

# GENERAL GOVERNMENT AND STATEWIDE ISSUES

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

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## GOVERNMENT OPERATIONS AND EFFICIENCIES

Since 2019, the Administration has been transforming government services through improvements in service delivery and technology investments. Building upon past efforts and lessons learned from the COVID-19 Pandemic, the state continues greater operational efficiencies through the expansion of telework strategies, reconfiguring office space, reducing leased space, promoting flexible work schedules for employees, and reducing disparities and promoting equity and inclusion in the workplace, including efforts to:

- **Support Statewide Telework**—The Department of General Services (DGS) continues to be funded for oversight and administration of the State's Telework Policy for successful implementation and data capture metrics, and to provide strategic efficiencies.
- **Reduce and Reconfigure Office Space**—Progress continues in reducing the state's leased portfolio while prioritizing the largest leasing clients to gain the greatest efficiencies. DGS is currently working with 40 state departments to consolidate

space across 132 individual leases, resulting in 1.16 million square feet of office space relinquished and annual savings of approximately \$35 million.

- **Reduce Travel Costs**—DGS continues to work with state departments and agencies for opportunities to reduce statewide travel costs by purchasing non-refundable airline tickets in lieu of refundable tickets, to the extent possible. Through this effort, the state has achieved 90-percent compliance with this goal, saving over \$3.6 million since August 2021.
- **Establish Office of Data and Innovation**—\$17.3 million ongoing General Fund and 65 positions from the Government Operations Agency (GovOps) were invested to establish the Office of Data and Innovation (ODI) as a standalone department under GovOps. ODI partners with state agencies to improve the efficiency and effectiveness of services delivered to Californians by providing process improvement and data solutions that are easy to use across government.

The Administration continues to invest in technology to improve and modernize the way Californians interact with government. Modernizing technology solutions results in efficiencies by providing faster and better government services.

- **Digital Identification**—The California Department of Technology (CDT) continues progress on the Digital Identification project, creating a single digital identifier aimed at eliminating the need for California residents to provide their identity and manage multiple user IDs across various websites to obtain state services. CDT recently launched a pilot demonstration project with the California Department of Transportation, the California Integrated Travel Project, Monterey-Salinas Transit Agency, and U.S. General Services Administration's Login.gov, to provide an online tool for transit riders to verify their identity and eligibility to receive discounted fares using their bank card.
- **Modernizing the Department of Motor Vehicles**—The Department of Motor Vehicles (DMV) continues to make improvements towards its IT modernization efforts, and prior year investments have allowed the DMV to shift how the public conducts business with many workload transactions now processed online. DMV continues to advance toward more modern systems that allow more Californians to use the internet as a portal for conducting transactions electronically.

## SIGNIFICANT BUDGET ADJUSTMENTS

The Administration maintains its commitment to advancing technology modernization and stabilization. However, due to the decline in General Fund revenues, the Budget includes some reductions in funding.

- **Technology Modernization**—The 2021 and 2022 Budget Acts provided \$50 million General Fund over multiple years to CDT to modernize IT solutions in a timely and efficient manner. Due to declining General Fund revenues, the Budget reduces this amount by \$21 million.
- **Technology Stabilization**—The 2022 Budget Act provided \$30 million General Fund over multiple years to stabilize critical digital services. These investments allowed CDT to conduct assessments of existing critical systems and identify technology solutions to mitigate the risk of potential failure of critical services. Due to declining General Fund revenues, the Budget reduces this amount by \$17.5 million.

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## EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$487.5 million (\$130.6 million General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding contributions for active employees. Included in these costs are collectively bargained salary and benefit increases resulting from contract and side letter negotiations. Funding is also included for 2024 calendar year increases in health care and dental premiums and enrollment.

Collective bargaining negotiations will commence with 14 bargaining units including: Professional, Administrative, Financial and Staff Services; Professional Educators and Librarians; Office and Allied Employees; Engineering and Scientific Technicians; Printing and Allied Trades; Allied Services; Registered Nurses; Medical and Social Services; Educational Consultants and Library; Correctional Officers; Law Enforcement; Craft and Maintenance; Physicians, Dentists, and Psychologists; and Health and Social Services/Professionals, whose contracts expire in summer 2023.

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## PAYING DOWN UNFUNDED PENSION LIABILITIES

The Administration remains committed to the long-term sustainability of the state retirement systems and paying benefits to state employees during their retirement

years. Over the last decade, the state has taken significant steps toward addressing its retirement liabilities through public pension law reform, implementation of funding strategies to pay down unfunded pension and retiree health benefits, and the allocation of billions of dollars in supplemental funding beyond the state's required annual contributions to the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS). The Budget includes:

- **State Employees' Retirement Contributions**—\$8.5 billion (\$4.7 billion General Fund) for the statutorily required annual state contribution to CalPERS for state pension costs based on the CalPERS actuarial valuation projected contribution rates as of June 30, 2021. This is \$255 million (\$151 million General Fund) higher than the 2022 Budget Act due to payroll growth and the normal progression of amortization bases, including the 7.4-percent investment loss in 2021-22. Included in these costs are \$747 million General Fund for California State University retirement costs. Additionally, the Budget includes \$1.2 billion one-time Proposition 2 debt repayment funding as a supplemental payment toward the state plans' unfunded liabilities.
- **Teachers' Retirement Contributions**—\$3.9 billion General Fund for the statutorily required annual state contribution to CalSTRS. The roughly \$218 million increase from the 2022 Budget Act is due to higher-than-anticipated growth in creditable compensation from 2020-21 to 2021-22.
- **State Health Care Benefits**—\$390 million in one-time Proposition 2 debt repayment funding for the employer's share of contributions to pay for future retiree health benefits.

The State Retirement and Health Care Contributions figure 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** <sup>1/ 2/ 3/</sup>

(Dollars in Millions)

	CalPERS	CSU CalPERS	CalSTRS	JRS	JRS II	LRS <sup>5/</sup>	Active Health & Dental <sup>6/</sup>	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding <sup>7/</sup>
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 <sup>8/</sup>
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 <sup>4/</sup>	225	84	1	3,398	1,938	339	600
2021-22	6,090	675	3,862	194	92	1	3,501	2,019	356	1,292 <sup>9/</sup>
2022-23	7,475	744	3,712	208	87	1	3,771	2,208	392	698
2023-24 <sup>10/</sup>	7,727	747	3,930	211	87	1	4,089	2,417	428	711

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

<sup>2/</sup> 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), Chapter 78, Statutes of 2021 (AB 138), Chapter 67, Statutes of 2022 (SB 191), and Proposition 2 payments to CalPERS proposed in the 2023-24 Governor's Budget.

<sup>3/</sup> 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.

<sup>4/</sup> 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 2021 Budget.

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

<sup>6/</sup> 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).

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

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

<sup>9/</sup> 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, as employee prefunding contributions were suspended in 2020-21 due to the Personal Leave Program 2020.

<sup>10/</sup> Estimated as of the 2032-24 Governor's Budget, contributions sourced from the General Fund are estimated to be \$3,973 million for CalPERS, \$747 million for CSU CalPERS, \$1,920.4 million for Active Health and Dental, and \$390 million for OPEB Prefunding. Fiscal year 2023-24 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are all General Fund costs.

## HIGH SPEED INTERNET IMPLEMENTATION

California has made extraordinary investments in recent years to expand access to broadband for all Californians and close the digital divide across the state.

The 2021 Budget provided \$6 billion over three years as part of a statewide plan to expand broadband infrastructure, increase affordability, and enhance access. Of this

amount, \$3.25 billion was provided to the California Department of Technology (CDT) for the purpose of building an open-access middle-mile network in unserved and underserved areas of California. Estimates produced by CDT, the California Department of Transportation (Caltrans) and the California Public Utilities Commission (CPUC) indicate a need for approximately 10,000 miles of middle-mile broadband infrastructure for unserved and underserved communities.

To complement the middle-mile network, the 2021 Budget also provided for a \$2 billion allocation over multiple years for CPUC grants to build out last-mile infrastructure to help provide Californians with access to high-speed broadband service. The 2021 Budget also provided for \$750 million over multiple years for a Loan Loss Reserve Fund to support costs related to the financing of local broadband infrastructure development. Additionally, the 2022 Budget included \$300 million one-time General Fund in 2023-24 and \$250 million one-time General Fund in 2024-25, to CDT to further support the Broadband Middle-Mile Initiative.

### **SIGNIFICANT BUDGET ADJUSTMENTS**

The Budget maintains the same level of funding for broadband middle-mile, last-mile and the Loan Loss Reserve Fund activities. However, to address the budget problem, the Budget proposes:

- Deferral of \$550 million at the CPUC for last-mile infrastructure grants in 2023-24 to future years (\$200 million in 2024-25, \$200 million in 2025-26, and \$150 million in 2026-27).
- Deferral of \$175 million from 2022-23 and \$400 million from 2023-24 for the Loan Loss Reserve Fund at the CPUC to future years (\$300 million in 2024-25 and \$275 million in 2025-26).

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## **FEDERAL INFRASTRUCTURE INVESTMENT AND JOBS ACT (IIJA)**

The federal Infrastructure Investment and Jobs Act (IIJA) authorized \$1.2 trillion for transportation and other infrastructure investments with more than \$550 million of that total going toward new investments and programs. This included a \$200 billion augmentation to existing and new transportation programs for highway, transit, highway safety, and rail programs over five years. California will receive an average increase of \$2.2 billion annually in federal road and transit formula funding through 2025-26, bringing California's total share of federal formula funding for transportation to

\$38 billion for the five-year period. The state's transportation infrastructure funding commitments will also help California potentially secure up to \$15 billion in additional federal funding, over and above these allocated formula funds, through competitive IJA programs available to all states.

Since the IJA's enactment, the state has employed an outreach and engagement process to creatively implement this federal legislation. At the year-one mark, the state has received over \$16.2 billion to modernize and create more resilient transportation, energy, broadband, and water systems, including \$1.3 billion in federal competitive grants for 219 transportation-related projects.

With the large influx of federal funding, California will continue to make major progress in rebuilding, revitalizing, and reimagining the state's infrastructure to create cleaner, safer, and more resilient infrastructure that benefits Californians.

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## TRANSPORTATION

To date, the state has written and published guidelines and solicitations to prepare California to secure billions of dollars in federal funding to match the state's investments. California is on track to award \$5 billion to support transit, supply chain, and port infrastructure projects and \$1.7 billion in active transportation projects by the end of 2022-23.

In addition to the federal investments and state matches, the Budget continues to prioritize investments in transportation infrastructure that are critical to reducing carbon emissions, supporting California's economic growth, and enhancing the state's ability to leverage and compete for federal funding. For additional information on transportation funding related to climate, please see the Climate Change Chapter.

While the Administration continues to prioritize transportation infrastructure, the budget problem makes reductions necessary to balance the state budget. As such, the Budget proposes a net reduction of \$2 billion over three years to future transit infrastructure funding. Despite the proposed reduction, California will continue to benefit from not only the large increase in federal funding, but the remaining \$5.7 billion augmentation to transit and rail infrastructure funding, maintaining California's ability to strongly compete for and leverage available federal funding and make significant improvements to transit and rail connectivity statewide. The Administration also continues to seek opportunities to streamline and accelerate project delivery.

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## **GAS PRICE GOUGING PENALTY**

In a special session in December, the Administration, working with the Legislature, introduced a policy proposal: a price gouging penalty on excess oil refiner profits as well as transparency and oversight measures to help prevent future price gouging in California. While this proposal will be developed outside of the budget process, it is an important tool to prevent gas price hikes in the state by making it unlawful for refineries to collect excessive profits. The amount of the maximum margin and the amount of the penalty will be determined through the legislative process. Although the goal of the price gouging penalty is to discourage price hikes from hitting Californians in the first place, any funds collected by the penalty will go to a Price Gouging Penalty Fund and then go back to Californians.

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## **INFRASTRUCTURE AND BUDGET RESILIENCY**

The Budget includes a multi-year commitment of \$44 billion in state funds for various statewide infrastructure investments. This includes funding to accelerate the transition to zero-emission vehicles, modernize the state's transportation system, promote energy innovation and reliability, provide greater access to broadband connectivity, advance the state's housing goals, reduce wildfire risk to communities, and support drought resiliency and response.

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## **BONDS**

To strengthen budget resiliency, the 2022 Budget included several multi-year proposals intended to contribute to a reduction in the state's long-term debt obligations. Capital projects with existing lease revenue bond financing authority, totaling approximately \$3.2 billion, were to be shifted to General Fund over three fiscal years. The 2022 Budget also included a proposal to redeem approximately \$1.7 billion in callable GO bonds in the 2024-25 fiscal year. These proposals used one-time funding to structure a multi-year approach to reducing the state's long-term bond debt obligations, and to provide budget resiliency in the event of an unexpected change in the state's fiscal condition.

The Budget maintains funding to support continuing critical capital outlay projects. However, to address the projected decline in General Fund revenue, the Budget proposes to shift funding for infrastructure projects from cash back to bond financing.

## SIGNIFICANT BUDGET ADJUSTMENTS

- **Capital Outlay Fund Shifts**—Approximately \$1.4 billion of the \$3.2 billion of capital projects proposed to be shifted to General Fund will instead retain the existing lease revenue bond authority. In addition, capital projects totaling approximately \$200 million currently authorized for General Fund, and another approximately \$480 million of capital projects proposed for General Fund in future years, will instead be financed with lease revenue bonds.
- **Project Deferrals**—Approximately \$850 million of new capital projects will be deferred to future years.
- **Elimination of GO Bond Redemption**—The scheduled redemption of callable GO bonds totaling approximately \$1.7 billion in 2024-25 is proposed to be withdrawn.

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## DEFERRED MAINTENANCE

Since 2019, approximately \$3.2 billion (\$2.6 billion General Fund, \$620 million Proposition 98 General Fund, and \$29 million Proposition 68 bond funds) has been allocated across departments to address the most critical statewide deferred maintenance needs. Because of these one-time investments, thousands of important infrastructure maintenance projects have been completed statewide.

## SIGNIFICANT BUDGET ADJUSTMENTS

While the state will continue to address critical deferred maintenance, approximately \$216 million of unencumbered deferred maintenance funding will be reverted to the General Fund to address the projected decline in General Fund revenues, as follows:

- **Judicial Branch**—\$49.5 million
- **Department of Forestry and Fire Protection**—\$13 million
- **Department of Parks and Recreation**—\$31 million
- **Department of Corrections and Rehabilitation**—\$30 million
- **Department of General Services**—\$92.5 million

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## STATE PARKS

Since 2021, the Administration has committed \$1.36 billion over multiple years to support the safe, equitable, and enjoyable access to parks, open spaces, natural resources, and recreational amenities for all Californians.

### SIGNIFICANT BUDGET ADJUSTMENTS

- **Dos Rios Ranch State Park**—\$5.8 million one-time and \$3.3 million ongoing General Fund to establish and open Dos Rios Ranch as a new state park and create recreation opportunities and park access to historically underserved communities in the Central Valley. Funds initially appropriated for the acquisition of a new state park in the 2020 Budget Act will be used for planning and acquisition costs.
- **Natural Resources and Parks Preservation Fund**—A reversion of \$110 million from the Natural Resources and Parks Perseveration Fund to the General Fund. This reversion includes \$95 million for future phases of the California Indian Heritage Center project and \$15 million for unspecified future capital outlay projects. The Department of Parks and Recreation is currently in the preliminary plans phase of the California Indian Heritage Center project, including assessing and incorporating input from California Native American tribes and stakeholders. Funding for future phases of this project will be requested in the fiscal year in which the funding will be necessary, which is consistent with the standard budgeting approach for capital outlay projects. This reversion will have no impact on the project's schedule.
- **Statewide Parks Program**—A reduction of \$150 million General Fund for the Statewide Parks Program across 2022-23, 2023-24, and 2024-25. A total of \$230 million allocated to this program in previous budget acts will remain. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.

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## INVESTMENTS IN BUSINESSES AND INNOVATION

The state has made significant investments to support small businesses, including tax relief for businesses impacted by the COVID-19 Pandemic, fee waivers for new businesses to encourage business growth, additional funding to bolster existing grant programs and technical assistance centers, and new programs to support entrepreneurs. In addition to making a historic investment of over \$4 billion for the California Small Business COVID-19 Relief Grant Program, the state has made General

Fund investments totaling over \$800 million to support California businesses. Many of the following programs will be implemented over several fiscal years:

- **State Small Business Credit Initiative (SSBCI)**—\$1.1 billion from the federal American Rescue Plan Act of 2021 has been allocated to help support small businesses. This funding is intended to leverage an additional \$18 billion of capital to California small businesses. To supplement SSBCI funds, the 2021 Budget Act added \$20 million one-time General Fund for IBank's Small Business Loan Guarantee Program to continue to provide loans as businesses recover from the economic impacts of the COVID-19 Pandemic. The Small Business Loan Guarantee Program uses state funds for guarantees that are not eligible for SSBCI.
- **Pandemic-Related Investments**—\$397.5 million one-time General Fund has been invested to create the California Venues Grant (\$150 million) and Microbusiness COVID-19 Relief Grant programs (\$50 million); to assist in the continued recovery of California's travel and tourism industry (\$110 million); and to support IBank's Small Business Finance Center and the California Rebuilding Fund to focus on programs that benefit underserved businesses (\$87.5 million).
- **Small Business and Nonprofit COVID-19 Supplemental Paid Sick Leave Grants**—\$250 million one-time General Fund has been appropriated for relief grants for small businesses and non-profits to offset costs of their employees who used the state's supplemental COVID-19 paid sick leave.
- **Business Creation and Job Growth**—\$80 million one-time General Fund was invested to spur new businesses and job creation by establishing the California Dream Fund to support micro-grants to seed entrepreneurship and small business creation in underserved groups (\$35 million); providing financial and technical assistance to employment social enterprises that provide jobs, on-the-job training, and other support to people who face high barriers to work (\$25 million); and expanding California Innovation Hubs and Entrepreneurship Grants to encourage the incubation of new businesses (\$20 million).
- **Small Agricultural Business Drought Relief Grant Program**—\$75 million one-time General Fund was allocated to provide direct assistance to eligible agriculture-related businesses affected by severe drought conditions.
- **Technical Assistance for Small Businesses**—\$6 million General Fund in 2022-23, and \$26 million ongoing, was appropriated to permanently extend the California Office of the Small Business Advocate's Small Business Technical Assistance Program and

Capital Infusion Program, and \$8 million one-time General Fund to support Women's Business Centers.

### SIGNIFICANT BUDGET ADJUSTMENTS

- **Film and Television Tax Credit**—\$330 million per year beginning in 2025-26 to extend the existing program and make the credit refundable to benefit a wider range of productions and ensure the competitive program will maximize economic benefits to the state. For additional information regarding this tax credit, see the Revenue Estimates Chapter.
- **Made in California Program**—\$1.5 million one-time General Fund, to be spent over three years, to relaunch the Made in California Program and conduct outreach and engagement to increase participation in the program. The Made in California Program aims to support in-state manufacturing by increasing consumer awareness of in-state production.
- **California Small Business COVID-19 Relief Grant Program**—The Budget proposes to remove approximately \$92 million General Fund from this program due to declining General Fund revenues. This is the estimated amount remaining after all grants have been awarded to eligible businesses. As of December 2022, over 320,000 small businesses received grants at an average grant amount of approximately \$11,000. Awards are still ongoing for round nine and will continue until all funds have been exhausted.
- **IBank's Small Business Finance Center and the California Rebuilding Fund**—Due to declining General Fund revenues, the Budget proposes to remove \$50 million General Fund, leaving \$37.5 million available for financial assistance to small businesses.

The Administration will consider changes to address issues within the nonprofit sector to support the sector's ability to deliver on meeting goals in state programs.

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## THE STATE'S CHIPS ACT STRATEGY

The federal CHIPS (Creating Helpful Incentives to Produce Semiconductors) Act invests \$54 billion into semiconductor manufacturing, research, and development, including \$39 billion over 5 years in financial assistance under the incentive program to build, expand or modernize domestic facilities and equipment for semiconductor fabrication, assembly, testing, advanced packaging, or research and development. The state has

several existing programs that semiconductor companies can benefit from and that provide incentives and support to companies looking to relocate to or expand in California. These programs include the California Competes Tax Credit, the partial sales tax exemption for the purchase of manufacturing equipment, and the sales tax exemption program administered by the California Alternative Energy and Advanced Transportation Financing Authority for manufacturers that promote alternative energy and advanced transportation. To further leverage federal funds available under the CHIPS Act and to encourage semiconductor manufacturing and research and development in California, the Budget includes an extension of the California Competes grant program and changes to the state's existing New Employment Credit as described below.

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## **CALIFORNIA COMPETES**

The Budget proposes to provide \$120 million one-time General Fund for a third year of the California Competes grant program. The California Competes grant program was initially created in the 2021 Budget Act to extend the success of the California Competes Tax Credit program to 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. The 2022 Budget Act included \$120 million one-time General Fund for the California Competes grant program and added language to give priority to grant program funds for semiconductor manufacturing and research and development for grants awarded in 2023-24. The 2022 Budget Act also removed the cap that prevents any one grantee from receiving more than 30 percent of the program's total amount of grants allocated in 2023-24.

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## **NEW EMPLOYMENT CREDIT**

The Budget proposes eliminating the geographic restrictions of the state's existing New Employment Credit for qualifying semiconductor manufacturing and research and development firms. The New Employment Credit was created in 2014 to incent businesses that operate in high-poverty areas to hire and provide full-time employment to the long-term unemployed, veterans discharged from service in the last 12 months, Earned Income Tax Credit recipients, ex-offenders convicted of a felony, and current recipients of CalWORKS or county general assistance. Expanding access to the credit by removing the geographic requirement for qualifying semiconductor manufacturing and research and development firms will provide more flexibility for these firms to use

this financial incentive to create full-time jobs, and will also support the state's equity goals by encouraging the hiring of underserved populations.

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### CANNABIS

The state has made significant progress in strengthening California's legal cannabis market. The 2021 Budget Act consolidated the cannabis-regulatory functions into a single Department of Cannabis Control within the Business, Consumer Services, and Housing Agency, to simplify participation in the legal market and support the successful and safe operation of cannabis businesses in compliance with state law. The 2022 Budget Act included statutory changes to reform cannabis taxes, provide relief to equity cannabis retailers, and authorize high-road cannabis employers and cannabis equity operators to claim tax credits. These policy changes simplify the tax structure and remove administrative burdens and costs, which reduces barriers to entry into the legal, regulated cannabis market. Furthermore, the state has implemented a fee waiver or deferral program to reduce barriers to entry into the legal market and invested in grant programs that support equity in cannabis, provide funding to cities and counties that do not currently have a local cannabis retailer licensing program, and help local governments and aid licensees in moving from provisional licensure to annual licenses.

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### UPDATED ALLOCATION OF THE CANNABIS TAX FUND

On July 1, 2022, pursuant to comprehensive cannabis tax reforms in Chapter 56, Statutes of 2022 (AB 195), the cannabis cultivation tax was suspended, resulting in savings to legal cannabis businesses and consumers. On January 1, 2023, responsibility for cannabis excise tax remittance moved from distribution to the point of sale. Additional tax reforms included the creation of two Cannabis Equity Tax Programs, including vendor compensation for eligible retailers, and Equity Tax Credits for eligible licensees beginning January 1, 2023.

Proposition 64 specifies the allocation of resources 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 directed to youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities. AB 195 requires that these Allocation 3 programs are funded at a baseline of

approximately \$670 million. To meet this requirement, the Budget includes \$95.4 million General Fund in 2023-24 to backfill the estimated decline in revenues that fund the programs as follows:

- **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)

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## CANNABIS ENFORCEMENT

The Office of Emergency Services, in partnership with the Department of Cannabis Control and the Department of Fish and Wildlife, has convened several state, federal and local entities to strengthen enforcement coordination statewide utilizing existing resources through the California Unified Cannabis Enforcement Task Force. The Task Force seeks to better align intelligence gathering; catalog and coordinate enforcement activity; assess enforcement impacts; strengthen partnership, communication, and collaboration; make existing enforcement efforts more effective and strategic; align communications; pilot new methods, assess efficacy of enforcement methods, and identify best practices; strategically engage with non-participating governmental partners; and take other action as may be necessary to effectively combat illegal cannabis activity in California.

To further reinforce enforcement efforts, the Budget includes funding for the following entities:

- **Board of State and Community Corrections**—\$83.9 million Cannabis Tax Fund is allocated to the Board of State and Community Corrections through Allocation 3 to award grants to local governments to assist with law enforcement, fire protection, or other local programs addressing public health and safety associated with the implementation of the Control, Regulate and Tax Adult Use of Marijuana Act.
- **State Water Resources Control Board**—\$6.4 million Cannabis Control Fund and \$5.7 million in other special funds, which will increase over time to \$13.1 million Cannabis Tax Fund and \$6.6 other special funds, to continue the State Water Resources Control Board's statutorily mandated efforts to address water quality and instream flow-related impacts from cannabis cultivation through enforcement

against illegal cultivations and compelling enrollment of eligible cultivators in the Water Board's regulatory program through outreach and engagement to unpermitted cultivators, and progressive enforcement against sites that do not enroll in Water Board permits.

- **Department of Fish and Wildlife**—\$3.8 million Cannabis Control Fund and \$4.2 million Fish and Game Preservation Fund to continue the Department of Fish and Wildlife's Cannabis Regulatory and Enforcement Program. Continued regulatory resources will maintain the Department's role in the state cannabis regulatory structure and the Department's permanent law enforcement support for state agencies will assist with verifying compliance with the regulatory program requirements, including required impact minimization or mitigation measures in permits, licenses, and CEQA documents.
- **Department of Cannabis Control**—\$1.9 million Cannabis Control Fund to establish a permanent Department of Cannabis Control Enforcement District Office in Fresno to further the enforcement activities of the department in the Central Valley.
- **California Department of Tax and Fee Administration**—A portion of \$10 million Cannabis Control Fund will be allocated to the California Department of Tax and Fee Administration to support its cannabis tax enforcement program.

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## OFFICE OF PLANNING AND RESEARCH

The Office of Planning and Research assists the Governor and the Administration in planning, research, policy development and legislative analysis.

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## RACIAL EQUITY AND YOUTH EMPOWERMENT COMMISSIONS

The Budget includes \$3.8 million General Fund in 2023-24 and \$3.1 million General Fund through 2028-29, which includes \$1.5 million General Fund that was authorized in the 2022 Budget Act, to support the state's first Racial Equity Commission established by Executive Order N-16-22 and the California Youth Empowerment Commission established in Chapter 660, Statutes of 2021. The Office of Planning and Research will oversee both Commissions, which will launch by the end of 2023. The Budget also includes statutory changes to establish the Racial Equity Commission, an advisory body, through 2029. These Commissions will support California's leadership in expanding opportunity and justice for all. The California Youth Empowerment Commission was created to address the growing need to engage youth directly with policymakers. The

Commission is advisory in nature, for the main purpose of providing meaningful opportunities for civic engagement to help inform how to improve the quality of life for California's diversity of youth, especially disconnected and disadvantaged youth.

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## OFFICE OF COMMUNITY PARTNERSHIPS AND STRATEGIC COMMUNICATIONS

The Office of Community Partnerships and Strategic Communications manages the state's highest priority public awareness and community outreach campaigns. The 2022 Budget Act included \$65 million General Fund annually through 2025-26 to establish the Office and provided \$230 million one-time California Emergency Relief Fund in 2022-23 for the Office to continue COVID-19 vaccine-related public education and outreach campaigns. Due to declining General Fund revenues, the Budget proposes to remove \$80 million in 2022-23 for the COVID-19 Outreach campaign, reducing the one-time investment to \$150 million.

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## CALIFORNIA VOLUNTEERS

California Volunteers is the state office responsible for engaging Californians in service, volunteering, and civic action to tackle the state's most pressing challenges while lifting all communities. The state has made significant investments to support volunteers and service opportunities in California, including:

- **Californians for All College Service Program**—The 2021 Budget Act included \$146.3 million one-time (\$127.5 million federal American Rescue Plan Act of 2021 (ARPA) funds and \$18.8 million General Fund) to create the Californians for All College Service Program in partnership with the University of California, California State University, California Community Colleges, and private California university campuses. The 2022 Budget Act included \$73.1 million in 2024-25 and 2025-26 to continue funding for this program to provide opportunities for California college students, including AB 540-eligible students, to contribute to their communities while supporting lower debt college pathways for low-income students.
- **Youth Jobs Corps Program**—The 2021 Budget Act included \$185 million one-time federal American Rescue Plan Act of 2021 (ARPA) funds for the CaliforniansForAll Youth Jobs Corps program, to create or expand youth employment opportunities, such as part-time work or summer jobs, in partnership with local governments and community-based organizations. This program helps youth learn valuable job skills, develop public service career pathways, and engage with their communities.

- **California Climate Action Corps**—The 2021 and 2022 Budget Acts provided a total of \$4.7 million General Fund through 2025-26, and \$823,000 annually thereafter to support 115 Climate Corps members in the California Climate Action Corps program. These resources support the mission of empowering Californians to take meaningful actions to protect their communities against the harshest impacts of climate change.
- **California Experience Corps**—The 2022 Budget Act provided \$10 million one-time General Fund for the Foster Grandparents and Senior Companions program to engage older adults in volunteer service that benefit schools, families, and communities across the state. This provides up to 500 additional volunteer positions with stipends for older adults to provide one-on-one mentoring, nurturing, and support to children; and to provide peer-support services to older adults at risk of out-of-home placement due to chronic illness, disability, or isolation.

### SIGNIFICANT BUDGET ADJUSTMENTS

- **California Climate Action Corps**—The Budget proposes \$4.7 million General Fund in 2023-24 through 2025-26, and \$9.4 million ongoing to make this program permanent and double the number of Climate Corps members from 115 to 230.
- **Youth Jobs Corps Program**—The Budget proposes \$78.1 million ongoing General Fund to make the CaliforniansForAll Youth Jobs Corps program permanent while providing pathways for undocumented Californians with work authorization.
- **Summer Youth Jobs Corps Program**—The Budget proposes to eliminate \$25 million one-time General Fund included in the 2022 Budget Act to support the existing Youth Jobs Corps program and offer additional summer employment opportunities. The purpose of this one-time grant program can be achieved by the proposed ongoing funding for the Youth Jobs Corps program.

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## OFFICE OF EMERGENCY SERVICES

The 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 Budget includes \$3.3 billion (\$771.7 million General Fund) and 1,877 positions for Cal OES.

### **SIGNIFICANT BUDGET ADJUSTMENTS**

- **California Cybersecurity Integration Center (Cal-CSIC)**—The Budget proposes \$28.7 million and 40 positions across various departments to maintain and enhance the capabilities of the Cal-CSIC. The Cal-CSIC was established as a partnership between Cal OES, the California Military Department, California Department of Technology, and the California Highway Patrol and serves as the central organizing hub of state government's cybersecurity preparedness and response activities and coordinates cyber intelligence and information sharing with local, state, and federal agencies; tribal governments; utilities and other service providers; academic institutions; and nongovernmental organizations. These resources will allow the Cal-CSIC to lead state efforts to identify and mitigate current and ever-evolving cyber threats, including providing enhanced (1) threat detection, assessment, and research; (2) gap testing and remediation; and (3) incident analysis and response.
- **Seismic Retrofitting Program for Soft Story Multifamily Housing**—Chapter 48, Statutes of 2022 (SB 189) established the Seismic Retrofitting Program for Soft Story Multifamily Housing and included legislative intent to appropriate \$250 million for this program in the 2023-24 Budget. Given the state's fiscal outlook and the projected decline in General Fund revenues, the intended appropriation is not reflected in the Budget. If there is sufficient General Fund in January 2024, this reduction will be restored. See the Introduction Chapter for further information on this trigger.