of 2022-23, the trust fund balance will approach $7.3 billion in assets.

The Administration is currently in negotiations with six bargaining units representing attorneys and administrative law judges, firefighters, engineers, scientists, stationary engineers, and psychiatric technicians, whose contracts or side letter agreements are expired or will expire in Summer 2022.

State Workforce Demographic Data Collection

CalHR will work with the State Controller to establish new demographic categories for the collection of data pertaining to the ancestry or ethnic origin of African American employees. The collection of this data continues CalHR's duties to maintain statistical information necessary for the evaluation of equal employment opportunity and upward mobility within state civil service.

State Retirement Contributions

The May Revision includes the following adjustments for retirement contributions:

- State contributions to the California Public Employees' Retirement System (CalPERS) have decreased by a net total of $215.6 million ($180.1 million General Fund) in 2022-23 relative to the Governor's Budget. The decrease is a result of CalPERS' adjustment to the state's contribution rates, which is largely driven by the normal progression of the existing amortization and smoothing policy; elimination of the

$2.5 billion pension payment to the state's unfunded liabilities over fiscal years 2019-20 to 2021-22, as authorized by Chapter 16, Statutes of 2020 (AB 84); and changes in experience and actuarial assumptions (including impacts of the 21.3 percent investment return in 2020-21 and the reduction in the discount rate from 7.00 percent to 6.80 percent).

- The May Revision estimates $2.9 billion in one-time Proposition 2 debt repayment funding in 2022-23 to further reduce the unfunded liabilities of the CalPERS state plans. Any supplemental payment made toward the state's CalPERS unfunded liability is estimated to result in a minimum long-term gross savings ratio of 2:1.
- State contributions to the California State Teachers' Retirement System (CalSTRS) increased by $6 million General Fund in 2022-23, relative to the Governor's Budget, due to a revision in reported compensation for K-12 and community college teachers.
- Relative to the Governor's Budget, state contributions to the Judges' Retirement System (JRS) II decreased by $3.2 million General Fund in 2022-23. The contribution rate decrease is due mainly to a decrease in the employer normal cost as a percentage of payroll.

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

State Retirement and Health Care Contributions [1/ 2/ 3/]
(Dollars in Millions)

	CalPERS	CSU CalPERS	CalSTRS	JRS	JRS II	LRS [5/]	Active Health & Dental [6/]	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding [7/]
2013-14	$3,269	$474	$1,360	$188	$52	$1	$2,697	$1,383	$225	$22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 [8/]
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	84	1	3,255	1,759	313	394
2019-20	5,946	716	3,323	242	91	1	3,371	1,844	326	562
2020-21	4,925	680	3,428 [4/]	225	84	1	3,665	2,023	357	600
2021-22	5,363	677	3,862	193	86	1	4,018	2,335	410	1,292 [9/]
2022-23 [10/]	7,475	744	3,712	208	86	1	3,892	2,302	408	735

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

2/ The chart does not reflect the following pension payments: $6 billion supplemental payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), additional payments to CalPERS and CalSTRS authorized in Chapter 33, Statutes of 2019 (SB 90), Chapter 859, Statutes of 2019 (AB 118), and Chapter 78, Statutes of 2021 (AB 138), and Proposition 2 payments to CalPERS proposed in the 2022-23 May Revision.

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

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

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

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

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

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

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

10/ Estimated as of the 2022-23 May Revision, contributions sourced from the General Fund are estimated to be $3,821 million for CalPERS, $744 million for CSU CalPERS, $1,827.9 million for Active Health and Dental, and $365 million for OPEB Prefunding. Fiscal year 2022-23 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are all General Fund costs.

CANNABIS

CANNABIS TAX REFORM

California's current cannabis tax framework is overly complex and burdensome for licensees and consumers. Current tax policies disproportionately burden cannabis farmers, create additional administrative costs and instability throughout the supply chain, and lack sufficient transparency for the state, businesses, and consumers. Taken together, these outcomes undermine the societal benefits of a taxed and regulated market.

The May Revision proposes statutory changes to reform cannabis taxes. These policy changes aim to greatly simplify the tax structure, remove unnecessary administrative burdens and costs, temporarily reduce the tax rate to support shifting consumers to the legal market, and stabilize the cannabis market with policies that are more transparent and can better adjust to market changes. Major changes include:

- Setting the cultivation tax rate at zero beginning July 1, 2022.
- Shifting the point of collection and remittance for excise tax from distribution to retail on January 1, 2023, maintaining a 15 percent excise tax rate.
- Setting Allocation 3 funding for youth education/intervention/treatment, environmental restoration, and state and local law enforcement programs at a baseline of $670 million annually for three years. Up to $150 million one-time General Fund is available as needed through 2025-26 to backfill Allocation 3 funding, along with the authority to increase the excise tax rate through 2024-25 if tax revenues fall below the baseline for Allocation 3.
- Strengthening tax enforcement policies to increase tax compliance and collection and reduce unfair competition.

UPDATED ALLOCATION OF THE CANNABIS TAX FUND

Proposition 64 specifies the allocation of cannabis tax revenue in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis and the past effects of its criminalization. Once these priorities have been met, the remaining funds are allocated to youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities. The May Revision estimates $670 million will be available for these purposes in 2022-23, and the structure of these allocations is unchanged from 2021-22:

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

These figures reflect a total increase of $74.7 million compared to the Governor's Budget estimate. These estimates also reflect the proposed statutory changes to restructure the cannabis tax framework and maintain a baseline level of funding for this allocation.

Cannabis Local Jurisdiction Retail Access Grant Program

To assist the cities and counties of California that do not currently license storefront or delivery-only cannabis retailers, the May Revision includes $20.5 million one-time General Fund to establish a cannabis local jurisdiction retail access grant program. The goal of this grant program is to aid localities with the development and implementation of local retail licensing programs and to support consumers in gaining access to regulated and tested products through an expansion of California's legal marketplace. This grant program will:

- Award funding to eligible local jurisdictions proportionally based on the population size served to support the development and implementation of a local jurisdiction retail program.
- Award funding to eligible local jurisdictions based on the number of permits issued pursuant to the local jurisdiction retail licensing program.
- Award additional funding to eligible local jurisdictions that issue permits to equity applicants pursuant to the local jurisdiction retail licensing program.

OFFICE OF PLANNING AND RESEARCH

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analysis. OPR formulates long-range state goals and policies to address four key areas: land use and planning, climate risk and resilience, sustainable economic development, and targeted long-range research needs. The May Revision includes total funding of $1.4 billion, including $995 million General Fund, for OPR.

OFFICE OF COMMUNITY PARTNERSHIPS AND STRATEGIC COMMUNICATIONS

The Governor's Budget included $65 million ongoing General Fund for the Office of Community Partnerships and Strategic Communications (Office) to formalize and leverage the infrastructure and work of the Census 2020 and COVID-19 public awareness and community engagement campaigns. The Office will be established within OPR and will manage the state's highest priority public awareness and community outreach campaigns, with a focus on civic and youth engagement.

The Office will work with community organizations statewide to engage Californians, including those experiencing the greatest health and social inequities, with culturally competent and actionable information that can help improve the quality of their lives. Specifically, the Office will share resources related to the specific campaigns, including funding opportunities to assist outreach and programs that support community needs and interests; helping community partners obtain information from state departments; and sharing community insights with relevant state departments.

The Office will distribute funding based on relevant data such as each region's share of hard-to-reach population as measured by the California Specific Hard-to-Count Index. The Office will use similar data-informed mechanisms to drive program decision making and responsible resource allocation, and measure program impact.

In addition to the Governor's Budget proposal, the May Revision includes significant investments for the Office to build public awareness and knowledge about key state priorities, including:

- **COVID-19 Outreach**—$100 million one-time General Fund in 2022-23 to continue COVID-19 vaccine-related public education and outreach campaigns. The Governor's Budget included $130 million for the California Department of Public Health (CDPH) to continue vaccine-related outreach efforts in 2022-23. This brings the total amount for COVID-19 outreach to $230 million in 2022-23. The May Revision transfers these resources to the Office, which will assume responsibility for COVID-19 vaccine-related outreach and education.

- **Drought Resilience and Response**—$100 million one-time General Fund in 2022-23 for the Save Our Water outreach campaign to promote public awareness about the impacts of extreme drought and methods for water conservation. See the Climate Change Chapter for additional information.
- **Addressing Extreme Heat**—$6 million General Fund in 2022-23 and $14 million in 2023-24 to increase awareness and understanding of the risks posed by extreme heat, and promote knowledge of resources that are available to support impacted communities. See the Climate Change Chapter for additional information.

CALIFORNIANS FOR ALL COLLEGE SERVICE PROGRAM

The Californians for All College Service Program (College Corps), administered by California Volunteers within OPR, was created in partnership with the University of California, California State University, California Community Colleges, and private California university systems to support lower debt college pathways for low-income students, service opportunities, and career development. Specifically, the 2021 Budget included $146.3 million one-time ($18.8 million General Fund and $127.5 million Coronavirus State Fiscal Recovery Funds) to provide paid service opportunities for college students in critical issue areas such as climate action, food insecurity, tutoring and mentoring, health, and disaster response. The program also provides students with the opportunity to receive both a stipend of up to $7,000 and a scholarship of up to $3,000, while gaining valuable experience serving in their communities. California Volunteers has awarded funding to 48 public and private higher education campuses across the state to launch the first cohort of students in the program. The investment in the 2021 Budget Act is enabling California Volunteers the opportunity to serve two student cohorts, including 3,250 students in both 2022-23 and 2023-24.

The May Revision includes $73.1 million General Fund beginning in 2024-25 to permanently fund the College Corps program so it can continue to support 3,250 service slots annually. This state service and career development program will continue to provide opportunities for California college students, including—for the first time—AB 540 eligible students, to contribute to their communities while supporting lower debt college pathways for low-income students.

Extreme Heat Resilience Centers

The May Revision includes $170 million one-time over two years for the Strategic Growth Council, within OPR, to provide grants to communities seeking to build or upgrade existing facilities to serve as community resilience centers that mitigate the public health impacts of extreme heat and other emergency situations exacerbated by climate change. This funding will build upon $100 million provided for resilience centers in the 2021 Budget Act. See the Climate Change Chapter for additional information.

California Department of Veterans Affairs

The California Department of Veterans Affairs (CalVet) serves nearly 1.6 million veterans and their families living in California. CalVet strives to ensure that veterans and their families receive state and federal benefits and services they have earned as a result of honorable military service. CalVet operates eight homes throughout the state that provide residential and medical care services to aged or disabled California veterans who served on active duty.

California Veteran Health Initiative

The United States Department of Veterans Affairs' 2021 National Veteran Suicide Prevention Annual Report stated that veterans die by suicide at a rate nearly double that of their non-veteran peers, and noted an emergent rise in suicides among veterans in the 18 to 34 age group and among women veterans. The Administration recognizes the importance of addressing the prevention of veteran suicide in collaboration with its stakeholders, state partners, public and private partnerships, and the community-based system of care across the state. To that end, the May Revision includes $50 million one-time General Fund, to be spent over three years, to establish the California Veteran Health Initiative to provide a comprehensive, coordinated approach to addressing veteran suicide. The Initiative will focus on prevention, early intervention, and direct services to effectively combat the risk factors associated with suicidal ideation, thereby reducing the number of veterans who die by suicide. Specifically, the Initiative consists of the following three components:

- **Outreach and Education Campaign**—$5 million for an awareness campaign that educates veterans and the broader community to inform the knowledge, behaviors, and attitude surrounding veteran suicide. The campaign will also promote prevention activities, along with health and wellness.

- **Veteran Suicide Surveillance and Review Program**—$5 million to establish a multidisciplinary team of professionals and stakeholders focusing on the identification and collection of veteran-specific suicide data, and coordinate a statewide assessment of veteran's mental health and provide recommendations on future prevention, intervention, and post-intervention strategies. This program will build upon the work of the Violence Prevention Initiative at the California Department of Public Health.
- **Veteran Mental Health Support Network Grants**—$40 million to provide competitive grants to local jurisdictions that provide matching grants to expand mental health service capacity by supporting a network of veteran-specific mental health services throughout the state. The intent of this program is to assist the creation of self-sustaining, ongoing programs that support veterans and maximize available federal programs (U.S. Veteran's Affairs and Medi-Cal).

Promoting Equitable Access to State Parks

The Administration is committed to advancing safe, equitable, and enjoyable access to parks, open spaces, natural resources, and recreational amenities for all Californians. The May Revision includes $83.5 million to increase equitable access to state parks through the following investments:

- **K-12 and Interpretive Program Enrichment**—$15 million one-time General Fund for outdoor environmental education and access programming through the expansion of existing K-12 programs. These programs will support outdoor environmental education for underserved youth statewide.
- **Colonel Allensworth State Park**—$40 million one-time General Fund for the construction of a new visitor center and other interpretive enhancements. The new visitor center will better tell the story of this historic African American community and the contributions of its founders and members.
- **Partnership with CAAM**—$15 million one-time General Fund for the Department of Parks and Recreation to partner with the California African American Museum (CAAM) to better tell the inclusive story of black history in state parks.
- **California State Library Partnership**—$13.5 million one-time General Fund to expand a pilot program to provide state park passes for check out at local libraries. This funding will increase the number of passes available to local libraries.

Reducing the State's Long-Term Liabilities

To strengthen budget resiliency, the May Revision includes several multi-year proposals that will contribute to a reduction in the state's long-term debt obligations. Capital projects totaling approximately $2.7 billion currently authorized for lease revenue bond financing will be shifted to General Fund in the 2021-22 ($836 million) and 2023-24 ($1.9 billion) fiscal years. In addition, approximately $1 billion in non-refundable and variable rate General Obligation (GO) bonds and approximately $2.5 billion in callable GO bonds are proposed for redemption in the 2024-25 fiscal year. These proposals will utilize one-time funding to structure a multi-year approach to reducing the state's long-term liabilities, and provide flexibility if there is an unexpected change in the fiscal condition of the state.

Department of Fair Employment and Housing

This recent surge in hate violence and other forms of discrimination and harassment stem from long-standing and systemic racial biases and stereotypes. The 2021 Budget Act included $110 million General Fund over three years for the Department of Social Services to administer a multi-year grant program to support services for victims and survivors of hate crimes and their families and facilitate hate crime prevention measures. To complement these efforts, the May Revision proposes $889,000 limited-term General Fund for the Department of Fair Employment and Housing (DFEH) to create a community conflict resolution and conciliation team to identify and provide conciliation services to communities affected by hate incidents or other discrimination.

In 2021, Chapter 712, Statutes of 2021 (AB 1126) established the Commission on the State of Hate. The May Revision proposes $1.8 million General Fund for DFEH resources related to the bill's provisions. Further, the May Revision proposes statutory changes renaming DFEH to the California Civil Rights Department to better reflect the department's existing roles and responsibilities.

State Appropriations Limit Calculation

Pursuant to Article XIIIB of the California Constitution, the 2022-23 limit is estimated to be $135.6 billion. The revised limit is the result of applying the growth factor of 7.9 percent to the prior year limit. The revised 2022-23 limit is $4.3 billion above the $131.4 billion estimated in January. A substantial portion of the increase is attributable to changes in the following factors:

- Per Capita Personal Income
  - January Percentage Growth: 4.42%
  - May Revision Percentage Growth: 7.55%
- State Civilian Population
  - January Percentage Growth: 0.29%
  - May Revision Percentage Growth: -0.30%
- K-14 Average Daily Attendance
  - January Percentage Growth: -0.03%
  - May Revision Percentage Growth: 1.55%

ECONOMIC OUTLOOK

Two years after the end of the COVID-19 Recession—the worst recession since the Great Depression—the U.S. and California economies have continued to steadily recover, surpassing their pre-COVID-19 Pandemic GDP levels in the first half of 2021 and adding back about nine out of every ten jobs lost during the recession as of March 2022. The May Revision economic forecast projects the U.S. and California economies to continue to recover and to grow steadily through 2025. However, real (adjusted for inflation) economic growth has been slightly downgraded compared to Governor's Budget projections due to continuing global supply chain bottlenecks, international economic sanctions in response to the Russian invasion of Ukraine, tighter monetary policy with several planned interest rate hikes, and persistently high inflation.

While both GDP and nonfarm employment grew faster in 2021 than projected at Governor's Budget, inflation has continued to accelerate and reached its fastest rate in four decades during the first quarter of 2022. In response, the Federal Reserve increased interest rates by 0.25 percentage point in March—the first increase in more than three years—and by an additional 0.50 percentage point in early May. The Federal Reserve also signaled that more interest rate hikes are likely through the rest of the year. This is a much more aggressive monetary policy stance than what was incorporated in the Governor's Budget forecast, which had assumed that interest rates would not increase until 2023. The aim of these monetary policy changes is to curtail inflation by marginally slowing demand, putting less strain on supply chains. The May Revision forecast assumes that the tighter monetary policy will lead to slightly slower economic growth as higher interest rates make borrowing, debt-service, and investing more expensive.

Despite the wave of COVID-19 Omicron infections last winter, U.S. and California employment continued to grow as individuals and businesses adjusted to COVID-19. As with the Governor's Budget, the May Revision forecast assumes that the ongoing pandemic will not lead to any further major disruptions to the economy. The expected impacts of the federal Infrastructure Investment and Jobs Act remain in the May Revision forecast, with a gradual and peak effect of raising national and state employment levels by around 0.5 percent in 2025.

The May Revision forecast incorporates an initial assessment of the economic, financial, and political implications of the Ukraine-Russia war, which is estimated to have a moderate drag on economic growth in the near term. The Ukraine-Russia war is assumed to indirectly impact the state's economy through higher global food and energy prices, as well as through additional disruptions to the already strained supply chain systems. These recent events in Ukraine, as well as COVID-19 lockdowns in China, are expected to delay the resumption of normal supply chain operations by several quarters compared to what was assumed in the Governor's Budget. Consequently, the reversion of inflation to pre-pandemic rates of slightly above 2 percent and 3 percent for the U.S. and California, respectively, is now projected for late 2023, or about a year later than expected in the Governor's Budget.

While growth is projected to continue, near-term risks and uncertainties have been heightened. Increased uncertainty has already led the stock market into correction territory and consumer confidence fell by March to its lowest level in a decade. To the extent that key events play out worse than assumed in the May Revision forecast—another disruptive surge in COVID-19 cases in the U.S. or globally, a more severe variant of the virus, persistent labor market frictions, a larger negative impact of tighter monetary policy, escalation of the Ukraine-Russia war, or extended global supply chain disruptions—economic output might be lower than projected, with important consequences for the Administration's revenue forecast. However, a faster-than-expected easing of supply chain constraints could help alleviate inflationary pressures and support even stronger growth in economic activity.

REMARKABLE ECONOMIC GROWTH IN 2021

After contracting by 10 percent in just two quarters in the first half of 2020, the largest contraction in recorded history, California real GDP rebounded quickly and recovered to its pre-pandemic level in the first quarter of 2021—one quarter earlier than for the nation. In 2021, both the state and the U.S. experienced their fastest annual real GDP growth since 1984—7.8 percent and 5.7 percent, respectively. California's share of U.S.

real GDP increased to 14.8 percent in 2021, up from 14.4 percent in 2019. As of the fourth quarter of 2021, California real GDP was 6.1 percent above its pre-pandemic level, compared to 3.1 percent above for the nation.

In line with strong GDP growth, California's nonfarm employment recovery exceeded expectations, increasing by 3.2 percent in 2021, its largest annual growth since 2000, and compared to 2.8 percent projected in the Governor's Budget. In November 2021 when the Governor's Budget economic forecast was finalized, California and the U.S. had recovered 70 percent and 80 percent of jobs lost during the pandemic, respectively. Since then, as of March, the state has recovered about 90 percent of the jobs lost in March and April 2020. (Much of the improvement since Governor's Budget was due to annual data revisions.) California's job gains accounted for 12.1 percent of the 20.4 million jobs recovered by the nation since the height of the pandemic, slightly higher than California's pre-pandemic share of national nonfarm employment (11.6 percent), although the state also accounted for a disproportionately greater share of jobs lost during the recession. As of March 2022, California and the U.S. remained 1.7 percent (300,000 jobs) and 1 percent (1.6 million jobs) below their February 2020 pre-pandemic peaks, respectively.

After averaging 7.4 percent in 2021, California's unemployment rate fell to 4.9 percent in March 2022—0.8 percentage point above its pre-pandemic low of 4.1 percent in February 2020. As of March 2022, the U.S. unemployment rate was only 0.1 percentage point above its pre-pandemic low of 3.5 percent in February 2020. (See figure on California and U.S. Recovery to Date.)

A robust nonfarm job recovery and a tight labor market led to a second consecutive year of strong average wage growth—8.6 percent in 2021 following 10.9 percent in 2020. The substantial growth in total wages and salaries, which is the product of average wages and nonfarm employment, kept personal income growth at a high 8.5 percent in 2021 despite a much lower contribution of transfer payments due to the expiration of pandemic-related assistance programs. Despite the worst recession since the Great Depression, personal income actually increased in 2020 by 8.6 percent—nearly twice as large as its 2019 pre-pandemic rate of 4.6 percent. This was due largely to the extraordinary growth in transfer payments of 47.3 percent. In 2021, the strong performance of personal income was more indicative of a growing economy as most personal income components experienced solid growth.

California and U.S. Recovery to Date

	Pre-pandemic Peak	Peak-to-Trough Decrease	Most Recent Data[1/]	Percent Change from Pre-pandemic Peak
California Real GDP	$2.776 Trillion (2019 Q4)	-10.1% (2020 Q2)	$2.946 Trillion (2021 Q4)	6.1% (2021 Q4)
U.S. Real GDP	$19.202 Trillion (2019 Q4)	-10.1% (2020 Q2)	$19.806 Trillion (2021 Q4)	3.1% (2021 Q4)
California Nonfarm Employment	17.7 Million Jobs (Feb 2020)	-15.6% (Apr 2020)	17.4 Million Jobs (Mar 2022)	-1.7% (Mar 2022)
U.S. Nonfarm Employment	152.5 Million Jobs (Feb 2020)	-14.4% (Apr 2020)	150.9 Million Jobs (Mar 2022)	-1.0% (Mar 2022)
	Pre-pandemic Low	**COVID-19 Recession Peak**	**Most Recent Rate[1/]**	**Percentage Point Difference from Pre-pandemic Low**
California Unemployment Rate	4.1% (Feb 2020)	16.1% (May 2020)	4.9% (Mar 2022)	0.8% (Mar 2022)
U.S. Unemployment Rate	3.5% (Feb 2020)	14.7% (April 2020)	3.6% (Mar 2022)	0.1% (Mar 2022)

[1/] Time period based on most recent state data available.

Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; CA Employment Development Department, Labor Market Information Division.

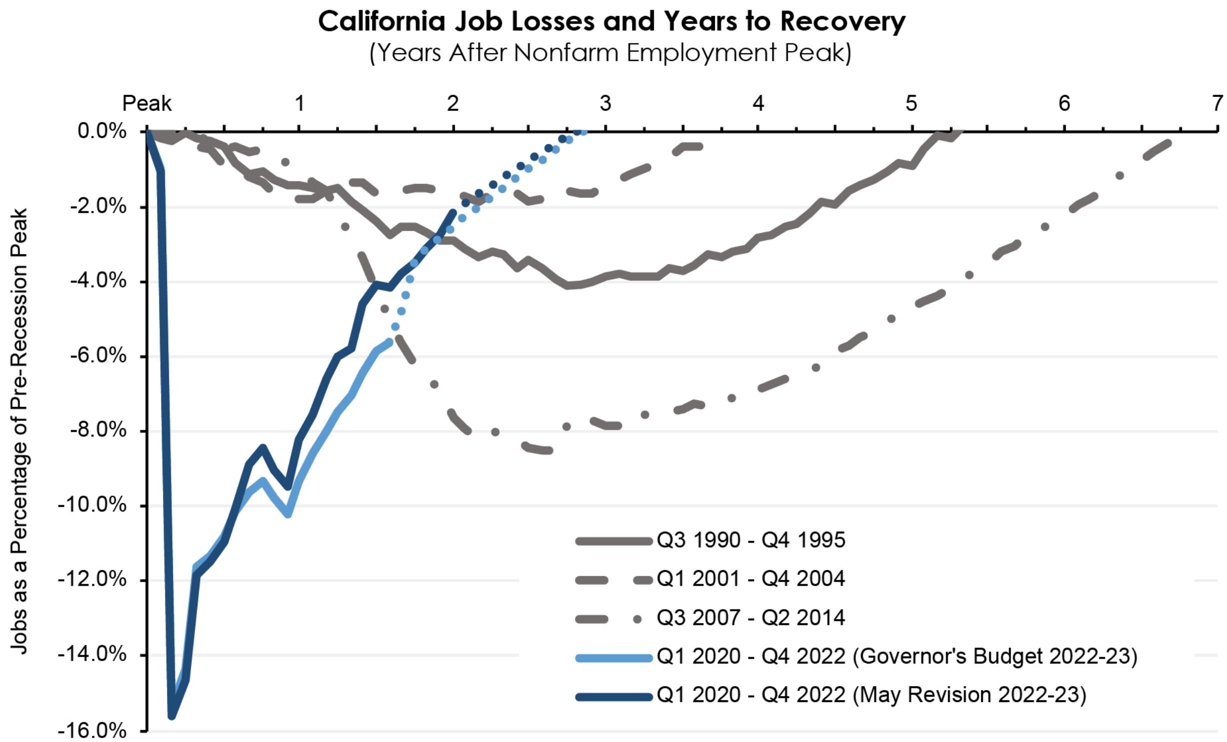
THE FORECAST: CONTINUED GROWTH

Economic growth is expected to continue, albeit at a slightly slower rate than projected at Governor's Budget due to persistent global supply chain bottlenecks, international economic sanctions in response to the Russian invasion of Ukraine, tighter monetary policy, and persistently high inflation. U.S. real GDP growth in 2022 has been downgraded notably—3 percent compared to 4.3 percent assumed in the Governor's Budget forecast—with steady but somewhat lower real GDP growth projected thereafter. (See Figure on Economic Indicators at the end of this chapter.)

LABOR MARKET NEARING RECOVERY

California's nonfarm employment is also expected to continue its steady growth and is projected to recover to its pre-pandemic level in the fourth quarter of 2022, unchanged from the Governor's Budget projection. (See figure on California Job Losses and Years to Recovery.) This projected nonfarm job recovery for the U.S. is one quarter earlier than for California, also unchanged from the Governor's Budget, and in line with the nation's slightly higher share of jobs recovered to date. Nonfarm employment is projected to grow by 4.4 percent in 2022, before slowing to 0.8 percent by the end of the forecast period, in line with California's projected labor force growth.

The May Revision forecast projects both high- and low-wage sector groups in California to recover in the fourth quarter of 2022. Low-wage sectors—defined as sectors with



Blue dotted lines indicate projected values.
Lines start from the quarter of each nonfarm employment pre-recession peak.
Source: CA Employment Development Department, Labor Market Information Division; CA Department of Finance, May Revision Forecast.

average wages below the 2019 average wage for all industries—consist of leisure and hospitality, other services, education and health services, and trade, transportation and utilities. Low-wage sectors were hit harder by the pandemic than high-wage sectors and accounted for three out of four jobs lost during the recession. Low-wage sectors have also exhibited relatively strong growth in recovery, accounting for nearly three out of every four jobs added back as of March 2022. Low-wage sectors in California were 1.9 percent (160,000 jobs) below their February 2020 pre-pandemic level as of March 2022, compared to 1.5 percent (130,000 jobs) lower for high-wage sectors. In March 2022, construction joined trade, transportation and utilities, professional and business services, and education and health services as the fourth major sector in California to have surpassed February 2020 pre-pandemic levels.

While California's job growth has been remarkably strong in 2021, the state's labor force recovery has been slower, as the number of Californians either working or seeking work decreased for the second consecutive year in 2021. This is likely due to ongoing pandemic-related reasons such as inability to work due to sickness or fear of the virus, child care issues, and low migration inflows.

In spite of recent trends of labor force decline, the May Revision forecast assumes that strong nonfarm job growth in 2022 will attract more people back into the labor force as

Californians continue to adjust to living with COVID-19. The labor force is projected to grow by 1.9 percent in 2022 and recover to its fourth quarter of 2019 level in the first quarter of 2023.

With assumed growth in the labor force and a strong employment recovery, California's unemployment rate is projected to continue decreasing and reach its pre-pandemic fourth quarter of 2019 rate of 4.1 percent in the fourth quarter of 2022. The unemployment rate is then assumed to stay in the low 4-percent range through the end of 2025. As with the nation, California's unemployment rate is projected to slightly increase from record-low levels towards the end of the forecast window, as the number of labor force entrants is expected to be larger than the projected increase in civilian employment. Historically, California's unemployment rate is higher than, but closely correlated with, the U.S. unemployment rate. This gap tends to narrow during economic expansions, and is projected to decrease to less than 0.2 percentage point by the end of the forecast window in 2025, in line with the pre-pandemic gap.

INFLATION PROJECTED TO MODERATE BY LATE 2023

California consumer inflation slowed to its lowest rate in five years in 2020 (1.7 percent) as both demand and supply shut down in response to the unprecedented global public health crisis. As the economy reopened and vaccines became available, and with increased accumulated consumer savings, demand for goods and services rebounded sharply and inflation returned to pre-pandemic rates in early 2021. Inflation has since accelerated to historically high rates. In particular, U.S. headline inflation accelerated from 7.9 percent (year-over-year) in February 2022 to 8.5 percent in March 2022, its fastest rate since December 1981. Similarly, California inflation reached 7.2 percent in February 2022, its highest rate since June 1982 and about 2 percentage points higher than projected at Governor's Budget.

Elevated inflation in 2021 was driven by pandemic-induced factors (the prices of gasoline, flights, and hotels skyrocketed due to strong pent-up demand) and supply chain disruptions (including reduced inventory for new cars and other electronic products, and various other shortages that have driven up the prices of durable goods). As such, higher inflation in 2021 mostly resulted from fuel, transportation, and other goods. Inflation has been more broad-based in 2022 as the Russian invasion of Ukraine added pressures on food and energy prices. The Ukraine-Russia war is also expected to further exacerbate global supply chain issues. Shelter inflation, which had been depressed during 2020 and 2021, is expected to return roughly to pre-pandemic levels in 2022 driven by sharp increases in home prices. (See figure on California Inflation Contributions by Major Categories.)

California Inflation Contributions by Major Categories

	2019	2020	2021	2022	2023	2024	2025
Headline Inflation (Annual % Change)	**3.0**	**1.7**	**4.3**	**6.8**	**3.5**	**3.1**	**3.1**
	Contributions to Headline Inflation (Percentage Points)						
Food	0.4	0.6	0.6	1.2	0.6	0.4	0.4
Shelter	1.8	1.1	0.7	1.9	2.0	1.8	1.7
Transportation excluding Gasoline	0.2	-0.2	0.7	0.9	0.5	0.4	0.5
Energy (Gasoline and Fuel and Utilities)	0.3	-0.4	1.6	1.3	-0.2	0.2	0.2
All Other Categories	0.4	0.6	0.6	1.5	0.7	0.4	0.3

Colors represent percentage point contributions to California headline inflation: -2 -1 0 1 2

Individual categories' contributions add up to the total headline inflation rate. Forecast starts in 2022.
Source: U.S. Bureau of Labor Statistics, CA Department of Finance, May Revision Forecast.

As supply chain challenges are expected to be solved over the next several quarters, the May Revision forecast projects food and energy prices to steadily decelerate. As a result, U.S. and California inflation is projected to slow to around pre-pandemic rates by the end of 2023, about one year later than projected at Governor's Budget.

Supply chain bottlenecks are complex and their assumed resolution depends on several factors, including the Ukraine-Russia war, the path of the pandemic in the U.S. and in various parts of the world, and the alleviation of ongoing labor market frictions. If supply chain disruptions last longer than assumed in the May Revision forecast, economic growth may be slower than projected.

ELEVATED INFLATION AND A TIGHT LABOR MARKET EXPECTED TO KEEP WAGE GROWTH HIGH

California average wages increased by 10.9 percent in 2020, as pandemic job losses concentrated among low-wage sectors brought the average wage higher. In 2021, average wages increased by 8.6 percent, or twice as high as the California inflation rate of 4.3 percent, as wages and salaries increased substantially for both high- and low-wage sectors. Labor market frictions and elevated inflation are expected to continue to put upward pressure on wages. However, projected inflation of 6.8 percent is expected to outpace average wage growth of 5.3 percent in 2022, leading to real wage losses. As inflation is assumed to ease by the end of 2023, the May Revision forecast projects real average wage gains starting in 2023 and through 2025.

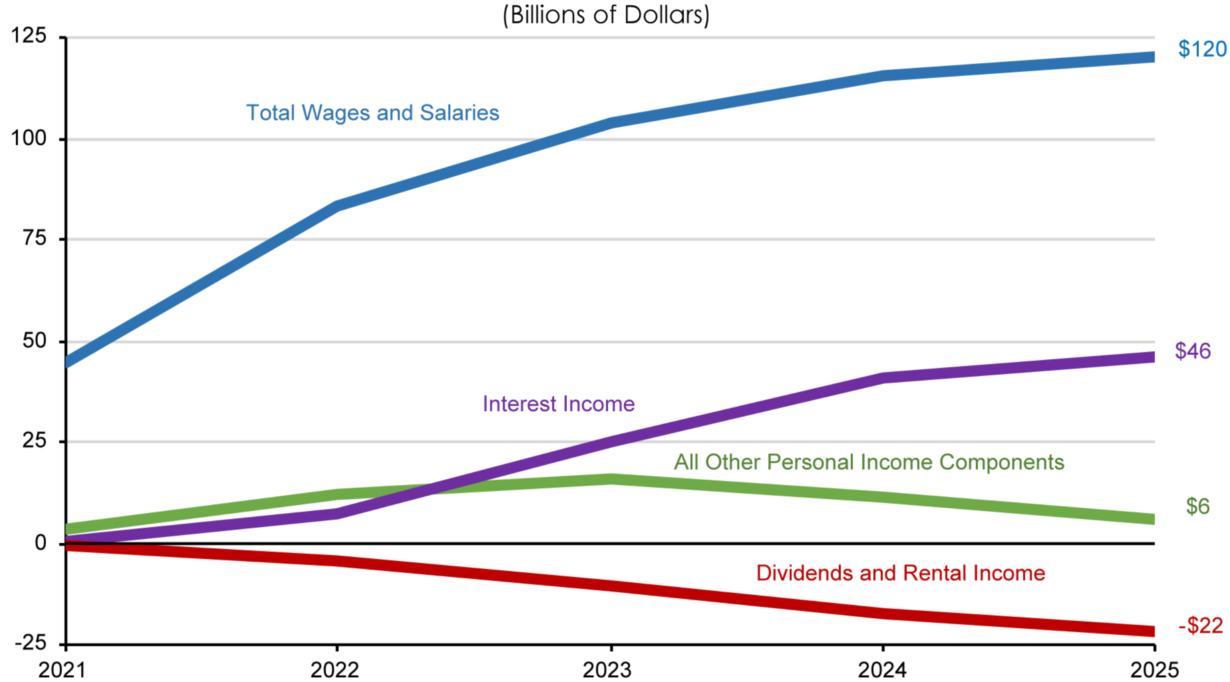
WAGE GROWTH DRIVES PERSONAL INCOME GROWTH

Personal income is projected to continue growing through 2025 at an overall faster rate than projected at Governor's Budget, as personal income is not inflation-adjusted and is positively impacted by higher prices and wages. Furthermore, historical data were revised higher and the Federal Reserve's accelerated schedule of interest rate increases is also expected to boost interest income, contributing to a faster personal income growth. (See figure on California Personal Income Components.)

California Personal Income Components

Difference between May Revision and Governor's Budget

(Billions of Dollars)



Total wages and salaries were 51.5 percent of total personal income in 2021, interest income's share was 7.5 percent, dividends and rental income's share was 9.4 percent, and all other components made up the remaining 46.3 percent.
Changes to projections reflect revisions to historical data as well as new developments since November 2021.
Source: U.S. Bureau of Economic Analysis; CA Department of Finance, May Revision Forecast.

Total wages and salaries, which account for about half of California's personal income, grew by 12.5 percent in 2021 and are expected to increase by 9.9 percent in 2022, before slowing to around 5 percent growth by 2025. The May Revision forecast projects total wages and salaries to be higher than projected in the Governor's Budget ($83 billion higher in 2022 growing to $120 billion higher in 2025). Similarly, interest income is projected to be $7 billion higher in 2022 growing to $46 billion by 2025 as the Federal Reserve is expected to continue to increase interest rates. Interest income is projected to reach double-digit growth in 2024, in line with the projected peak of the federal funds rate. In contrast, the rising interest rates are expected to be a drag on rental income as the benefits of higher interest rates shift income from interest payers to interest earners. The outlook for financial conditions has also been downgraded due to geopolitical events. As a result, dividends and rental income have been downgraded and are $22 billion lower than projected at Governor's Budget by 2025. Revisions to all other personal income components were marginal. Overall, personal income is higher than projected in the Governor's Budget—$98 billion (3.3 percent) higher in 2022 growing to $150 billion (4.3 percent) higher in 2025.

HOUSING CONSTRUCTION GROWING BUT STILL SHORT OF DEMAND

Residential permits continued to grow despite the pandemic and the ensuing economic slowdown. In 2021, California permitted 120,000 housing units—the highest level of units authorized in the state since 2006. However, around 180,000 new units are needed every year to make up for the current deficit in the housing stock. Every year with fewer permits increases the deficit and contributes to the critical housing shortage in the state, driving inflation in the state higher than in the nation. Permitting activity is expected to continue growing in the forecast window but at a slightly slower rate than assumed in the Governor's Budget, consistent with slightly downgraded economic growth, expected interest rate increases starting in 2022, higher inflation, and prolonged supply chain disruptions. Long-term structural challenges for California's housing market remain, including the state's housing shortage and high housing costs, slow growth of permits relative to housing needs, and extreme weather conditions that constrain housing growth.

RISKS

Downside risks to the forecast include a prolonged period of elevated inflation, a slower resolution of supply chain bottlenecks, continued or worsening stock market volatility, and a potential escalation of the Ukraine-Russia war. Persistently high inflation, due to continued supply chain disruptions or consumer and business expectations of extended elevated inflation, would cause a further slowdown in real GDP. Tighter monetary policy, aiming to moderately slow economic growth, has sparked fears that the Federal Reserve's actions could overcorrect and cause a recession. The May Revision forecast assumes that the tighter monetary policy will not induce a sharp economic slowdown.

The risk of sustained supply chain bottlenecks could stem from a longer resolution or escalation of the Ukraine-Russia war or increases in COVID-19 cases that would materially affect the U.S. and global economies. For instance, China has continued to implement strict shutdowns in areas where new COVID-19 cases have surged, disrupting trade activity and prolonging supply chain issues.

Economic sanctions on Russia created global uncertainties, especially to large trading partners of Ukraine and Russia including several countries in Europe and Asia. There are still uncertainties around the extent and duration of economic disruption resulting from the war and how countries will interact with Russia afterwards. The S&P 500 and other major stock market indices have experienced notable volatility since late 2021 and this has been exacerbated by the Ukraine-Russia war. Notably, the S&P 500 and the Dow Jones have been oscillating in and out of correction territory (falling at least 10 percent below their most recent high) since late February, while the Nasdaq has recently entered bear territory (falling at least 20 percent below its most recent high).

Conversely, there are various reasons why the economy may perform better than projected in the May Revision forecast. These reasons include a faster easing of inflation than currently projected due to a quicker resolution of supply chain bottlenecks or the Ukraine-Russia war. Swifter recovery of international tourism and travel into the state would also allow for a faster recovery of the leisure and hospitality and other service sector jobs, generating secondary benefits of broader economic growth in the state. Finally, a reversal or reduction of tariffs on imports from China and other U.S. trade partners could help ease price pressures and curtail inflation.

Economic Indicators

Annual Percentage Change unless Otherwise Indicated

	2019	2020	2021	Forecast 2022	2023	2024	2025
United States							
Real GDP							
May Revision, April 2022	**2.3%**	**-3.4%**	**5.7%**	***3.0%***	***2.8%***	***2.7%***	***2.4%***
Governor's Budget, November 2021	2.3%	-3.4%	*5.5%*	*4.3%*	*2.9%*	*2.7%*	*2.6%*
Unemployment Rate (percent)							
May Revision, April 2022	**3.7%**	**8.1%**	**5.4%**	***3.6%***	***3.6%***	***3.8%***	***4.1%***
Governor's Budget, November 2021	3.7%	8.1%	*5.4%*	*3.8%*	*3.5%*	*3.6%*	*3.8%*
Nonfarm Employment							
May Revision, April 2022	**1.3%**	**-5.8%**	**2.8%**	***4.0%***	***1.5%***	***0.6%***	***0.3%***
Governor's Budget, November 2021	1.3%	-5.7%	*2.7%*	*3.9%*	*1.9%*	*0.9%*	*0.6%*
Personal Income							
May Revision, April 2022	**4.1%**	**6.5%**	**7.4%**	***2.3%***	***5.6%***	***5.4%***	***5.1%***
Governor's Budget, November 2021	4.1%	6.6%	*6.5%*	*1.0%*	*5.0%*	*5.3%*	*5.3%*
CPI Inflation Rate (percent)							
May Revision, April 2022	**1.8%**	**1.2%**	**4.7%**	***6.8%***	***2.7%***	***2.1%***	***2.1%***
Governor's Budget, November 2021	1.8%	1.2%	*4.6%*	*3.5%*	*2.1%*	*2.2%*	*2.2%*
California							
Unemployment Rate (percent)							
May Revision, April 2022	**4.1%**	**10.3%**	**7.4%**	***4.7%***	***4.1%***	***4.2%***	***4.3%***
Governor's Budget, November 2021	4.2%	10.2%	*7.7%*	*5.6%*	*4.6%*	*4.2%*	*4.2%*
Civilian Labor Force							
May Revision, April 2022	**0.6%**	**-2.5%**	**-0.1%**	***1.9%***	***1.5%***	***0.8%***	***0.7%***
Governor's Budget, November 2021	0.5%	-2.8%	*0.7%*	*2.5%*	*2.0%*	*1.1%*	*0.7%*
Nonfarm Employment							
May Revision, April 2022	**1.5%**	**-7.1%**	**3.5%**	***4.4%***	***2.2%***	***1.2%***	***0.8%***
Governor's Budget, November 2021	1.5%	-6.8%	*2.8%*	*4.3%*	*2.5%*	*1.8%*	*1.2%*
Residential Permits (thousands of units)							
May Revision, April 2022	**110**	**105**	**120**	***122***	***128***	***136***	***144***
Governor's Budget, November 2021	110	105	*120*	*126*	*132*	*140*	*149*
Average Wages							
May Revision, April 2022	**4.4%**	**10.9%**	**8.6%**	***5.3%***	***4.8%***	***4.5%***	***4.3%***
Governor's Budget, November 2021	4.4%	10.5%	*6.1%*	*3.2%*	*3.6%*	*3.6%*	*3.9%*
Real Average Wages							
May Revision, April 2022	**1.4%**	**9.2%**	**4.3%**	***-1.5%***	***1.3%***	***1.4%***	***1.2%***
Governor's Budget, November 2021	1.4%	8.8%	*1.9%*	*-0.6%*	*0.6%*	*0.5%*	*0.6%*
Personal Income							
May Revision, April 2022	**4.6%**	**8.6%**	**8.5%**	***2.9%***	***6.1%***	***5.7%***	***5.2%***
Governor's Budget, November 2021	4.6%	8.6%	*6.7%*	*1.3%*	*5.1%*	*5.4%*	*5.5%*
CPI Inflation Rate (percent)							
May Revision, April 2022	**3.0%**	**1.7%**	**4.3%**	***6.8%***	***3.5%***	***3.1%***	***3.1%***
Governor's Budget, November 2021	3.0%	1.7%	*4.2%*	*3.8%*	*3.0%*	*3.1%*	*3.3%*

May Revision Forecast based on data available as of April 2022.

Governor's Budget Forecast based on data available as of November 2021. Figures in italics indicate forecasts, including 2021 figures for Governor's Budget Forecast.

Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Census Bureau; CA Employment Development Department, Labor Market Information Division; CA Department of Finance, May Revision Forecast.

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REVENUE ESTIMATES

The economic picture nationally and in California is less positive than when the Governor's Budget forecast was finalized in November 2021, driven by the disruption caused by the Ukraine-Russia war, elevated inflation that is more persistent and has led to tighter monetary policy, and a stock market that has declined significantly. Nonetheless, tax receipts for the three largest tax sources have come in $33.9 billion higher than projected through April. And while the economic forecast has been downgraded somewhat since the Governor's Budget in real (inflation-adjusted) terms, these developments have been generally positive for the revenue forecast, as the higher level of inflation leads to higher income and prices, translating to higher levels of tax liability and revenue. Thus, all three major revenue sources are expected to show significant increases over the multiyear period relative to the Governor's Budget forecast. Risks to the economic forecast, however, have been heightened, as discussed in the Economic Outlook Chapter.

The changes in the three largest tax sources over the budget window (2020-21 through 2022-23) are:

- Personal income tax revenues are higher by over $23 billion due largely to very strong tax receipts related to the 2021 tax year and a significantly upgraded forecast for nominal (not adjusted for inflation) wage growth in 2022 and 2023.
- Sales tax revenues have been revised upward by almost $3.7 billion due to strong tax receipts and a higher inflation forecast.

- Corporation tax revenues are up $28.1 billion based on very strong cash receipts, stronger corporate profits in 2021 than projected at Governor's Budget, and stronger participation in the pass-through entities (PTE) elective tax.

After accounting for transfers, which includes loan repayments as well as deposits into the Rainy Day Fund, baseline General Fund revenues at the May Revision exceed the Governor's Budget forecast by $54.6 billion over the budget window: $442 million in 2020-21, $30.3 billion in 2021-22, and $23.9 billion in 2022-23. Other Revenues includes $1.1 billion in federal cost recovery for 2021-22 and $6.7 billion for 2022-23.

The PTE tax, enacted as part of the 2021 Budget Act as a way to help California business owners mitigate the impact of the federal limit on state and local tax deductions on federal tax returns, has proved more popular than anticipated. Actual receipts through April 2022, which are related to the 2021 tax year, came in at $14.9 billion, over 60 percent higher than the $9.1 billion projected at Governor's Budget. In addition to the higher usage of the elective tax, payments came in sooner than anticipated. It is uncertain how much of the roughly $14 billion in tax credits related to the 2021 tax year that are expected to be generated from this tax have actually been reflected in reduced personal income tax payments received so far. The May Revision forecast assumes that 50 percent, or $7 billion, of the credits will result in higher refunds on October 2022 personal income tax extension returns. The combination of higher participation and modified assumptions regarding the timing of the effects of the tax lead to a net increase in revenue, relative to the Governor's Budget, of $5.9 billion in 2021-22 and $700 million in 2022-23. Over the following three fiscal years combined, the modified assumptions regarding the PTE tax reduce General Fund revenues by $5.3 billion relative to the Governor's Budget.

The General Fund Revenue Forecast table compares the Governor's Budget and May Revision revenue forecasts.

2022-23 May Revision
General Fund Revenue Forecast
(Dollars in Millions)

Source	2022-23 Governor's Budget	May Revision	Change From Governor's Budget Forecast	
Fiscal 2020-21: Final				
Personal Income Tax	$128,226	$128,856	$630	0.5%
Sales & Use Tax	29,066	29,073	7	0.0%
Corporation Tax	22,793	22,591	-202	-0.9%
Insurance Tax	3,139	3,139	0	0.0%
Alcoholic Beverage	415	415	0	0.0%
Cigarette	60	60	0	0.0%
Pooled Money Interest	192	192	0	0.0%
Other Revenues	2,201	2,485	284	12.9%
Subtotal	$186,092	$186,810	$718	0.4%
Transfers[1/]	8,040	7,764	-276	-3.4%
Total	**$194,132**	**$194,575**	**$442**	0.2%
Fiscal 2021-22				
Personal Income Tax	$120,873	$136,397	$15,524	12.8%
Sales & Use Tax	$30,866	$32,750	1,884	6.1%
Corporation Tax	$32,863	$46,395	13,532	41.2%
Insurance Tax	$3,448	$3,468	19	0.6%
Alcoholic Beverage	$423	$430	7	1.6%
Cigarette	$58	$54	-4	-6.1%
Pooled Money Interest	$182	$237	55	30.3%
Other Revenues	$5,116	$3,050	-2,066	-40.4%
Subtotal	$193,829	$222,782	$28,952	14.9%
Transfers[1/]	2,840	4,174	1,334	47.0%
Total	**$196,669**	**$226,956**	**$30,286**	15.4%
Fiscal 2022-23				
Personal Income Tax	$130,269	$137,454	$7,186	5.5%
Sales & Use Tax	$32,208	$33,991	1,783	5.5%
Corporation Tax	$23,732	$38,464	14,732	62.1%
Insurance Tax	$3,541	$3,667	127	3.6%
Alcoholic Beverage	$421	$435	14	3.3%
Cigarette	$51	$49	-2	-4.7%
Pooled Money Interest	$164	$478	314	191.5%
Other Revenues	$7,249	$8,428	1,179	16.3%
Subtotal	$197,634	$222,966	$25,332	12.8%
Transfers[1/]	-1,915	-3,333	-1,418	74.0%
Total	**$195,718**	**$219,632**	**$23,914**	12.2%
Three-Year Total			**$54,642**	

Totals may not add because of rounding.
[1/]Includes transfers to Budget Stabilization Account for each year.

LONG-TERM FORECAST

The Long-Term Revenue Forecast table below shows the forecast for the largest three sources of General Fund revenues from 2020-21 through 2025-26. Assuming continued steady economic growth, total General Fund revenues from these sources are projected to increase from $180.5 billion in 2020-21 to $232.1 billion in 2025-26. The majority of the increase occurs in 2021-22, reflecting the surge in revenues related to the 2021 tax year.

Long-Term Revenue Forecast
Three Largest Sources
(General Fund Revenue - Dollars in Billions)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Average Year-Over-Year Growth
Personal Income Tax	$128.9	$136.4	$137.5	$143.8	$148.9	$156.2	3.9%
Sales and Use Tax	$29.1	$32.7	$34.0	$35.1	$36.2	$37.3	5.2%
Corporation Tax	$22.6	$46.4	$38.5	$42.0	$45.4	$38.6	18.1%
Total	**$180.5**	**$215.5**	**$209.9**	**$220.9**	**$230.6**	**$232.2**	5.4%
Growth	29.5%	19.4%	-2.6%	5.3%	4.4%	0.7%	

Note: Numbers may not add due to rounding. The PTE elective tax is artificially deflating personal income tax revenues from 2021-22 through 2025-26 and artificially inflating corporation tax revenues for the same years.

Note: Average year-over-year growth is calculated from 2020-21 to 2025-26 and therefore excludes the 29.5% growth from 2019-20 to 2020-21. Average year-over-year growth from 2019-20 to 2025-26 is 9.4%.
Source: California Department of Finance, May Revision Forecast

REVENUE PROPOSALS

The May Revision includes several proposals included in the Governor's Budget that have not yet been enacted. These proposals include the following:

- Index the $1,000 Young Child Tax Credit (YCTC) amount to inflation. The estimate for this proposal has been updated from a loss of $19 million in 2022-23 in the Governor's Budget to a loss of $14 million for the May Revision.
- Allow the YCTC to be claimed by households with zero income. The estimate for this proposal has been updated from a loss of $24 million in 2022-23 in the Governor's Budget to a loss of $55 million for the May Revision.
- Create a $1,000 credit for young adults who have come through the foster care system, at a cost of roughly $20 million ongoing.
- Tax payment flexibility for low- and moderate-income households. The revenue loss for this proposal was not available for the Governor's Budget. The revenue loss at the May Revision is estimated at $100 million for 2021-22 and $60 million for 2022-23.

In addition, the May Revision also proposes the following:

- An extension of the California Competes (CalCompetes) Tax Credit Program through the 2027-28 fiscal year at the current level of $180 million in credit allocations per year to ensure program continuity. The CalCompetes extension—and an associated proposed second year of the CalCompetes grant program—is discussed in the Economic Growth, Job Creation, and Expanded Opportunity Chapter.
- An expansion of the conformity to the federal tax treatment of the Paycheck Protection Program (PPP) to include loans provided after March 30, 2021. The PPP conformity expansion is discussed in the Economic Growth, Job Creation, and Expanded Opportunity Chapter.
- A technical fix to the two Main Street Tax Credits to help taxpayers who reserved credits claim those credits against income tax. The Main Street Credits fix is discussed in the Economic Growth, Job Creation, and Expanded Opportunity Chapter.
- An expansion of the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) program by $15 million from 2022-23 through 2024-25 dedicated to equipment purchases related to the extraction or processing of lithium, as well as equipment purchases related to manufacturing with lithium, with additional costs to backfill local revenues consistent with the base program.
- A tax on lithium extraction. This tax is discussed in the Climate Change Chapter.
- As part of the broad-based relief package, a 12-month pause, effective October 1, 2022, on the General Fund (3.9375-percent rate) portion of the sales tax rate on diesel. This tax reduction is discussed in the Broad Based Relief Chapter.

These new proposals are expected to reduce General Fund revenue by $160 million in 2021-22 and by $487 million in 2022-23.

The Governor's Budget included two tax credits to help California transition to a more resilient climate future. The first was a new credit for companies investing in activities and technologies that mitigate climate change and are headquartered in California. The second was a credit for those that opt in to develop green energy technologies. Both of these credits have been converted to a grant program administered by the California Energy Commission. This grant program is discussed in the Climate Change Chapter.

PERSONAL INCOME TAX

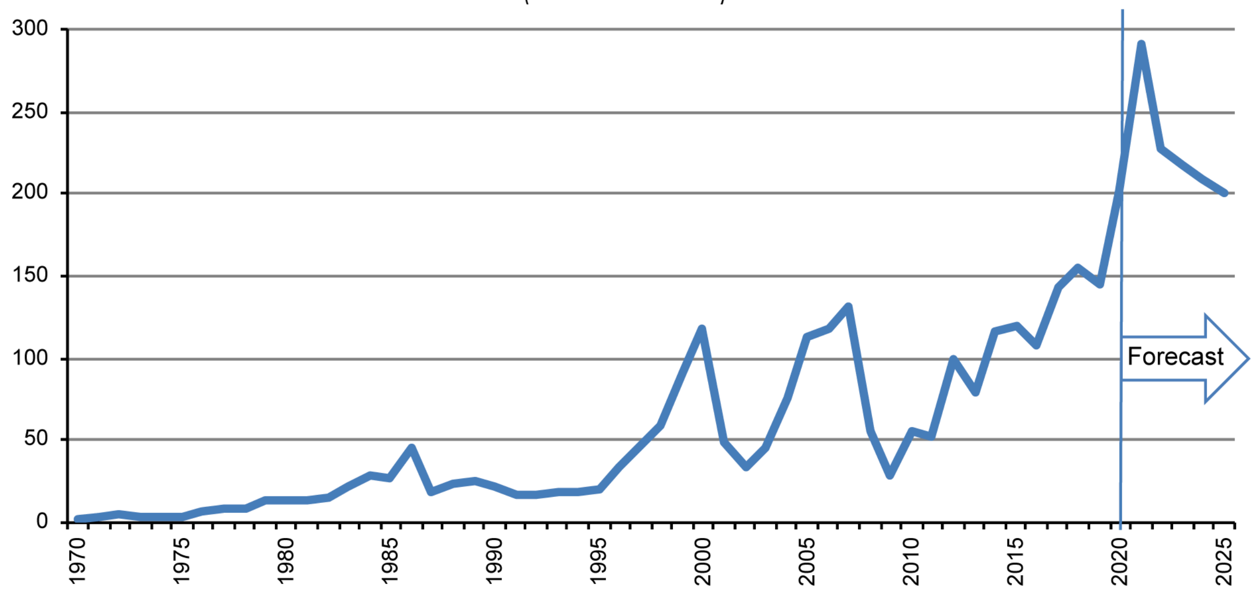
Compared to the Governor's Budget forecast, the personal income tax forecast is higher by $630 million in 2020-21, $15.5 billion in 2021-22, and $7.2 billion in 2022-23. Over the three-year period, the personal income tax forecast reflects a total increase of $23.3 billion. These figures include revenue losses from credit usage related to the pass-through-entities (PTE) elective tax of $16.2 billion in 2021-22 and $15 billion in 2022-23, which is an increase of $2.1 billion and $5.3 billion, respectively, over the Governor's Budget forecast.

Due to stronger wage growth for employees, as well as lower unemployment than forecast in the Governor's Budget, taxable wages have been revised higher, which positively impacts personal income tax wage withholding receipts. Typically, wages comprise around 55 percent to 60 percent of all personal income tax receipts. Taxable wage growth was revised from 9.2 percent to 12.4 percent in 2021, from 7.5 percent growth to 9.7 percent in 2022, and from 6 percent to 7 percent in 2023.

Personal income tax wage withholding receipts were very strong in 2021, with 20.2-percent year-over-year growth, compared to 16-percent growth estimated in the Governor's Budget. The difference between the 20.2-percent growth in withholding and the 12.4-percent growth in taxable wages reflects a larger share of the wage gains going to high-income earners with higher effective tax rates. Growth has moderated in the first four months of 2022, with withholding cash receipts growing about 7 percent year over year. As a result, withholding growth in 2022 has been revised to 7 percent compared to 7.6 percent in the Governor's Budget. Withholding growth is expected to be 7 percent in 2022, 2.7 percentage points lower than the expected growth in wages. Wage withholding growing slower than wages implies that a larger share of the wage growth is attributed to lower income taxpayers. This is consistent with the forecast that lower-wage sectors will comprise a larger share of the wage gains than higher-wage sectors.

Tax data for 2020 capital gains realizations reflected strong year-over-year growth of 40 percent to $202 billion. Given the strong year for the stock market in 2021, along with strong cash receipts related to tax year 2021 that were significantly above the Governor's Budget forecast, the forecast for capital gains realizations in 2021 was revised substantially higher, increasing from $245 billion to $291 billion. (See figure on Capital Gains Realizations.) This level is equal to 9.7 percent of personal income, which is the highest level of capital gains realizations as a share of the economy ever recorded except for 2000, when capital gains realizations were 10.4 percent of personal income. The Capital Gains Realizations as a Share of Personal Income figure shows the ratio of capital gains realizations to California Personal Income since 1980.

Capital Gains Realizations
(Dollars in Billions)

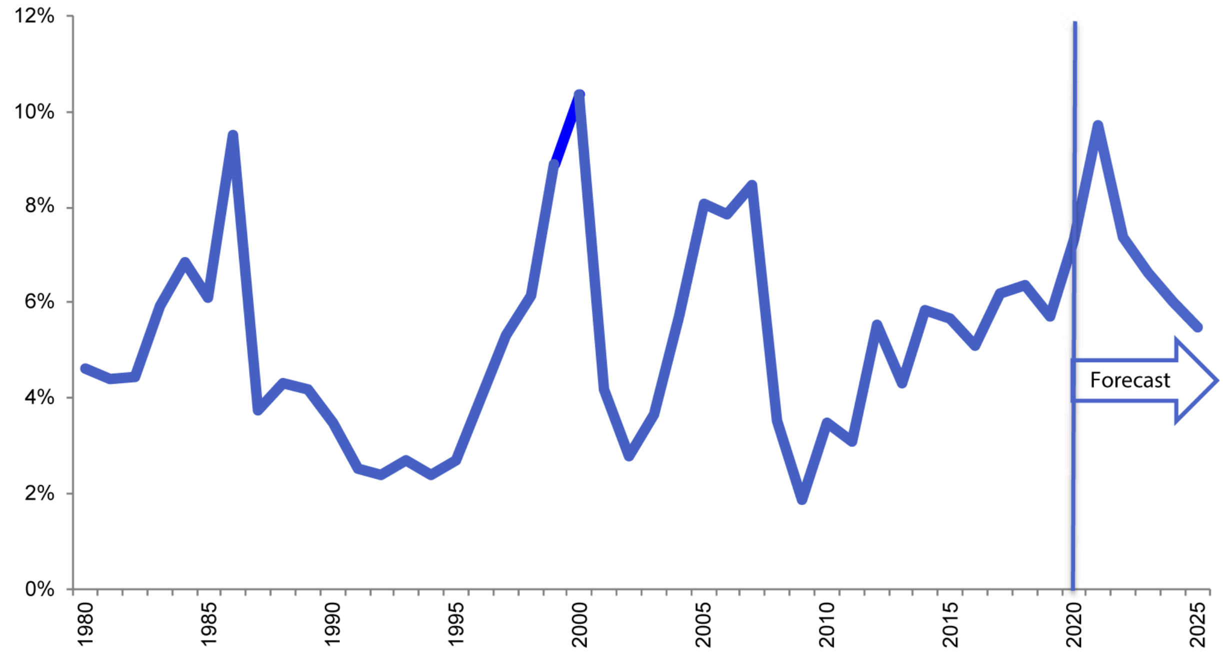


The S&P 500 has been in and out of correction territory (falling at least 10 percent below its most recent high) since late February. Accordingly, the S&P 500 is projected to average 4,244 in the third quarter of 2022, a significant downgrade from the Governor's Budget, which assumed that the S&P 500 would be at 4,716 in the third quarter of 2022, or nearly 11 percent higher. Further, the Nasdaq has declined more significantly, trading at 12,626 when the May Revision forecast was finalized—an over 21-percent decline from its peak levels in late November 2021 when the Governor's Budget was finalized.

Due to the stock market decline in early 2022, capital gains realizations are forecast to decline year-over-year to $227 billion in 2022. While this represents a 22-percent year-over-year decline, this level is only slightly below the Governor's Budget forecast of $232 billion for that year. Beginning in 2023, the stock market is assumed to experience below-average growth. Capital gains realizations are forecast to decline about 4 percent per year and are assumed to reach 5 percent of personal income at $191 billion in 2026, compared to $183 billion in 2026 at Governor's Budget due to the lower forecasted level of personal income at Governor's Budget.

As the apparent recent surge in capital gains shows, forecasting revenues associated with capital gains is subject to significant uncertainty because realizations are heavily dependent upon stock market performance and when taxpayers choose to buy or sell stock. Stock market performance is inherently unpredictable. In the Great Recession,

Capital Gains as a Share of Personal Income



the S&P 500 dropped by over 50 percent; in the technology-driven recession of 2001, it dropped by about 47 percent.

The personal income tax forecast includes Proposition 55 revenues, which are estimated at $14.9 billion in 2021-22 and $14.3 billion in 2022-23. These estimates are higher than the Governor's Budget by $1.4 billion and $571 million, respectively, due primarily to higher wages and capital gains realizations.

The highest-income Californians continue to pay a very large share of the state's personal income tax. For the 2020 tax year, the top one percent of income earners paid over 49 percent of personal income taxes. This percentage has been greater than 40 percent for 15 of the last 16 years.

Policy changes and updates in the personal income tax forecast relative to the Governor's Budget include the following: (1) lifting the temporary limitation on business use of net operating losses and credits one year early (see Corporation Tax); (2) PPP conformity for loans provided after March 30, 2021; (3) revised estimates for changes to the YCTC proposed at Governor's Budget; (4) incorporation of the fiscal estimate related to the Tax Payment Flexibility Program proposed at Governor's Budget; and (5) conversion of the Innovation Headquarters Credit and the Green Energy Tax Credit proposed at Governor's Budget to a grant program. In sum, these policy changes reduce personal income tax revenues by $275 million in 2021-22 and $36 million in 2022-23.

SALES AND USE TAX

The sales tax forecast is higher by $1.9 billion in 2021-22 and $1.8 billion in 2022-23 relative to the Governor's Budget forecast. Taxable sales are expected to increase by 15.8 percent in 2021-22 and a further 5.3 percent in 2022-23. In the Governor's Budget, taxable sales were expected to grow 9 percent in 2021-22 and decline by 3.7 percent in 2022-23.

Taxable consumer spending is expected to be higher than Governor's Budget by 5 percent in 2021-22 and by 9.2 percent in 2022-23, due primarily to higher inflation and a slower shift of spending patterns back to services from taxable goods. Taxable sales remained strong throughout the pandemic, due in large part to a shift in consumer spending from services to durable goods, which are more likely to be taxed. Of the industries that generate significant taxable consumer sales, non-store retailers, building material and garden improvement stores, and new car dealers have seen strong sales due to the pandemic. This spending shift is expected to unwind from 2022 to 2025 as spending habits are assumed to normalize, leading taxable consumer spending to stay relatively flat at 2022 levels.

Taxable capital investment, which has benefitted in recent quarters from strong inventory investment and inflation, is expected to be greater than Governor's Budget by 5 percent in 2021-22 and 3.1 percent in 2022-23. Beginning in 2023-24, investment growth is assumed to moderate due to higher borrowing costs resulting from the Federal Reserve increasing interest rates.

The May Revision sales tax forecast reflects two proposed policy changes: exempt diesel fuel from the General Fund (3.9375 percent) portion of the sales tax from October 1, 2022 to September 30, 2023; and increase the California Alternative Energy Advanced Transportation Financing Authority's $100 million sales tax exclusion program by $15 million per year for 2022-23 through 2024-25 for lithium-related projects, with additional costs to backfill local revenues consistent with the base program. These two policy changes are expected to decrease sales tax revenue by $328 million in 2022-23.

CORPORATION TAX

The corporation tax forecast is lower by $202 million in 2020-21, higher by $13.5 billion in 2021-22, and higher by $14.7 billion in 2022-23 relative to the Governor's Budget forecast. Roughly half of these gains result from higher PTE elective tax payments—$8 billion and $6 billion in 2021-22 and 2022-23, respectively. In response to strong cash receipts since the Governor's Budget that were about $10 billion above forecast through April 2022, corporate profit growth in 2021 was revised substantially higher from 15 percent to 41 percent. The forecast assumes that corporate profits will increase roughly in line with nominal GDP in subsequent years.

The 2020 Budget Act temporarily suspended net operating loss usage and limited business incentive tax credit usage for tax years 2020, 2021, and 2022. The corporation tax forecast incorporates the early action package enacted in February 2022, which ended the net operating loss and credit usage restriction one year early, allowing businesses to fully utilize their net operating losses and credits in tax year 2022.

The May Revision forecast for corporate tax revenues reflects one proposed policy change and one revised proposal: PPP conformity for loans provided after March 30, 2021 and the conversion of the Innovation Headquarters Credit and the Green Energy Tax Credit to a grant program. These two items are expected to reduce revenues by $80 million in 2021-22 and increase revenues by $190 million in 2022-23 relative to Governor's Budget.

INSURANCE TAX

The insurance tax forecast is higher by $19 million in 2021-22 and by $127 million in 2022-23 relative to the Governor's Budget forecast. Insurance tax premiums are expected to increase 6.5 percent in 2021, which is unchanged from Governor's Budget. Premiums are expected to grow 5.5 percent in 2022 and 5 percent in 2023, which are increases from the 3 percent assumed at Governor's Budget due primarily to higher inflation.

CANNABIS EXCISE TAX

Proposition 64, commonly referred to as the Adult Use of Marijuana Act, levies excise taxes on the cultivation and retail sale of both recreational and medical cannabis. The cultivation tax is paid on all recreational and medicinal cultivation of cannabis, and was increased, to adjust for inflation, to $10.08 per ounce of flower, $3.00 per ounce of trim, and $1.41 per ounce of fresh cannabis plant on January 1, 2022. In addition, there is a 15-percent tax on the retail price of cannabis. Both cannabis excise taxes together generated $770 million in 2020-21. The May Revision adjusted up the revenue from these excise taxes from $711 million to $809 million in 2021-22. The May Revision proposes statutory changes, effective July 1, 2022, to reform cannabis taxes with the intent to bring more licensees and customers into the legal market, which are discussed in the General Government and Statewide Issues Chapter.

PROPERTY TAX

Although the property tax is a local revenue source, the amount of property tax generated each year has an increased impact on the state budget when Tests 2 or 3 of Proposition 98 are operative because, in those years, local property tax revenues allocated to K-14 schools offset General Fund expenditures. When Test 1 of Proposition 98 is operative, as it will be for 2022-23, property tax revenues received by K-14 schools count toward the Proposition 98 guarantee, but do not offset General Fund expenditures.

Preliminary data suggest statewide property tax revenues increased around 3.7 percent in 2021-22, which is 2.5 percentage points lower than the 6.2-percent growth rate anticipated in the Governor's Budget. Property tax revenues are expected to grow 5.9 percent in 2022-23, which is 0.2 percentage point lower than the 6.1-percent growth expected in the Governor's Budget due to home price growth slowing and data that show a much lower rate of property transfers in 2021 compared to recent years. The rate of property transfers has a large effect on property tax revenue because price reassessments for the purposes of property tax occur when property changes hands under Proposition 13. Approximately 42 percent ($39.6 billion) of 2022-23 property tax revenues will go to K-14 schools. This includes $2.8 billion that schools are expected to receive in 2022-23 pursuant to the dissolution of redevelopment agencies.

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