INTRODUCTION

After two years of unprecedented General Fund revenue growth, California faces a downturn in revenues driven by a declining stock market and persistently high inflation in 2022, rising interest rates, and job losses in high-wage sectors—all of which have led to slower revenue growth than previously projected. Through prudent planning and budget resilience built into previous budgets, the state is in its best fiscal position in recent history to address this downturn. By paying down the state's debt and using one-time surplus funds on one-time commitments, the Budget is able to address the shortfall with balanced solutions that protect core state programs and services. Importantly, the Budget avoids new significant ongoing commitments, and maintains fiscal discipline by setting aside a record $37.8 billion in total budgetary reserves. Together, these factors put California on strong fiscal footing to better withstand future economic downturns or revenue declines.

The Budget preserves investments in the programs that are essential to millions of Californians while closing a shortfall of more than $30 billion through a balanced package of solutions that avoids deep program cuts. It protects investments in education, health care, climate, public safety and social service programs that are relied on by millions of Californians. Additionally, it is paired with the Governor's streamlining proposals that accelerate construction of water, transportation, and clean energy projects to advance the state's ambitious economic, climate, and social goals.

BALANCED SOLUTIONS

The Budget includes a balanced package of solutions to bridge an approximately $31.7 billion shortfall while avoiding deep and damaging program cuts. The categories of these solutions are:

- **Fund Shifts**—$9.3 billion in shifts of spending commitments from the General Fund to other funds.
- **Reductions and Pullbacks**—$8.1 billion in General Fund spending reductions or pullbacks of previously approved spending.
- **Delays**—$7.9 billion in delayed spending across multiple years—without reducing the total amount of funding over the same period.
- **Revenue and Internal Borrowing**—$6.1 billion in revenue, primarily from the Managed Care Organization tax, and internal borrowing from special fund balances not projected for programmatic purposes.
- **Trigger Reductions**—$340 million in reductions that will be restored in the January 2024 Governor's Budget if there are sufficient resources to do so at that time.

PROTECTING PRIORITIES

The Budget protects commitments to increase funding for K-12 schools and higher education, as well as to create more available and affordable housing, continue to address homelessness, and combat the impacts of climate change—while also expanding and enhancing health care, maintaining services for Californians most in need, and funding multiple programs to combat crime and improve public safety.

K-12 Education—The Proposition 98 Guarantee reflects a total of $110.6 billion in 2021-22, $107.3 billion in 2022-23, and roughly $108.3 billion in 2023-24. It also includes $3.4 billion in additional discretionary resources for the Local Control Funding Formula and an additional $300 million ongoing for the Equity Multiplier to accelerate learning gains and close opportunity gaps of historically underserved students. Funds are also maintained for universal school meals, transitional kindergarten, community schools, and before- and after-school and summer programs.

Higher Education—The Budget maintains compacts with both the University of California and the California State University systems, providing base budget increases of five percent for each system—approximately $216 million for UC and $227 million for

CSU—and also provides $678 million for a Student-Centered Funding Formula cost-of-living adjustment, which will assist the California Community Colleges in meeting the goals of the multi-year Roadmap.

Health Care—The Budget maintains the commitment to increase access to health care for all Californians, regardless of their immigration status and especially for low-income Californians. It also maintains key investments—including more than $10 billion for California Advancing and Innovating Medi-Cal and over $8 billion for behavioral health.

Homelessness—The Budget couples the Administration's $15.3 billion investment to address homelessness with new accountability measures that hold cities, counties, and continuums of care more accountable by requiring coordinated regional plans—identifying each jurisdiction's role, outcome goals, and how local entities are using various state, local, and federal funding sources to reduce homelessness.

Transit—The Budget provides $5.1 billion for public transit—$4 billion in Transit and Intercity Rail Capital Program funding and $1.1 billion in zero-emission vehicle transit funding—and pairs that funding with reporting and accountability requirements for transit agencies. Information from these requirements will guide a new task force, convened by the California State Transportation Agency, tasked with developing recommendations on increasing ridership; improving operations to provide safe, clean, and reliable transit service; and the information will help give local transit agencies guidance to become more fiscally sustainable.

Climate—The Budget includes over $52 billion in multi-year climate investments. At the same time, the Administration and the Legislature are continuing to discuss a potential climate bond that would allow for even more targeted climate investments. And with the Legislature's approval of the Administration's streamlining proposals, California's leadership is clearing the path to meet the state's ambitious climate goals by accelerating the clean energy projects that will create cleaner air for generations to come.

Public Safety—The Budget maintains commitments of more than $800 million in multiple programs to improve public safety—including task forces fighting the spread of fentanyl and combatting retail theft—as well as local law enforcement grants totaling $255 million over three years.

Infrastructure—Approval of the Administration's streamlining proposals has strengthened California's ability to secure federal infrastructure funds that will accelerate the construction of transportation, clean water, and clean energy projects. Over the next ten years, California has the potential to invest as much as $180 billion in infrastructure projects that would create an estimated 400,000 direct and indirect jobs.

RECORD RESERVES

The Budget reflects a historic level of reserves, setting aside a total of $37.8 billion—a level $600 million higher than the May Revision. This includes $22.3 billion in the Budget Stabilization Account (BSA) or Rainy Day Fund—a balance that meets the state constitution's maximum mandatory deposit limit of 10 percent of General Fund tax proceeds.

The other components of the combined reserves are:

- **Public School System Stabilization Account**—$10.8 billion
- **Safety Net Reserve**—$900 million
- **Special Fund for Economic Uncertainties (the state's discretionary reserve)**—$3.8 billion

Maintaining this level of reserves provides a prudent insurance policy as the state continues to face revenue risks and uncertainties—significantly, this year's unprecedented storms caused a tax filing delay by the Internal Revenue Service (and a conforming state delay) affecting over 99 percent of California's tax filers in 55 of the state's 58 counties. This delay has pushed the projected receipt of $42 billion in state tax receipts into October—$28.4 billion from personal income tax and $13.3 billion from corporation tax—representing nearly one-fourth of the 2022-23 fiscal year's total projected personal income tax, and nearly one-third of the 2022-23 fiscal year's corporation tax.

This uncertainty and other risks underscore the reason why the Budget does not draw from the state's reserves to close the shortfall. If revenues come in below the Budget's projections, these state reserves will be an important resiliency tool that will protect the state from having to make the kind of drastic reductions to core programs that marked the state's past efforts to close significant deficits.