May Revision

Gavin Newsom, Governor
State of California

2023-24

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INTRODUCTION

The last four budgets have emphasized California values while maintaining budget resilience and restraint. The Governor's May Revision continues the commitment to all Californians by emphasizing education, protecting the environment, preparing the state's workers for the next decade, readying the economy for the next made-in-California innovation, and maintaining tens of billions of dollars of investments in much needed infrastructure. The May Revision accomplishes these goals despite further revenue declines since the Governor's Budget and significant near-term risks. Due to prudent planning by the Administration and the Legislature, the May Revision holds the line without making significant reductions over the Governor's Budget. However, should broader economic risks materialize, deeper reductions will be necessary.

California's progressive tax system, where nearly half of all personal income tax in the state is paid by the top one percent of earners, has contributed to extreme budget volatility over the years. Maintaining budget stability requires long-term planning in the face of these revenue fluctuations. Over the last decade, the Administration and Legislature have protected state programs from these significant swings in revenue through prudent fiscal planning—paying down the state's prior debts, putting billions of dollars into additional reserves, and directing the bulk of the state's one-time surpluses to one-time investments rather than toward ongoing commitments. The state has also built unprecedented reserves in the Budget Stabilization Account (BSA), which is now approximately $22.3 billion. Because of that planning, the state is better positioned to withstand a budget shortfall than ever before.

Since the release of the Governor’s Budget, monthly revenue shortfalls have continued, which have contributed to the May Revision General Fund revenue estimate shortfall of $8.4 billion (before transfers and adjustments). The additional budget shortfall at the May Revision, after transfers and adjustments, is estimated to be $9.3 billion. When combined with, and accounting for slight adjustments to the $22.5 billion Governor's Budget shortfall, California is now facing a $31.5 billion shortfall. Further, the federal and state tax filing deadline delays—imposed as a result of severe winter storms across the state—insert greater uncertainty in the state’s projected revenues.

GROWING RISKS

Following two years of unprecedented growth, revenues have fallen short of monthly estimates since the 2022 Budget Act was enacted last June. Consistent underperformance in personal income tax withholding in the second half of 2022, which tracked to the 19.4-percent decline in the S&P 500 for the year, translated into lower revenue from the small share of taxpayers whose higher incomes can vary substantially with market volatility. Combined with high inflation and a tightening of federal monetary policy, this led to the $22.5 billion shortfall projected in January and now $31.5 billion shortfall in the May Revision.

While the May Revision does not project a recession, it recognizes the increased risks to the budget since the Governor’s Budget—risks that could significantly change the state’s fiscal trajectory in the near term. These new risks include:

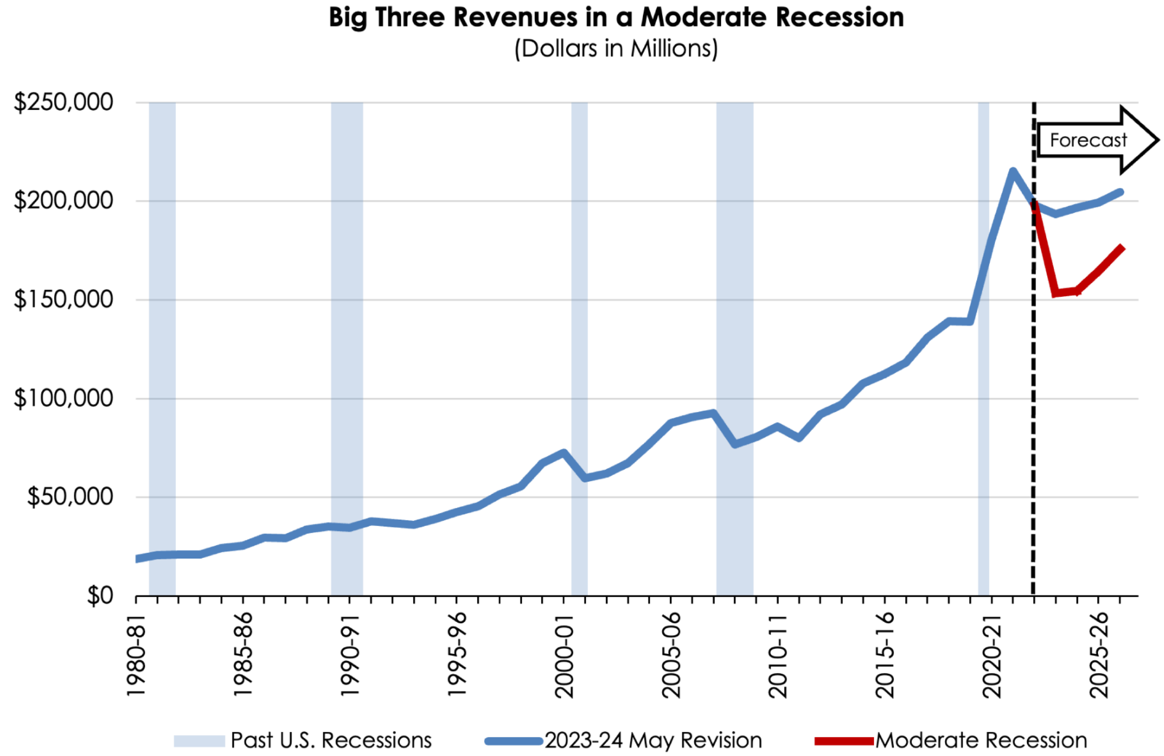
- **The Economic Fallout from a Debt Limit Impasse**—With the federal government projected to be unable to meet its financial obligations by early June without Congressional action to raise the debt limit, an unprecedented federal default threatens to cause global economic turmoil and negative stock market reactions. Given the link between financial markets and the state’s revenues, this is a near-term risk.
- **Higher Interest Rates**—In early May, the Federal Reserve raised interest rates by a quarter point to a range of 5 to 5.25 percent—its tenth rate hike since March 2022. These actions represent the Federal Reserve’s ongoing efforts to bring inflation under control. However, additional rate increases—or even sustained inflation above 3 percent or 4 percent without further increases—could further slow the economy.
- **Uncertainty in Financial Institutions**—The first four months of 2023 have seen three major regional bank failures. While swift action by federal and state financial

regulators have stabilized the situation to date, uncertainty remains in the financial system.

- **Delayed Tax Receipts from Fall Filing Deadlines**—The Internal Revenue Service's decision (and the state's subsequent conformity) to delay 2023 tax filing deadlines to October due to the winter storms affects more than 99 percent of California's tax filers in 55 of the state's 58 counties. As a result, the May Revision forecasts roughly $42 billion in scheduled tax receipts will be delayed until October 2023. Of this amount, $28.4 billion is personal income tax—the state's largest source of General Fund revenue—and $13.3 billion is corporation tax. This represents around 23 percent of projected personal income tax and 32 percent of corporation tax revenues for the current fiscal year. This is the first time income taxes have been delayed until the fall, inserting a new level of uncertainty to the May Revision revenue forecast and increasing the risk that receipts will not track with budget projections.

These risks underscore the reason that the May Revision does not reflect a withdrawal from the BSA to close the projected shortfall. Should downward economic and fiscal conditions persist and/or any of the risks identified above be realized, this reserve will help protect the state from having to make the kind of drastic reductions to core programs that marked the state's efforts to close significant deficits in the past.

While the May Revision does not project a recession, should risks be realized and a moderate recession occur, revenue declines below the May Revision forecast could be significant. The magnitude of the revenue loss would depend upon the depth and duration of a recession, as well as its relative impacts on higher-income individuals. Based on a moderate recession scenario in fiscal year 2023-24, revenues could decrease by $40 billion in 2023-24 alone, largely driven by losses in personal income tax. Revenue declines relative to the May Revision forecast could reach an additional $100 billion through 2026-27.



Shaded areas indicate previous U.S. recessions.
Source: California Department of Finance, 2023-24 May Revision Forecast.

A BALANCED PLAN TO CLOSE THE SHORTFALL

The May Revision incorporates a balanced approach to address the additional $9.3 billion budget shortfall. It accomplishes this in a way that avoids reductions that would have significant impacts on programs. The solutions to close the shortfall include:

- **Spending Reductions and Pullbacks**—The May Revision reduces an additional $1.1 billion in spending across the 2021-22 through 2023-24 fiscal years. Combined with the Governor's Budget's $5.7 billion in reductions and pullbacks and a $57 million adjustment, the May Revision includes total solutions in this category of $6.7 billion. Generally, the reductions in the May Revision reflect reversions of unused funds, rather than cuts to programs. For example, $200 million in unallocated Middle Class Tax Refunds, $149.4 million in unused funds for the Utility Arrearages Program, and $280 million of unspent funds for the 2021-22 fiscal year for CalWORKs county administration and services will revert to the General Fund.

- **Trigger Reductions**—The May Revision does not include additional trigger reductions. However, it maintains most of the $3.9 billion in trigger reductions included in the Governor's Budget.

- **Delayed Spending**—The May Revision delays an additional $695 million across the multi-year without reducing the total amount of funding through the same period. Combined with the Governor's Budget delays of $7.4 billion, $8.1 billion in spending delays is spread across the multi-year. Major items in this category at the May Revision include: $295 million moved into the out-years for the Foreclosure Intervention Housing Prevention Program (while maintaining $205 million in the current year and budget year).

- **Fund Shifts**—The May Revision includes $3.3 billion in shifts of spending commitments from the General Fund to other funds. Combined with the Governor's Budget fund shifts of $4.3 billion and a $90 million adjustment, there is a total of $7.5 billion in shifts to other funds. Major items in this category at the May Revision include $1.1 billion in climate related investments shifted to a climate bond, $635 million of Zero Emission Vehicle investments shifted to Greenhouse Gas Reduction Fund, and $1.1 billion for student housing projects shifted to bonds.

- **Revenue/Borrowing**—The May Revision includes $3.7 billion in revenue and borrowing, which consist primarily of an additional $2.5 billion from the Managed Care Organization tax and $1.2 billion in additional borrowing from special funds. Combined with the Governor's Budget amount of $1.2 billion, there is a total of $4.9 billion in new revenue or borrowing.

- **Safety Net Reserve Withdrawal**—The May Revision includes the withdrawal of $450 million from the Safety Net Reserve. This represents half of the funds available in the reserve, leaving a balance of $450 million if subsequently needed.

RESERVES

In total, the May Revision reflects $37.2 billion in total budgetary reserves—a prudent level considering the uncertainty and risks described above, and importantly, none of these funds are used as a solution to the budget problem except a portion of the Safety Net Reserve. These reserves include $22.3 billion in the Budget Stabilization Account, which fulfills the constitutional maximum mandatory deposit limit of 10 percent of General Fund tax proceeds. The reserve total also includes:

- $10.7 billion in the Public School System Stabilization Account,

- $450 million in the Safety Net Reserve, and

- $3.8 billion in the state's operating reserve, the Special Fund for Economic Uncertainties.

As the Budget Stabilization Account balance is at its constitutional maximum amount, a total of $2.3 billion must be dedicated for infrastructure investments in 2023-24.

The May Revision accelerates the paydown of state retirement liabilities as required by Proposition 2, with $2.3 billion in additional payments in 2023-24 and approximately $5.1 billion projected to be paid over the next three years.

ADVANCING INFRASTRUCTURE

The short-term fluctuations in revenues do not change the long-term commitment the Administration and the Legislature have made in California and its future. California is entering a period of rebuilding. Unprecedented state and local investments over the past two state budgets, combined with funding from the federal Infrastructure Investment and Jobs Act (IIJA) and Inflation Reduction Act (IRA), means California will invest more than $180 billion over the next several years in clean energy, roads, bridges, public transit, water storage and conveyance, and faster internet for all Californians — creating hundreds of thousands of new jobs that will build the infrastructure to make Californians more mobile, better connected, safer and more prepared for our future.

The May Revision reflects the state’s ongoing efforts to streamline regulations and train more workers to draw down more dollars faster, and build the projects needed to reach the state's ambitious climate goals, ensure availability of clean water, improve mobility and transportation, and increase access to fast internet for all Californians.

The budget reflects the priorities, policies and long-term investments that will remake the future of our state.

MAINTAINING COMMITMENTS WHILE CLOSING THE BUDGET GAP

Even while addressing a total $31.5 billion budget problem, the May Revision continues to sustain and protect many important investments and commitments. These include:

- **K-12 Education**—The May Revision fully funds the 8.22 percent cost-of-living adjustment, maintains the Equity Multiplier, which would help accelerate learning gains and close opportunity gaps, continues to fully fund the first and second years of expanded eligibility for Transitional Kindergarten, and fully funds the Universal School Meals program, which provides two meals to students each day of school.

- **Higher Education**—The May Revision maintains the commitment to the compacts with both the University of California (UC) and California State University (CSU) providing 5-percent increases to each segment. This results in approximately $216 million for UC and $227 million for CSU.
- **Healthcare**—The May Revision maintains funding to expand full-scope Medi-Cal eligibility to all income-eligible Californians, regardless of citizenship status. It also maintains over $8 billion in various behavioral health investments, and implements the California Food Assistance Program expansion for income-eligible individuals aged 55 years or older, regardless of their immigration status, by October 2025.
- **Housing and Homelessness**—The May Revision continues the Administration's emphasis on local accountability so that all jurisdictions build their fair share of housing units. It also maintains $3.4 billion in funding proposed for homelessness programs.
- **Climate**—The May Revision maintains $2.7 billion in a multi-year wildfire and forest resilience package and adds $290 million for a flood risk reduction package to reduce flood risk and enhance flood system resilience. The Administration also continues to engage the Legislature in pursuing a climate bond over the coming months. As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision includes an additional $1.1 billion in General Fund shifts across climate resilience programs that would be bond eligible.
- **Infrastructure**—The May Revision includes proposals to facilitate and streamline project approval and completion to maximize California's share of the federal infrastructure spending opportunity and expedite the implementation of projects that meet our social, climate, and economic goals.

CONCLUSION

Reduced revenues, heightened economic uncertainty, and federal and state delays in tax filings have marked the months since the Governor's Budget was released. Building on the balanced plan put forward in January to bridge what was then a $22.5 billion budget deficit, the May Revision proposes both additional steps and modified measures to close the projected $31.5 billion shortfall—while sustaining core programs and providing protection against future risks that could further alter the state's fiscal course.

Despite the current budget shortfall, the Governor's revised budget continues to protect core programs and services that reflect California's values—including in Pre-K-to-12 and higher education, expanded health care and sustained safety net programs—while maintaining the state's initiatives to address the challenges of homelessness, housing availability, public safety, and climate change.

Because of responsible planning, the May Revision is able to address the shortfall in this manner without taking harsh actions that disrupt programs or services that the state's residents rely upon. However, the state must also be prepared for economic uncertainties that may reduce revenues in the near future.

Summary Charts

This section provides various statewide budget charts and tables.

2023-24 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2022-23	2023-24
Prior Year Balance	$55,462	$24,119
Revenues and Transfers	$205,129	$209,054
Total Resources Available	**$260,591**	**$233,173**
Non-Proposition 98 Expenditures	$158,357	$145,733
Proposition 98 Expenditures	$78,115	$78,368
Total Expenditures	**$236,472**	**$224,101**
Fund Balance	**$24,119**	**$9,072**
Reserve for Liquidation of Encumbrances	$5,272	$5,272
Special Fund for Economic Uncertainties	$18,847	$3,800
Public School System Stabilization Account	**$9,936**	**$10,684**
Safety Net Reserve	**$900**	**$450**
Budget Stabilization Account/Rainy Day Fund	**$22,252**	**$22,252**

Note: Numbers may not add due to rounding.

General Fund Expenditures by Agency
(Dollars in Millions)

	2022-23	2023-24	Change from 2022-23 Dollar Change	Change from 2022-23 Percent Change
Legislative, Judicial, Executive	$18,407	$9,630	-$8,777	-47.7%
Business, Consumer Services & Housing	3,740	1,448	-2,292	-61.3%
Transportation	1,986	1,190	-796	-40.1%
Natural Resources	15,943	7,512	-8,431	-52.9%
Environmental Protection	3,892	339	-3,553	-91.3%
Health and Human Services	62,644	73,244	10,600	16.9%
Corrections and Rehabilitation	15,695	14,676	-1,019	-6.5%
K-12 Education	77,019	78,871	1,852	2.4%
Higher Education	22,659	22,598	-61	-0.3%
Labor and Workforce Development	1,274	856	-418	-32.8%
Government Operations	6,892	4,439	-2,453	-35.6%
General Government:				
Non-Agency Departments	2,557	2,443	-114	-4.5%
Tax Relief/Local Government	668	559	-109	-16.3%
Statewide Expenditures	3,096	6,295	3,199	103.3%
Total	**$236,472**	**$224,101**	**-$12,372**	**-5.2%**

Note: Numbers may not add due to rounding.

2023-24 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	$9,630	$3,978	$262	$13,870
Business, Consumer Services & Housing	1,448	1,215	536	3,199
Transportation	1,190	16,125	82	17,397
Natural Resources	7,512	2,741	714	10,967
Environmental Protection	339	4,779	12	5,130
Health and Human Services	73,244	38,648	-	111,892
Corrections and Rehabilitation	14,676	3,793	-	18,469
K-12 Education	78,871	470	629	79,970
Higher Education	22,598	139	634	23,371
Labor and Workforce Development	856	1,055	-	1,911
Government Operations	4,439	196	7	4,642
General Government:				
Non-Agency Departments	2,443	1,903	2	4,348
Tax Relief/Local Government	559	3,453	-	4,012
Statewide Expenditures	6,295	1,020	-	7,315
Total	**$224,101**	**$79,516**	**$2,878**	**$306,494**

Note: Numbers may not add due to rounding.

General Fund Revenue Sources

(Dollars in Millions)

			Change from 2022-23	
	2022-23	2023-24	Dollar Change	Percent Change
Personal Income Tax	$122,769	$118,166	-$4,603	-3.7%
Sales and Use Tax	33,072	33,366	294	0.9%
Corporation Tax	42,091	42,081	-10	0.0%
Insurance Tax	3,673	3,881	208	5.7%
Alcoholic Beverage Taxes and Fees	433	438	5	1.2%
Cigarette Tax	47	43	-4	-8.5%
Motor Vehicle Fees	37	37	0	0.0%
Other	3,551	11,042	7,491	211.0%
Subtotal	**$205,673**	**$209,054**	**$3,381**	**1.6%**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-544	-	544	-100.0%
Total	**$205,129**	**$209,054**	**$3,925**	**1.9%**

Note: Numbers may not add due to rounding.

2023-24 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2022-23
Personal Income Tax	$118,166	$2,741	$120,907	-$5,066
Sales and Use Tax	33,366	15,458	48,824	214
Corporation Tax	42,081	-	42,081	-10
Highway Users Taxes	-	9,370	9,370	669
Insurance Tax	3,881	-	3,881	208
Alcoholic Beverage Taxes and Fees	438	-	438	5
Cigarette Tax	43	1,449	1,492	-147
Motor Vehicle Fees	37	11,741	11,778	502
Other	11,042	32,229	43,271	13,475
Subtotal	**$209,054**	**$72,988**	**$282,042**	**$9,850**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-	-	-	-
Total	**$209,054**	**$72,988**	**$282,042**	**$9,850**

Note: Numbers may not add due to rounding.

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 provide instruction in English, mathematics, history, science, and other core competencies.

The May Revision includes total funding of $127.2 billion ($79.1 billion General Fund and $48.1 billion other funds) for all K-12 education programs.

MAINTAINING STRONG SUPPORT FOR SCHOOLS

Because available Proposition 98 resources have declined between the Governor's Budget and the May Revision, the May Revision adjusts and repurposes prior one-time allocations to continue supporting and maintaining critical ongoing education investments. The May Revision repurposes modest portions of the funding previously provided to support the Arts, Music, and Instructional Materials Block Grant and the Learning Recovery Emergency Block Grant to support the Local Control Funding Formula. With these changes, the state is reasonably positioned to sustain the continued multi-year implementation of the California for All Kids plan—a whole child framework to close opportunity gaps by accelerating learning and investing in the educator workforce while providing universal access to early learning, before and after school care, comprehensive nutrition services, and increasing the number of community schools in high-needs communities. Further, the May Revision does not reflect a discretionary withdrawal from the Public School System Stabilization Account.

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 2021-22, 2022-23, and 2023-24. 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 38.3 percent to approximately 38.6 percent. The May Revision updates the increased Test 1 percentage from approximately 38.6 percent to approximately 38.5 percent to reflect revised estimates of enrollment increases related to the expansion of transitional kindergarten.

The decrease in revenues projected for fiscal years 2021-22, 2022-23, and 2023-24 results in a corresponding decrease in resources for K-14 schools. Proposition 98 is estimated to be $110.6 billion in 2021-22, $106.8 billion in 2022-23, and $106.8 billion in 2023-24, representing a three-year decrease in the minimum Guarantee of $2 billion below the level estimated in the Governor's Budget. These funding levels include property tax increases of $15 million in 2021-22, $767 million in 2022-23, and $201 million in 2023-24.

PROPOSITION 98 RAINY DAY FUND

The Governor's Budget projected a total of $8.5 billion in total payments to the Public School System Stabilization Account (PSSSA) between 2021-22, 2022-23, and 2023-24. At the May Revision, the share of General Fund revenues attributable to capital gains have increased, causing required PSSSA deposits (and the PSSSA balance) to increase from $8.5 billion to a total of roughly $10.7 billion. This balance reflects the PSSSA reaching its constitutional cap in the 2023-24 fiscal year.

Under current law, there is also a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the PSSSA is equal to or greater than three percent of the total K-12 share of the Proposition 98 Guarantee. The balance of $9.9 billion in 2022-23 continues to trigger school district reserve caps in 2023-24.

LOCAL CONTROL FUNDING FORMULA (LCFF)

The 2023-24 cost-of-living adjustment is updated from 8.13 percent at the Governor's Budget to 8.22 percent at the May Revision. This adjustment, when combined with further declining enrollment at the May Revision, would increase year-over-year discretionary funds available to local educational agencies (LEAs) by approximately $3.4 billion. The May Revision also reflects the utilization of approximately $2.7 billion one-time Proposition 98 General Fund to support the overall costs of the LCFF in 2023-24.

COUNTY OFFICES OF EDUCATION LCFF FUNDING

The May Revision includes an increase of $80 million ongoing Proposition 98 General Fund to support county offices of education serving students in juvenile court and other alternative school settings. This investment will provide county offices of education with additional resources to support the unique staffing and programming needs required to serve this vulnerable population of students, address the volatility of existing resources for juvenile court and other alternative school programs, and address the need for teachers, mental health professionals and other support staff to serve these students.

Additionally, the May Revision includes a 50-percent increase to the base grant allocation that county offices of education receive to support their differentiated assistance work, in recognition of the lengthened timeline for differentiated assistance—from one to two years of eligibility—proposed at the Governor's Budget.

ACCOUNTABILITY IMPROVEMENTS AND EQUITY MULTIPLIER

To accelerate learning gains and close opportunity gaps of historically underserved pupils, the Governor's Budget included a comprehensive package of amendments to the K-12 accountability and continuous improvement system intended to allow significant student group or school-level equity gaps within an LEA to be identified and addressed effectively through the Local Control and Accountability Plan and Differentiated Assistance processes. Seeking to build on its successful foundation, the proposed amendments draw from formal evaluations, research studies and experience during the first ten years of implementation of these LCFF-based systems. Underscoring the need for these improvements: in 2021-22, 47 percent of all students met or exceeded standards in English language arts (ELA) and 33.4 percent met or exceeded standards in mathematics; only 30.3 percent of African American students met or exceeded standards in ELA and only 15.9 percent met or exceeded standards in mathematics; for youth in foster care, only 20.6 percent met or exceeded standards in ELA and 10.3 percent met or exceeded standards in mathematics.

As a direct complement to this proposal, the Governor's Budget proposed $300 million ongoing Proposition 98 General Fund to establish an Equity Multiplier as an add-on to the LCFF. These funds will be allocated to LEAs based on school-site eligibility, using a more targeted methodology than the existing supplemental and concentration grants' eligibility.

The May Revision reflects several clarifying statutory changes to those transmitted with the Governor's Budget to strengthen the package of statutory accountability changes, including additional assurances that all LEAs with low student performance address disparities in the preparation of their educators. The Budget also provides $2 million ongoing Proposition 98 General Fund to support the critical work of the newly proposed Equity Leads within the Statewide System of Support.

LITERACY

Early identification and intervention with evidence-based early literacy instructional strategies and materials improves literacy outcomes for pupils who have or are at risk of having reading difficulties, including dyslexia. To target appropriate progress monitoring, interventions and support for students at risk of reading difficulties, the May Revision requires LEAs to begin screening pupils in kindergarten through second grade for risk of reading difficulties, including dyslexia, by the 2025-26 school year. The May Revision provides $1 million one-time Proposition 98 General Fund to support the convening of an independent panel of experts to approve a list of screening instruments for these assessments and the Administration intends to fund professional development for this purpose in future budgets. LEAs would be further required to provide supports and services to students identified as at risk of reading difficulties, including dyslexia.

EARLY EDUCATION

TRANSITIONAL KINDERGARTEN

Access to high-quality, evidence-based early education can support and accelerate the learning of young children and provide pre-elementary students with the skills and tools needed to succeed in school. To this end, the Governor's Budget included $604 million Proposition 98 General Fund to support the first year of expanded eligibility for transitional kindergarten (TK), which covers the shift 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. Additionally, the Governor's Budget included $337 million Proposition 98 General Fund to add one additional certificated or classified staff person to every TK class, reducing student-to-adult ratios to more closely align with the California State Preschool Program.

Due to reduced TK enrollment projections at May Revision, the first-year costs to expand access to all children (roughly 29,000 total children), turning five years old between September 2 and February 2, are revised from $604 million Proposition 98 General Fund to approximately $357 million Proposition 98 General Fund at the May Revision. The first-year costs to add one additional certificated or classified staff person to every TK class is revised from $337 million Proposition 98 General Fund to approximately $283 million Proposition 98 General Fund. The second-year costs to expand access to all children (roughly 42,000 additional children) turning five-years-old between September 2 and April 2 are revised from approximately $690 million to approximately $597 million. The second-year costs to support the addition of one additional certificated or classified staff person in TK classrooms serving these students remains unchanged from the Governor's Budget.

CALIFORNIA STATE PRESCHOOL PROGRAM

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

- **State Preschool Family Fee Waivers and 2022-23 Stipends**—The May Revision reflects recent legislation that allows the Department of Education to use $4.4 million non-Proposition 98 General Fund and $5.3 million Proposition 98 General Fund from the 2022 Budget Act, to continue to waive family fees from July 1, 2023, through September 30, 2023, to extend relief to families who would otherwise have to start paying family fees in July. Additionally, the May Revision reflects the recent legislation that authorizes the California Department of Education to use roughly $112 million in available federal funds to provide temporary employee stipends to the California State Preschool Program.
- **State Preschool Technical Adjustments**—The May Revision includes a decrease of $54.3 million General Fund to reflect revised estimates of the General Fund resources needed to support recent reimbursement rate increases that are currently supported by limited-term federal funds. Additionally, the May Revision reflects an increase in reimbursement rates due to the increased COLA of 8.22-percent; however, the cost of providing this COLA has decreased by $52 million Proposition 98 General Fund and $28 million General Fund due to revised estimates of the number of contractors that opt into the Standard Reimbursement Rate. This decrease in funding is due to the number of contractors being reimbursed at the Standard Reimbursement Rate being lower than expected at the Governor's Budget.

EXPANDED LEARNING OPPORTUNITIES PROGRAM

The 2022 Budget Act allocated $4 billion ongoing Proposition 98 General Fund to support the Expanded Learning Opportunities Program (ELOP). Consistent with statute, starting in 2023-24, LEAs will be required to offer expanded learning opportunities to all low-income students, English learners, and youth in foster care in elementary grades. LEAs with the highest concentrations of these students will be required to offer expanded learning opportunities to all elementary students.

The Governor's Budget proposed statutory changes so that LEAs do not incur fiscal penalties that were greater than their ELOP entitlement and clarified that LEAs can offer 30 non-school days during the summer if they choose, without being penalized.

The May Revision proposes further statutory changes to provide LEAs with additional time to expend the ELOP funding allocations by extending the expenditure deadline for ELOP funds received in 2021-22 and 2022-23 from June 30, 2023, to June 30, 2024. This extension will allow LEAs to have more time for planning and implementation.

NUTRITION

The Governor's Budget included a total of approximately $1.5 billion ongoing Proposition 98 General Fund to support the Universal School Meals program. The Universal School Meals program provides public K-12 students access to two free meals per school day. In addition to the ongoing Proposition 98 General Fund, local educational agencies are projected to receive approximately $2.6 billion in federal meal reimbursements for schools participating in the National School Lunch and School Breakfast programs.

Due to greater demand for meals reimbursed in the paid category than was projected for the 2022-23 and 2023-24 fiscal years at the Governor's Budget, the May Revision includes an additional $110 million one-time Proposition 98 General Fund and approximately $191 million ongoing Proposition 98 General Fund to fully fund the program in the 2022-23 and 2023-24 fiscal years.

EDUCATOR WORKFORCE

The 2021 and 2022 Budget Acts included several multi-year investments to better prepare, train, recruit, and retain a diverse, expert workforce in California's K-12 schools. The Administration remains committed to the successful implementation of these investments in the coming year to increase the number of fully prepared teachers graduating from California teacher education programs and entering the state educator workforce. To further reduce barriers for those interested in entering the teaching profession, including spouses of military personnel, the May Revision includes statutory changes to implement the following program improvements:

- Increasing the Teacher and School Counselor Residency Grant Program per-candidate allocation to grantee local educational agencies. These statutory changes also require a minimum stipend or salary be provided to residents to better enable candidates to afford to pursue this exemplary pathway and districts and preparation programs to better support their successful implementation.
- Allowing residency candidates to complete their service requirements in eight years instead of five years, and providing flexibility for candidates to fulfill their service requirement by teaching in schools outside of the sponsoring district.
- Allowing teachers who were unable to finish their credential because they could not take the Teaching Performance Assessment during the COVID-19 pandemic to

meet this requirement through completion of a Commission-approved induction program or through two years of satisfactory teacher evaluations.

- Authorizing the Commission on Teacher Credentialing to issue a comparable California credential to any U.S. military servicemember or their spouse who possesses a valid out-of-state teaching or services credential to provide instruction or services in the public schools of the state of issuance when the candidate is relocated to California on military orders.
- Requiring the Commission to evaluate how transcript reviews can be conducted to assess basic skills and subject matter competence for teaching candidates to complete their credentialing requirements without the need to take state-mandated exams to prove competence.

ADJUSTING ONE-TIME RESOURCES

Since available Proposition 98 resources have declined by approximately $2 billion below the Governor's Budget estimate, and because Public School System Stabilization Account deposits are projected to increase by roughly $2.2 billion over the Governor's Budget estimate, the May Revision proposes reducing support for the following one-time programs to better enable the state to support and maintain critical ongoing education investments:

- **Arts, Music, and Instructional Materials Discretionary Block Grant**—A decrease of approximately $607 million one-time Proposition 98 General Fund for the Arts, Music, and Instructional Materials Block Grant, taking proposed support for the Block Grant from $2.3 billion Proposition 98 General Fund at the Governor's Budget to approximately $1.8 billion Proposition 98 General Fund at the May Revision. The Arts and Music in Schools: Funding Guarantee and Accountability Act (Proposition 28) is expected to provide approximately $933 million ongoing Proposition 98 General Fund beginning in 2023-24.
- **Learning Recovery Emergency Block Grant**—A decrease of approximately $2.5 billion one-time Proposition 98 General Fund for the Learning Recovery Emergency Block Grant, taking support for the Block Grant from approximately $7.9 billion at the Governor's Budget to approximately $5.4 billion at the May Revision.

SIGNIFICANT ADJUSTMENTS

- **Bipartisan Safer Communities Act, Stronger Connections Program**—An increase of $119.6 million one-time federal funds to support state-level activities related to school climate and safety through the Stronger Connections Program.
- **Categorical Program Cost-of-Living Adjustments**—A decrease of approximately $1.7 million ongoing Proposition 98 General Fund for selected categorical programs for 2023-24 to reflect a change in the cost-of-living factor from 8.13 percent at the Governor's Budget to 8.22 percent at the May Revision. This decrease also reflects changes in enrollment projections from Governor's Budget.
- **The Arts and Music in Schools: Funding Guarantee and Accountability Act (Proposition 28)**—A decrease of approximately $8 million to support the implementation of Proposition 28, which requires an amount equal to one percent of the Proposition 98 Guarantee to be allocated to schools to increase arts instruction and/or arts programs in public education. With this adjustment, support for the program would be approximately $933 million in 2023-24.
- **Bilingual Teacher Professional Development Program**—An increase of $20 million one-time Proposition 98 General Fund to be available through the 2028-29 fiscal year to support the Bilingual Teacher Professional Development Program.
- **Restorative Justice Practices**—An increase of $7 million one-time Proposition 98 General Fund to provide support for local educational agencies opting to implement the Restorative Justice best practices that will be developed and posted on the Department of Education's website by June 1, 2024, pursuant to Chapter 914, Statutes of 2022 (AB 2598).
- **Golden State Teacher Grant Program**—As referenced in the Higher Education Chapter, an increase of $6 million one-time federal funds to support grants to teacher candidates enrolled in a special education teacher preparation program who agree to teach at a high-need school site. Additionally, the May Revision alters proposed statutory changes transmitted with the Governor's Budget to maintain the requirement that awardees serve in high-need schools.
- **After School Education and Safety Programs**—An increase of $3 million ongoing Proposition 98 General Fund to the Los Angeles County Office of Education to contract with Save the Children to support after school programs in rural districts.

- **California School Information Services**—An increase of approximately $2.1 million ongoing Proposition 98 General Fund to support the California School Information Services division of the Fiscal Crisis and Management Assistance Team.
- **Professional Development and Leadership Training**—An increase of $1 million ongoing Proposition 98 General Fund for the Los Angeles County Office of Education to support professional development and leadership training for education professionals related to antibias education and the creation of inclusive and equitable schools, pursuant to Chapter 13, Statutes of 2015.
- **Local Control and Accountability Plan Query Tool and eTemplate**—An increase of $148,000 ongoing Proposition 98 General Fund to support refinements to the Local Control and Accountability Plan Query Tool and eTemplate.
- **Basic Aid Wildfire Property Tax Backfill**—An increase of $632,000 one-time Proposition 98 General Fund to backfill reduced property tax revenues for certain school districts that were impacted by the Kincade Fire.

HIGHER EDUCATION

The May Revision reflects the continued implementation of the second year of the multi-year compacts with the University of California (UC) and the California State University (CSU), and the multi-year roadmap with the California Community Colleges (CCCs), which focus on shared priorities benefitting students. Although available General Fund resources declined between the Governor's Budget and the May Revision, the Administration remains committed to the shared goals of the compacts, which include increasing access to the UC and CSU, improving student success while advancing equity, increasing the affordability of higher education, increasing intersegmental collaboration, and supporting workforce preparedness in high-demand career pipelines. The May Revision reflects continuing support for the 5-percent base augmentations reflected in the compacts for the UC and CSU.

The May Revision proposes total funding of $40.4 billion ($27.3 billion General Fund and local property tax and $13.1 billion other funds) for the three higher education segments and the California Student Aid Commission.

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 294,000 students and the UC extension centers register an additional 500,000 participants in continuing education programs. In 2021-22, the UC awarded more than 84,000 degrees, including more than 62,000 undergraduate degrees.

The May Revision reflects continued support for the multi-year compact that includes substantial and sustained funding increases for the UC, in exchange for clear commitments to expand student access, equity, and affordability, and to create pathways to high-demand career opportunities. The Administration will continue to monitor the UC's actions toward meeting the goals of the compact, which include a continued focus toward reducing students' cost of attendance, increasing enrollment, and increasing the number of students prepared to enter high-needs areas of the state's economy.

SIGNIFICANT ADJUSTMENTS

- **Shift Financing Approach for the UC Berkeley Clean Energy Campus Project and UC Merced and UC Riverside Campus Expansion Projects**—Shift $498 million in current and planned General Fund support for the UC Berkeley clean energy campus project and UC Merced and UC Riverside campus expansion projects from General Fund to UC-issued bonds, and an increase of $33.3 million ongoing General Fund to support the underlying debt service on those bonds.
- **Shift Financing Approach for UC Affordable Student Housing Grants**—Shift approximately $437 million in current and planned General Fund support for UC affordable student housing grants from General Fund to UC-issued bonds, and reflect an increase of $30 million ongoing General Fund to support the underlying debt service on those bonds.
- **Support for UC Division of Agriculture and Natural Resources**—A shift of $4.8 million from UC's main appropriation to provide continued support for UC Agriculture and Natural Resources. This is roughly equivalent to 5 percent of the base increase provided at Governor's Budget less resources provided for enrollment growth.
- **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.
- **UC Riverside School of Medicine**—An increase of $2 million ongoing General Fund to support the UC Riverside School of Medicine.
- **UC Global Entrepreneurs**—An increase of $2 million one-time General Fund to pilot an entrepreneur in residence project for foreign born entrepreneurs and UC students in support of job creation and fostering global talent for innovation in areas of need. This complements recent investments in immigrant talent and opportunity

through efforts for youth, college students, workers and those pursuing professional licenses and entrepreneurship.

- **Graduate Medical Education Backfill**—An increase of $1.2 million ongoing General Fund to offset declining Proposition 56 revenue for a statewide grant program and maintain $40 million in total ongoing for graduate medical residency slots.

CALIFORNIA STATE UNIVERSITY

The CSU provides undergraduate and graduate instruction generally up to the master's degree. The CSU serves approximately 458,000 undergraduate and graduate students across 23 campuses, and also provides opportunities for students to enroll in professional and continuing education programs. In 2021-22, the CSU awarded more than 132,000 degrees.

The May Revision reflects continued support for the multi-year compact that includes substantial and sustained funding increases for the CSU in exchange for clear commitments to expand student access, equity, and affordability, and to create pathways to high-demand career opportunities. The Administration will continue to monitor the CSU's actions toward meeting the goals of the compact, which include a continued focus toward reducing students' cost of attendance, increasing enrollment, and increasing the number of students prepared to enter high-needs areas of the state's economy.

SIGNIFICANT ADJUSTMENTS

- **Shift Financing Approach for CSU Affordable Student Housing Grants**—A shift of approximately $655 million in current and planned General Fund support for CSU affordable student housing grants from General Fund to CSU-issued bonds and an increase of $45 million ongoing General Fund to support the underlying debt service on those bonds.
- **Shift Financing Approach for Cal Poly Humboldt Infrastructure Projects**—A shift of approximately $201 million General Fund support provided in the 2021 Budget Act to support Cal Poly Humboldt Infrastructure projects from General Fund to CSU-issued bonds, and reflect an increase of $16 million ongoing General Fund to support the underlying debt service on those bonds.
- **Restoration of Support for University Farms**—An increase of $75 million one-time General Fund to support improvements at CSU's university farming operations. Some

expenditures for this purpose were determined to be ineligible for CSU-issued bond funding.

- **CSU Chico Human Identification Laboratory**—An increase of $3.1 million ongoing General Fund to support the construction of the Human Identification Laboratory at the CSU Chico campus through the issuance of CSU bonds.

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 2021-22, the CCCs awarded over 110,000 certificates and 198,000 degrees and transferred over 107,000 students to four-year institutions.

The May Revision continues to reflect a focus on the CCC multi-year roadmap, which focuses on equity, student success, and enhancing the system's ability to prepare students for California's future.

PROVIDING FLEXIBILITY FOR DISTRICTS MEETING CCC ROADMAP GOALS

The May Revision proposes statutory changes to allow all CCC districts to spend flexibly among specified categorical programs, beginning in 2023-24:

- Student Equity and Achievement Program
- Student Financial Aid Administration
- Student Mental Health Resources

The proposed statutory changes would stipulate that after five years, the CCC Chancellor's Office (Chancellor's Office) would assess district-level progress in meeting five of the roadmap goals, as selected by the Chancellor's Office. CCC districts that are not making sufficient progress toward the roadmap goals, as defined by the Chancellor's Office, would have their flexible spending authority revoked and be offered technical assistance.

In addition, the May Revision proposes statutory changes to expand eligible uses of funding for the CCC Strong Workforce Program funding, including providing funds for student grants to cover fees for third-party certification and licensing and supporting applied and experiential learning in the workplace, including, but not limited to, work-based learning programs and models.

SIGNIFICANT ADJUSTMENTS

- **Apportionments Cost-of-Living Adjustment and Growth**—An increase of $25.4 million ongoing Proposition 98 General Fund to reflect a change in the cost-of-living adjustment for apportionments from 8.13 percent to 8.22 percent, and a decrease of approximately $2.4 million ongoing Proposition 98 General Fund needed to sustain 0.5-percent enrollment growth.
- **CCC Categorical Program COLA**—An increase of $3 million ongoing Proposition 98 General Fund to provide an 8.22 percent COLA for select categorical programs and the Adult Education Program.
- **Fund Budget Year Apportionments with One-Time Resources**—An increase of approximately $503 million one-time Proposition 98 General Fund to support Student-Centered Funding Formula costs for 2023-24.
- **LGBTQ+ Pilot Project**—An increase of $10 million a year for three years Proposition 98 General Fund to support the Los Angeles Community College District LGBTQ+ Pilot Project.
- **East Los Angeles College Entrepreneurship and Innovation Center**—An increase of $2.5 million one-time Proposition 98 General Fund for the East Los Angeles College Entrepreneurship and Innovation Center.
- **Student Enrollment and Retention**—A decrease of $100 million one-time Proposition 98 General Fund in proposed support for community college efforts and focused strategies to increase student retention rates and enrollment, bringing the cumulative total for Governor's Budget and May Revision investments for this purpose to $100 million one-time Proposition 98 General Fund, reflecting revised estimates of available Proposition 98 resources.
- **Student Success and Completion Grant Program**—A decrease of $50 million one-time Proposition 98 General Fund to reflect revised program participation estimates, bringing the cumulative 2023-24 support for this program to a total of approximately $362.6 million Proposition 98 General Fund.
- **California Community College COVID-19 Recovery Block Grant**—A decrease of approximately $345 million one-time Proposition 98 General Fund in support of the California Community College COVID-19 Recovery Block Grant, bringing the block

grant amount to $305 million one-time Proposition 98 General Fund, reflecting revised estimates of available Proposition 98 resources.

- **Deferred Maintenance**—A decrease of approximately $239 million one-time Proposition 98 General Fund for deferred maintenance needs, for a total reduction of $452 million one-time Proposition 98 General Fund when combined with the reduction proposed in the Governor's Budget. These adjustments reflect revised estimates of available Proposition 98 resources.
- **Local Property Tax Adjustment**—A decrease of $19.6 million ongoing Proposition 98 General Fund as a result of increased offsetting local property tax revenues.

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 393,000 financial aid awards to students who meet specified eligibility criteria in fiscal year 2023-24.

The May Revision proposes winding down the Golden State Education and Training Program, but maintains all other financial aid programs, with only caseload adjustments.

The Administration continues to remain attentive to the 2022 Budget Act's provisions regarding the fiscal conditions upon which the Cal Grant Reform Act may be implemented and will continue to work closely with the Legislature, the Commission, and others as that time draws closer.

SIGNIFICANT 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 2021-22, $2.3 billion in 2022-23, and $2.3 billion in 2023-24.
- **Golden State Education and Training Program**—As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision proposes a decrease of $480 million one-time General Fund to wind down the Golden State Education and Training Program at the end of the 2022-23 fiscal year.

- **Golden State Teacher Grant Program**—As referenced in the K-12 Education Chapter, an increase of $6 million one-time federal funds to support grants to students enrolled in a special education teacher preparation program at high-need school sites. Additionally, the May Revision alters proposed statutory changes transmitted with the Governor's Budget to maintain the requirement that awardees serve in high-needs schools.
- **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 $9,358 for the 2023-24 award year.
- **Financial Aid Programs**—An increase of $397,000 ongoing General Fund currently unallocated for four 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 $638,000 for four positions beginning in 2023-24 to support financial aid workload.
- **Cash for College**—An increase of $103,000 ongoing General Fund currently unallocated in the California Student Aid Commission's budget to support the Cash for College program. This represents a roughly 31-percent increase for this program.

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 ADJUSTMENTS

- **CalKIDS Current Year Caseload**—A decrease of $30 million one-time General Fund in 2022-23 to reflect revised estimates of the number of eligible students.

- **CalKIDS Implementation**—An increase of $158,000 ongoing General Fund in 2023-24, to support the recent expansion of the CalKIDS program and financial literacy initiatives.

STUDENT HOUSING

The 2021 Budget Act established the Higher Education Student Housing Grant Program to provide grants for the CCCs, CSU, and UC to construct student housing or to acquire and renovate commercial properties into student housing for low-income students. The 2022 Budget Act allocated approximately $1.4 billion one-time General Fund to CCC, CSU, and UC campuses for this program. The Governor's Budget proposed $500 million one-time General Fund for 2023-24 and $250 million one-time General Fund for 2024-25 for affordable student housing projects.

The May Revision instead proposes $450 million one-time General Fund for 2023-24 and $95.4 million one-time General Fund for 2024-25 for CCC affordable student housing projects. The May Revision also proposes to shift approximately $1.1 billion in current and planned General Fund support for UC and CSU affordable student housing grants from General Fund to UC- and CSU-issued bonds, and reflects an increase of $75 million ongoing General Fund to support the underlying debt service on those bonds.

CLIMATE CHANGE

California is on the frontline of the global climate crisis with record-breaking heat, extreme flooding, and devastating wildfires impacting communities across the state. The summer months of 2022 included extreme heat waves and drought conditions, and 2023 began with statewide flood events in the winter and spring that are likely to continue over the next few months as record snow levels are expected to drive significant amounts of snowmelt into rivers and streams.

The 2021 and 2022 Budget Acts delivered a climate and opportunity agenda to fully integrate climate solutions with equity and economic opportunity. With critical investments in health, education, and jobs the state's climate agenda is simultaneously confronting the crisis while building a more resilient, just, and equitable future for all Californians. The Administration also continues to pursue available federal climate funding, including the Inflation Reduction Act (IRA) and the Infrastructure Investment and Jobs Act (IIJA).

The 2021 and 2022 Budget Acts allocated approximately $54 billion over five years to advance the state's climate and opportunity agenda. The May Revision continues to prioritize the state's climate agenda and maintains approximately $48 billion (89 percent) of these investments. The Budget prioritizes equity and investments in priority populations, which face disproportionate harm from pollution and the climate crisis.

FUND SHIFTS TO FUTURE CLIMATE RESILIENCE BOND

Given the ambition and urgency of California's climate agenda, the Administration remains committed to supporting additional resources to continue to advance the climate and opportunity agenda. As indicated at Governor's Budget, the Administration is committed to engaging the Legislature in pursuing a climate bond over the coming months. As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision includes an additional $1.1 billion in General Fund shifts across climate resilience programs. These programs remain a high priority for the Administration and will be included as part of the future climate bond proposal. Specific shifts to the bond include:

- Water Recycling—$270 million
- Salton Sea Restoration—$169 million
- Community Resilience Centers—$160 million
- Transformative Climate Communities—$100 million
- Regional Resilience Program—$100 million
- Urban Greening—$100 million
- Statewide Parks Program—$86.6 million
- Sustainable Groundwater Management Act Implementation—$60 million
- Dam Safety and Flood Management—$50 million
- Multi-Benefit Land Repurposing—$20 million

CLIMATE INVESTMENTS

ZERO EMISSION VEHICLES

With nearly half of the nation's Zero Emission Vehicles (ZEVs) and recently adopted mandates for moving to clean trucks and buses, California is showing the world that a zero-emission transportation future is possible. The state recently achieved its goal of 1.5 million ZEVs on the road two years ahead of schedule.

The May Revision maintains $8.9 billion (89 percent) in investments to the state's ZEV agenda—ranging from cleaning up short-haul trucks and school buses to accelerating equitable electrification of passenger vehicles—coupled with infrastructure and incentives for in-state manufacturing.

This includes targeted investments in disadvantaged and low-income communities by increasing access to the benefits of clean transportation and by continuing to decarbonize California's transportation sector and improving public health. The May Revision shifts $635 million General Fund ($500 million in 2023-24) over three years to the Greenhouse Gas Reduction Fund.

TRANSPORTATION

As the largest contributor of California's greenhouse gas emissions, the transportation sector must align project delivery with climate change considerations. The May Revision demonstrates a continued commitment to address transportation-related climate issues. Specifically, the May Revision maintains $11.6 billion (84 percent), including fund shifts, for transportation programs and projects that align with the state's climate goals. These investments will allow the state to continue to move toward a multi-modal, zero-emission transportation future to reduce carbon emissions and improve health benefits, while supporting safety, equity, and economic growth. For additional details, see the State Transportation section of the Infrastructure Chapter.

WILDFIRE AND FOREST RESILIENCE

The ongoing impact of climate change on California's wildlands continues to drive critically dry fuel conditions and longer, more severe fire seasons. The May Revision maintains $2.7 billion (98 percent) over four years to advance critical investments in restoring forest and wildland health to continue to reduce the risk of catastrophic wildfires in the face of extreme climate conditions. The May Revision also includes the following:

- **Climate Catalyst Fund**—$25 million one-time General Fund, which partially restores the General Fund reduction proposed in the Governor's Budget.

Nature-Based Solutions

California's natural and working lands are essential to combating climate change and protecting the state's world-renowned biodiversity. Trees, plants, grasses, and soils remove and store carbon dioxide from the atmosphere. Healthy landscapes provide a powerful "sink" to absorb greenhouse gases and can help achieve the state's 2045 carbon neutrality goal.

In 2022, over 190 countries joined the 30x30 Initiative, following California's lead in committing to conserve 30 percent of the state's lands and coastal water by 2030 to protect biodiversity, expand equitable access to nature and its benefits, combat climate change, and build resilience to climate impacts.

The May Revision maintains $1.4 billion (89 percent) in investments over multiple years in programs and projects to support nature-based solutions.

Extreme Heat

Extreme heat ranks amongst the deadliest of all climate change hazards. Projections forecast that all of California will be impacted in the years and decades to come by higher average temperatures and more frequent and life-threatening heat waves, disproportionately impacting the most vulnerable communities. The Administration is aggressively implementing actions in the Extreme Heat Action Plan, finalized in 2022.

The May Revision maintains $444 million (68 percent) in investments over multiple years in programs and projects to support extreme heat.

Community Resilience

California's communities are on the front lines of climate change and face complex challenges arising both from its direct impacts, as well as its compounding effects on existing stressors and inequities. California's Climate Adaptation Strategy specifically prioritizes protecting vulnerable communities.

The May Revision maintains $1.6 billion (85 percent) in investments over multiple years in programs and projects to promote community resilience.

COASTAL RESILIENCE

The impacts of climate change on the coast and ocean include sea-level rise, more extreme storm events, coastal erosion, increased water temperatures, and ocean acidification. These impacts affect public and private property and infrastructure, public access to and along the coast, ecosystem health, and California's coastal economy, including tourism and fishing.

The May Revision maintains $734 million (57 percent) in investments over multiple years in programs and projects for coastal resilience.

WATER

The last five years have been marked by weather extremes, a wet 2019 was followed by a three-year period of drought. At the outset of the current water year, which began last October, about 90 percent of the state was gripped by drought conditions, major reservoirs held 69 percent of average storage, hundreds of thousands of acres of farmland had been fallowed for lack of irrigation water surface supplies, and wells were going dry.

The weather then shifted dramatically. Over three weeks in late December 2022 and early January 2023, a series of storms with atmospheric river characteristics led to record flooding in several locations. After a month-long break, a series of cold storms brought record-breaking snowfall, followed by another series of warm atmospheric river storms. By April 1, the San Joaquin region recorded its wettest October-March in the observed record going back to 1896. In addition, the Southern Sierra Nevada recorded its largest snowpack for April 1 in records dating to 1950. This has set the stage for additional spring flooding in the San Joaquin Basin and the lakebed of the former Tulare Lake.

The May Revision maintains $8.5 billion (97 percent) in investments over multiple years in programs and projects to bolster the capacity of communities and ecosystems to endure droughts and floods.

As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision proposes additional General Fund adjustments to assist in closing the projected shortfall and ensuring the submission of a balanced budget plan. These include:

- **2023 Drought Contingency**—A reduction of $125 million one-time General Fund. As a result of the significant improvement in statewide water conditions based on the recent winter storms, there is a reduced need for immediate drought relief. These funds have been shifted to a Flood Contingency in response to the shift from drought to potential flood conditions in the state.
- **Delta Salinity Barriers**—A reduction of $24.5 million one-time General Fund. The Department of Water Resources no longer anticipates needing to install the salinity barriers as a result of improved statewide water conditions.
- **Agriculture and Delta Drought Response Program (LandFlex)**—A reduction of $25 million one-time General Fund. The 2022 Budget Act included $50 million for the LandFlex program, which provides block grants to local government agencies to incentivize farmers to limit agricultural groundwater use near drought-stricken communities whose drinking water wells have gone dry or are close to going dry. The Department of Water Resources awarded $25 million in the first round of grants. Given that water conditions have significantly improved the May Revision proposes a reversion of the remaining $25 million for this program.

OTHER CLIMATE INVESTMENTS MAINTAINED

- **Climate Smart Agriculture**—$1 billion (89 percent) of investments to promote healthy resilient and equitable food systems, climate smart agriculture, and economic recovery and high road job growth.
- **Circular Economy**—$443 million (95 percent) of investments to support a circular economy that recognizes waste as a resource, shifting the state's focus to a more resilient and renewable economy in California.
- **Climate Health**—$321 million (93 percent) of investments in recognition of the continuing statewide goal of mitigating the health impacts of climate change.

TULARE BASIN AND STATEWIDE FLOOD RESPONSE AND SUPPORT

Many communities across the state have been significantly impacted by the historic atmospheric rivers from recent storms. The Tulare Basin and other areas of the state are currently preparing for additional future flooding due to the snowmelt from the historic levels of snowpack.

Flooding impacts in the Tulare region are expected to worsen through the spring and into the early summer as snowmelt escalates due to higher temperatures in the Sierra Nevada.

As a result of the Governor's Executive Order N-6-23 on March 31, 2023, the state has been able to expedite levee repairs, floodwater diversion and other emergency response activities. California has also secured a Presidential Major Disaster Declaration to support storm response and recovery in Tulare County and other impacted counties.

The Administration is partnering with the federal Army Corps of Engineers and local entities to continue to support the Tulare Basin as it faces long-term flooding, including snowmelt forecasting, reservoir operations, flooding assessments and flood response support.

SIGNIFICANT ADJUSTMENTS

Building on the Administration's continuing commitment to address statewide flood impacts, the May Revision includes $290 million one-time General Fund. $250 million to support various at-risk communities, including those in the Tulare Basin, from these impacts and to better withstand future flood events.

- **Flood Contingency**—$125 million one-time General Fund as a flood contingency set aside to support costs associated with preparedness, response, recovery, and other associated activities related to the 2023 storms, the resulting snowmelt, and other flooding risks, including, but not limited to, supporting communities and vulnerable populations, such as farmworkers, from these impacts and to better withstand future flood events.
- **Flood Control Subventions**—$75 million one-time General Fund to support local flood control projects, including in communities impacted by recent storms, such as the Pajaro River Flood Risk Management Project.
- **Small Agricultural Business Relief Grants**—An increase of $25 million one-time General Fund to expand the scope of the current California Small Agricultural Business Drought Relief Grant Program to provide direct assistance to eligible agriculture-related businesses that have been affected by the recent storms. By expanding the program's reach and continuing to support the ability of agricultural businesses to remain open and add or restore jobs, this proposal also aims to advance support for workers of impacted businesses.

- **Disaster Response Emergency Operations Account Set Aside**—$25 million one-time General Fund in the current year in anticipation of potential additional disaster relief and response costs associated with recent storms and future flooding.

The May Revision also includes $40 million one-time General Fund for San Joaquin Floodplain Restoration, which restores the current year General Fund reduction proposed in the Governor's Budget. This funding would provide for multi-benefit floodplain reconnection and habitat restoration projects in the San Joaquin and Tulare Basins. The Administration also proposed legislation that codifies provisions from recent executive orders that allow for diversion of flood flows for groundwater recharge purposes, subject to restrictions to protect water quality, infrastructure, and wildlife habitats. These provisions make it easier to capture floodwater to recharge groundwater by setting clear conditions for diverting floodwaters without permits or affecting water rights. Recognizing the extreme drought gripping the Colorado River, the proposed legislation also extends certain streamlining efforts related to water conservation in that basin.

ENERGY

California is experiencing a substantial shift in conditions affecting its transition to a clean energy future. This is creating new and compounding challenges to electric service reliability and affordability for all Californians, especially disadvantaged and low-income communities. Recognizing these challenges, the Governor's Budget maintained $7 billion (89 percent) of last year's historic $7.9 billion investment in a clean energy agenda including investments in areas such as building decarbonization, transmission development, and long duration energy storage.

The May Revision continues to support building the clean, reliable, affordable, and safe electric grid of the future by providing details on the one-time $1 billion investment in programs and projects as proposed by the Clean Energy Reliability Investment Plan (over multiple years), pursuant to Chapter 239, Statutes of 2022 (SB 846).

The state will continue to prioritize affordability, reliability and safety as the state encourages efforts to decarbonize the electric grid and scale the deployment of clean electric generation and energy storage projects, as evidenced by the historic level of General Fund investment in the 2022 Budget Act.

The Administration continues to evaluate actions while considering ratepayer impacts and has tasked the state's energy agencies to focus both General Fund and ratepayer dollars on the most critical and cost-effective investments to achieve the state's clean electricity and climate goals. With guidance from federal agencies becoming clearer, the state's agencies are actively working to pursue IIJA and IRA funding through formulaic and competitive grant opportunities. The state is positioning itself to secure and direct large amounts of this federal funding toward California's energy priorities.

TRANSPORTATION FUELS—CONSUMER PRICE GOUGING PROTECTIONS

The May Revision supports the implementation of the special session bill, Chapter 1, Statutes of 2023, First Extraordinary Session (SB x1-2), to protect Californians from experiencing price gouging at the pump by oil companies. From August to October 2022, Californians experienced some of the highest gasoline prices ever recorded in the state, reaching a record $6.42 per gallon, even though the price of crude oil was declining, state taxes and fees remained unchanged, and gasoline prices did not increase outside the western United States.

Recognizing the need for greater visibility into the pricing, contracting, and marketing practices of transportation fuels industry participants, SB x1-2 was enacted in March and becomes effective in June. The legislation authorizes the California Energy Commission (CEC) to establish a maximum gross refining margin of profit that refiners can make above the costs of doing business. The law also includes provisions that require greater transparency into the petroleum supply chain by requiring increased reporting and creating a new, independent division within the CEC to oversee the adequate, affordable, and reliable supply of this resource. This is especially important to manage petroleum supply price volatility as the state transitions away from petroleum-based fuels toward cleaner fuels to meet transportation needs. To implement the bill's measures, the May Revision proposes the following resources to several state agencies so that they may carry out their new tasks and responsibilities:

- $5.9 million Energy Resources Programs Account and 14 positions on an ongoing basis for the CEC to collect new data, analyze and track trends in the petroleum supply chain and pricing, produce required reports, and establish a new oversight division, which will collectively help maintain a reliable supply of affordable and safe transportation fuels in California. Additionally, the Commission will redirect 10 existing positions internally to support the new Division of Petroleum Market Oversight.
- $1 million one-time Cost of Implementation Account for the California Air Resources Board to support development of the Transportation Fuels Transition Plan.

- $286,000 Occupational Safety and Health Fund and 1 position for the Department of Industrial Relations to support analysis on managing refinery turnaround and maintenance schedules to prevent price spikes.

ENERGY RESOURCES PROGRAM ACCOUNT (ERPA)

The CEC is the state's primary energy policy and planning agency and administers programs that leverage technology and tools to meet consumer needs while using less energy. These programs have saved California consumers billions of dollars in energy expenditures over the last few decades.

ERPA is the main fund supporting the CEC's operations. Its revenues are linked to the sale of metered electricity. As building and appliance energy efficiency produces customer savings and flattens statewide electricity consumption, ERPA revenues have decreased and the costs have been borne by fewer and fewer consumers.

To more equitably distribute the costs among ratepayers and sustain this critical revenue source, the May Revision proposes to raise the statutory cap on the ERPA surcharge, tie the statutory cap to the Consumer Price Index, and extend the surcharge to apply to behind-the-meter electricity ratepayers. This increase will generate approximately $3 million in additional revenues in 2023-24, and approximately $6 million annually thereafter to offset recent revenue decreases and will allow the CEC to continue playing a critical role in fostering the clean energy system of the future.

SIGNIFICANT ADJUSTMENT

- **California Arrearage Payment Program**—The May Revision reverts an additional $149.4 million in California Emergency Relief Funds in 2022-23 to the General Fund, based on updated savings figures from the California Arrearage Payment Program due to actual applications received and approved for funding. This program addressed residential utility arrearages accrued during the COVID-19 Pandemic through December 31, 2022.

ENVIRONMENTAL PROTECTION

The California Environmental Protection Agency's (Cal EPA) programs promote the state's economy in a sustainable manner by reducing greenhouse gas emissions, enhancing environmental quality, and protecting public health. The Secretary coordinates the state's regulatory programs and provides fair and consistent enforcement of environmental law.

The May Revision includes $5.1 billion ($339 million General Fund, $4.8 billion special funds, and $12 million bond funds) for programs included in this Agency. Climate resilience efforts are discussed in the Climate Change Chapter.

GROUNDWATER SUSTAINABILITY

Groundwater is one of California's most important natural resources. Groundwater accounts for 41 percent of California's total water supply on an average annual basis—but as much as 60 percent in critically dry years. Approximately 80 percent of Californians rely on groundwater for some portion of their household needs, including for drinking water. Some communities, often those that are small, rural, and disadvantaged, can be dependent exclusively on groundwater. Groundwater also replenishes streams, creeks, rivers, and wetlands that support wildlife, and is an important resource for crop irrigation.

Groundwater overdraft has been occurring in many of California's groundwater basins for decades, causing damaged infrastructure and dried-out wells. Overdraft also has harmed wildlife and ecosystems. Since 2014, through the Sustainable Groundwater Management Act (SGMA), the state has been working with local agencies with the goal of long-term sustainability for California's groundwater basins.

Fundamental to SGMA is the principle that water is best managed at the local level. Specifically, SGMA allows local public water and land use agencies (e.g., water districts, counties) to establish Groundwater Sustainability Agencies (GSAs), where one or more local agencies have the authority to manage pumping from California's groundwater basins. State oversight of GSA efforts has been led by the Department of Water Resources, in consultation with the State Water Board. The State Water Board is the state backstop and can temporarily intervene in the basin if groundwater sustainability plans or implementation are deemed inadequate.

During wet years like the state is currently experiencing, groundwater basins must be recharged to mitigate the impacts of over pumping—which impacts water supplies and infrastructure due to subsidence—and build up reserves for future dry years. The Administration's Water Supply Strategy: Adapting to a Hotter, Drier Future includes a range of actions to be taken by state agencies to expand average annual recharge by at least 500,000 acre-feet—enough to fill half of Folsom Lake. The actions focus on giving local water districts technical assistance on permits and projects, incentivizing local recharge, and smoothing regulatory pathways. Furthermore, the Governor's Executive Order N-4-23 set forth the conditions under which water users may divert water for recharge without state permits during the current drought state of emergency.

The May Revision includes $4.8 million General Fund in 2023-24 and 2024-25 to support the State Water Board's oversight roles for basins deemed inadequate, as required by SGMA.

SUSTAINABLE PEST MANAGEMENT

The Department of Pesticide Regulation protects human health and the environment by regulating pesticides and fostering reduced risk pest management. Evolving science continues to support the need to reduce the environmental and climate impacts associated with pesticide use through collaborative action that accelerates a systemwide transition to safer, more sustainable pest management.

In 2021, the Department, together with the Cal EPA and the California Department of Food and Agriculture, convened the cross-sector Sustainable Pest Management Workgroup and Urban Subgroup to identify ambitious goals and actions that support the transition to sustainable pest management in agricultural and urban contexts. The Workgroup's Roadmap, released in January 2023, outlines goals and actions that promote human health and safety, ecosystem resilience, agricultural sustainability, community wellbeing, equity, and economic vitality.

The May Revision includes $1.9 million Department of Pesticide Regulation Fund and $1.4 million ongoing to improve and streamline the Department's registration and reevaluation processes, identify alternatives to high-risk fumigants, and lead strategic collaborations with stakeholders and agency partners to develop plans and programs to support implementation of sustainable pest management in agricultural, urban, and wildland settings.

CLEANUP OF EXIDE PARKWAYS

The former Exide Technologies facility is located in the City of Vernon, about five miles southeast of downtown Los Angeles. The facility was involved in the recycling of lead-acid batteries starting in the 1920s until it ceased operations in March 2015. In 2020, bankruptcy courts allowed Exide to shed its cleanup responsibilities and abandon the still-contaminated facility. The state has been supporting funding for testing and cleanup efforts both at the facility and in surrounding neighborhoods. The Exide facility released lead and other hazardous contaminants onto the land at the facility and into the air.

Soil sampling and associated analysis confirms that air emissions from the facility resulted in the distribution of lead throughout the area 1.7 miles from the facility. Since that time, the Department of Toxic Substances Control (DTSC) has overseen ongoing cleanup activities at the facility and surrounding properties, including residences, schools, and parks. In 2019, DTSC sampled the grass area between the sidewalk and street, known as a "parkway," within the 1.7-mile radius area surrounding the facility, for lead, as well as select other metals. In total, samples at 6,425 parkways returned results with lead at/or above unrestricted land use screening levels, and/or showed exceedances for other metals. DTSC has prepared a comprehensive excavation and cleanup, based on this sampling.

The May Revision includes $67.3 million from the Lead-Acid Battery Cleanup Fund over two years, including $40.4 million in 2023-24 and $26.9 million in 2024-25, to clean up 6,425 parkways surrounding the former Exide Technologies facility identified with high levels of lead and/or other metals. Fees on lead-acid batteries were increased in 2022, providing additional revenue that support the proposal. This proposal builds on the investment of hundreds of millions of dollars in recent budgets to enhance protections to communities and the environment from exposure to hazardous chemicals.

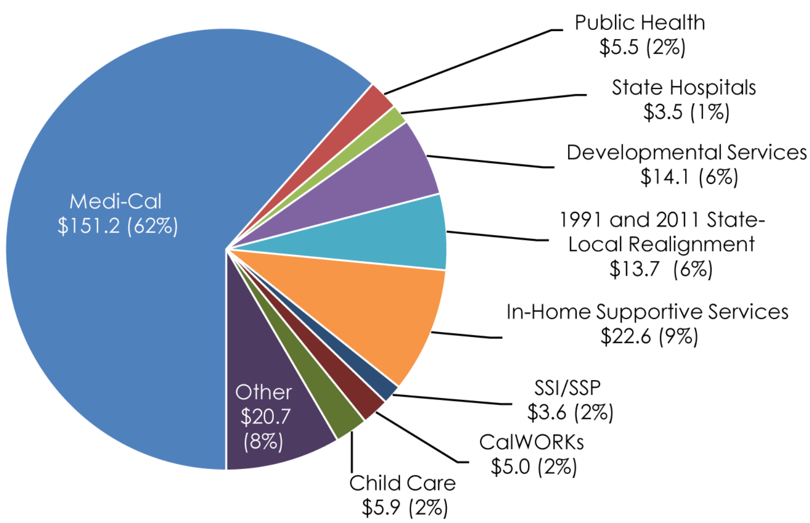
SIGNIFICANT ADJUSTMENT

- **Beverage Container Recycling Fund Loans**—A budgetary loan of $100 million from the Beverage Container Recycling Fund to the General Fund is proposed from resources not currently projected to be used for operational or programmatic purposes. As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision proposes this loan to assist in closing the projected shortfall and ensuring the submission of a balanced budget plan. Additionally, a budgetary loan of $40 million from the Beverage Container Recycling Fund to the Hazardous Control Waste Account is proposed to address a shortfall of fee revenue deposited into the Hazardous Control Waste Account. The Department of Toxic Substances Control will first seek to address this shortfall with a $15 million loan from its Toxic Substances Control Account. These loans are anticipated to be repaid over a three-year period and may be repaid sooner based on programmatic needs. These loans will not impact the Administration's ability to meet its commitments under Chapter 610, Statutes of 2022 (SB 1013) and will not result in proportional reductions in the Beverage Container Recycling Program.

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 $245.7 billion ($73.3 billion General Fund) for all health and human services programs in 2023-24.

Health and Human Services Proposed 2023-24 Funding[1/]
All Funds
(Dollars in Billions)



[1/] Totals $245.7 billion for support, local assistance, and capital outlay. This figure includes reimbursements of $23.1 billion and excludes $9.7 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

	2022-23 Revised	2023-24 Estimate	Change
Medi-Cal	15,272,800	14,180,900	-1,091,900
California Children's Services (CCS) [1/]	9,682	12,134	2,452
CalWORKs	331,707	340,433	8,726
CalFresh	2,937,135	2,966,760	29,625
SSI/SSP (support for aged, blind, and disabled)	1,127,189	1,108,625	-18,564
Child Welfare Services [2/]	94,792	94,085	-707
Foster Care	50,300	50,078	-222
Adoption Assistance	85,700	85,569	-131
In-Home Supportive Services	619,963	645,217	25,254
State Hospitals [3/]	7,873	9,379	1,506
Regional Centers	396,375	420,927	24,552
DDS State-Operated Residential and Community Facilities	322	312	-10
Vocational Rehabilitation	97,013	118,522	21,509

[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.

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 includes $135.4 billion ($30.9 billion General Fund) in 2022-23 and $151.2 billion ($37.6 billion General Fund) in 2023-24. Medi-Cal is projected to cover approximately 15.3 million Californians in 2022-23 and 14.2 million in 2023-24—more than one-third of the state's population.

MANAGED CARE ORGANIZATION TAX AND MEDI-CAL PROVIDER RATE INCREASES

The May Revision proposes the renewal of the Managed Care Organization (MCO) Tax effective April 1, 2023, through December 31, 2026, resulting in $19.4 billion in funding to help maintain the Medi-Cal program and support increased investments while minimizing the need for reductions to the program. The Administration proposes to use the MCO Tax revenue as follows:

- A total of $8.3 billion over the proposed MCO Tax period in net General Fund offset to support the Medi-Cal program and achieve a balanced budget. The May Revision includes $3.4 billion in net General Fund offset on a cash basis in 2023-24, which reflects an additional $2.5 billion compared to the Governor's Budget resulting from the acceleration of the tax.
- Of the remaining $11.1 billion, the Administration proposes to support Medi-Cal investments that improve access, quality, and equity in the Medi-Cal program over an 8- to10-year period. Effective January 1, 2024, the May Revision proposes approximately $237 million ($98 million General Fund) in 2023-24 and roughly $580 million ($240 million General Fund) annually thereafter to increase rates to at least 87.5 percent of Medicare rates for primary care, obstetric care (including doulas), and non-specialty mental health services. This is inclusive of the Governor's Budget proposal to increase these rates as a condition of federal approval of the Designated State Health Program. The May Revision sets aside the remaining $10.3 billion, including $922.7 million in 2023-24 for future consideration.

The Administration will assess which payment reforms will deliver the greatest benefit to improve access and quality to the Medi-Cal program and develop a proposal for the 2024-25 Governor's Budget.

COMMUNITY ASSISTANCE, RECOVERY AND EMPOWERMENT (CARE) ACT

The May Revision includes $128.9 million General Fund in 2023-24, $234 million General Fund in 2024-25, $290.6 million General Fund in 2025-26, and $290.8 million General Fund in 2026-27 and annually thereafter for the Department of Health Care Services and Judicial Branch to implement the CARE Act (Chapter 319, Statutes of 2022). Of this amount, $67.3 million General Fund in 2023-24, $121 million General Fund in 2024-25, and $151.5 million in 2025-26 and annually thereafter is to support estimated county behavioral health department costs for the CARE Act. Compared to the Governor's

Budget, the annual increase is between $43 million and $54.5 million to account for refined county behavioral health department cost assumptions based on engagement with county stakeholders, and additional one-time $15 million General Fund for Los Angeles County start-up funding. For Judicial Branch and legal services funding, see the Criminal Justice and Judicial Branch Chapter.

SIGNIFICANT ADJUSTMENTS

- **2022-23 Budget Update**—The May Revision reflects lower Medi-Cal expenditures of approximately $1.4 billion General Fund in 2022-23 compared to the Governor's Budget. The decrease is due primarily to revised implementation updates to the Children and Youth Behavioral Health Initiative, the Behavioral Health Continuum Infrastructure Program, and the Behavioral Health Bridge Housing Program.
- **Year-Over-Year Comparison**—The May Revision projects Medi-Cal expenditures of $37.6 billion General Fund in 2023-24, an increase of $6.7 billion General Fund compared with the revised 2022-23 expenditures. A majority of the increase is attributable to a one-time repayment to the federal government related to state-only populations, assumed loss of increased federal funding consistent with the end of the federal COVID-19 public health emergency, and the implementation of Medi-Cal to undocumented individuals aged 26-49 beginning January 1, 2024—partially offset by the MCO Tax renewal.
- **988 Suicide and Crisis Lifeline (AB 988)**—The May Revision includes $15 million one-time 988 State Suicide and Behavioral Health Crisis Services Fund in 2023-24 to support eligible 988 call center behavioral health crisis services, for a total of $19 million in 2023-24 and $12.5 million in 2024-25 and ongoing.
- **Behavioral Health Bridge Housing Program**—The May Revision includes $500 million one-time Mental Health Services Fund in 2023-24 in lieu of General Fund for the Behavioral Health Bridge Housing Program, effectively eliminating the Governor's Budget proposed delay of $250 million General Fund to 2024-25. The May Revision shifts $817 million General Fund from 2022-23 to the next three fiscal years to reflect updated programmatic timelines. The May Revision maintains the $1.5 billion augmentation for the Behavioral Health Bridge Housing Program.
- **CalHOPE**—The May Revision maintains funding to temporarily extend support for the CalHOPE program. In lieu of General Fund, the May Revision includes $50.5 million one-time Mental Health Services Fund in 2023-24.
- **Medi-Cal Drug Rebate Fund**—The May Revision includes $222 million in General Fund savings in 2023-24 by bringing the reserve in the Medi-Cal Drug Rebate Fund to $0.

A reserve of roughly $200 million has typically been maintained in the fund to account for variations in actual rebate amounts and to reduce volatility. Chapter 38, Statutes of 2019 (SB 78) established this fund to deposit the non-federal share of drug rebate revenues for the Medi-Cal program.

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, Community Care Licensing, Disability Determination Services, and child care and nutrition. The Budget includes $48.1 billion ($21.1 billion General Fund) for DSS programs in 2023-24.

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 $8.6 billion (state, local, and federal funds) in 2023-24. The amount budgeted includes $7.2 billion for CalWORKs program expenditures and $1.4 billion for other programs such as 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 340,000 families in 2023-24.

SIGNIFICANT ADJUSTMENTS

- **CalWORKs Grant Increase**—The May Revision reflects a 3.6-percent increase to CalWORKs Maximum Aid Payment levels, effective October 1, 2023, which is estimated to cost $111.2 million in 2023-24. These increased grant costs are funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund.

- **CalWORKs Single Allocation Early Reversion**—The May Revision proposes to revert approximately $280 million General Fund from 2021-22 that is projected to go unexpended in the CalWORKs Single Allocation. The Administration will engage with the County Welfare Directors Association to determine the precise amount.

IN-HOME SUPPORTIVE SERVICES

The IHSS program provides personal care, domestic, and related services such as meal preparation and clean-up to eligible low-income individuals with disabilities, including children and adults, and low-income individuals who are ages 65 and over. These services are provided to assist individuals to remain safely in their homes and prevent more costly institutionalization. The May Revision includes $22.4 billion ($8.4 billion General Fund) for the IHSS program in 2023-24. Average monthly caseload in this program is estimated to be 645,000 recipients in 2023-24.

SIGNIFICANT ADJUSTMENT

- **Minor Recipient Provider Eligibility**—The May Revision includes $60.7 million ($27.9 million General Fund) ongoing to increase access to authorized services and better serve the IHSS program's minor recipients and their families.

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, and individuals who are ages 65 and over 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 older adults and disabled individuals who are ineligible for SSI/SSP due solely to their immigration status.

The May Revision includes $3.6 billion General Fund in 2023-24 for the SSI/SSP program, including CAPI. The average monthly caseload in this program is estimated to be 1.1 million recipients in 2023-24. An 8.7-percent federal SSI cost-of-living adjustment and 10.3-percent SSP increase took effect on January 1, 2023, bringing the maximum SSI/SSP grant levels to $1,134 per month for individuals and $1,928 per month for couples. CAPI benefits are equivalent to SSI/SSP benefits. The May Revision continues to include $146 million General Fund in 2023-24 and $292 million ongoing for an additional SSP increase of approximately 8.6 percent, effective January 1, 2024.

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 $908.3 million General Fund in 2023-24 for services to children and families in these programs. When federal and both 1991 and 2011 Realignment funds are included, total funding for children's programs is over $9.5 billion in 2023-24.

SIGNIFICANT ADJUSTMENT

- **Child Welfare Services-California Automated Response and Engagement System (CWS-CARES) Project**—The May Revision includes $163.7 million ($83.4 million General Fund), in alignment with Special Project Report 6, to support ongoing project development costs, and authority to access an additional $36.6 million ($18.3 million General Fund) should project activities accelerate. The CWS-CARES will replace the existing case management system to benefit state, local and tribal child welfare agencies and will align with state and federal requirements.

CHILD CARE AND DEVELOPMENT

DSS administers child care programs including CalWORKs Stages One, Two, and Three; the Emergency Child Care Bridge Program; Alternative Payment Programs; Migrant Child Care; General Child Care; Child Care for Children with Disabilities; and a variety of local supports for these programs, such as Resource and Referral and Local Child Care Planning Councils, quality improvement projects, and the Child and Adult Care Food Program. Families can access child care subsidies through centers that contract directly with DSS, local educational agencies, or vouchers from county welfare departments and Alternative Payment Programs. The May Revision includes $6.6 billion ($3 billion General Fund) for child care programs. The state continues to work with Child Care Providers United – California (CCPU) to negotiate a successor agreement to the current agreement expiring June 30, 2023.

SIGNIFICANT ADJUSTMENTS

- **Cost-of-Living Adjustment (COLA)**—The May Revision includes $183.3 million General Fund for Child Care and Development Programs and $840,000 for the Child and Adult Care Food Program to reflect a statutory COLA of 8.22 percent.
- **Revised Projection of 2022-23 General Child Care Funding**—The May Revision reflects anticipated one-time savings of $588 million General Fund in 2022-23 based on estimated General Child Care expenditures that will go into contract by the end of the fiscal year. Expenditure authority for General Child Care is unchanged.
- **Child Care Family Fee Waivers and 2022-23 Stipends**—The May Revision reflects May 2023 budget legislation that allows DSS to use $29.4 million in available federal funds to continue to waive family fees from July 1, 2023 to September 30, 2023, and authorizes DSS to use roughly $169.2 million in available federal funds to provide temporary stipends to state-subsidized child care providers.

SOUTHERN BORDER HUMANITARIAN SUPPORT

Since 2019, California has funded respite sheltering services for migrants released from short-term federal immigration custody in the border region. These services were expanded in 2021 with increased public health needs related to COVID-19. California's model provides screening, support services, temporary shelter and onward travel coordination for migrants so they may safely continue with their immigration proceedings at their destination in the U.S. Since 2019, California invested roughly $1 billion in these efforts in support of border communities and the well-being of migrants. The efforts began with a $25 million investment in 2019-20.

With the end of the federal COVID-19 public health emergency, funding for border operations will be transferred to DSS from Department of Public Health. The May Revision includes one-time $150 million General Fund in 2023-24 in the Rapid Response program for continued humanitarian efforts in partnership with local providers. The humanitarian mission will continue to fund respite sheltering for migrants and support their safe passage through border regions. The mission will prioritize sheltering services for vulnerable populations, including families with young children, people who are medically fragile, and particularly vulnerable individuals, including LGBTQ+ individuals, older individuals, and individuals with disabilities. Local jurisdictions, including immigrant affairs offices, will continue to be important partners in building additional capacity to shelter and welcome migrants as will community-based organizations.

The federal government is responsible for immigration policies and processing that rely on migrant sheltering in border communities. California therefore supports permanent federal investment by Congress in migrant sheltering operations as a critical component of border security infrastructure and welcoming people fleeing violence and persecution.

OTHER DEPARTMENT OF SOCIAL SERVICES SIGNIFICANT ADJUSTMENTS

- **California Food Assistance Program (CFAP) Expansion Update**—DSS continues to work towards implementing the CFAP expansion for income-eligible individuals aged 55 years or older, regardless of their immigration status. The Governor's Budget indicated that the program may begin food benefits issuance in January 2027. Automation is anticipated to begin in July 2023 and food benefits issuance is now anticipated to begin in October 2025. The May Revision includes $40 million General Fund for automation and outreach efforts.
- **County CalFresh Administration Rebase**—The May Revision includes $406.5 million ($159.5 million General Fund) to reflect a revised budgeting methodology for county CalFresh administration activities, pursuant to Chapter 537, Statutes of 2022 (AB 207).
- **Summer Electronic Benefit Transfer (EBT) Program**—The May Revision includes $47 million ($23.5 million General Fund) for outreach and automation costs to phase in a new federal Summer EBT program for children who qualify for free or reduced-price school meals beginning summer 2024.
- **Federal Reimbursement of Food Benefit Theft**—The federal Consolidated Appropriation Act of 2023 mandated the federal reimbursement of Supplemental Nutrition Assistance Program food benefit theft. The May Revision includes $42.9 million federal financial participation for associated administration and automation activities.
- **California Statewide Automated Welfare System (CalSAWS) Interface**—The May Revision includes $25 million General Fund, available over two fiscal years, to develop a bi-directional interface between CalSAWS and CWS-CARES that allows for data exchange necessary to make Title IV-E eligibility determinations.
- **Services for Survivors and Victims of Hate Crimes Augmentation**—The May Revision includes an additional $10 million General Fund to support services for victims and survivors of hate crimes and their families and facilitate hate crime prevention measures in consultation with the Commission on Asian and Pacific Islander American Affairs.

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 Budget includes $14.1 billion ($8.5 billion General Fund) and estimates that approximately 421,000 individuals will receive services in 2023-24.

SIGNIFICANT ADJUSTMENTS

- **Service Provider Rate Reform: Independent Living Services**—The May Revision includes $15 million ($8.5 million General Fund) beginning January 2024 to adjust Independent Living Services rate assumptions to align the types of services provided with more equivalent occupations, such as teachers, social and human service assistants, and rehabilitation counselors. Resources increase to an estimated ongoing $60 million ($34 million General Fund) beginning in 2024-25.
- **Coordinated Family Support Services**—The May Revision includes $18 million ($10.8 million General Fund) to continue funding the Coordinated Family Support pilot program through June 2024, which is currently funded through the Home and Community-Based Services (HCBS) Spending Plan. The program is designed to assist adults living with their families in coordinating the receipt and delivery of multiple services, including generic services.
- **Cost-Sharing and Fee Programs**—The May Revision continues suspension of the Annual Family Program Fee and the Family Cost Participation Program until December 31, 2023, to allow regional centers to restart assessments. Prior to the 2022 Budget Act, both programs had been suspended during the COVID-19 Pandemic through department directive. DDS conducted stakeholder discussions and will report on those conversations as part of the May Revision.

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health (DPH) is charged with protecting and promoting the health and well-being of the people of California. The May Revision includes $5.5 billion ($980.9 million General Fund) in 2023-24 for the Department.

COVID-19 Response Ramp Down—With its robust network of community-based organizations, healthcare partners, and federal, state, and local public health and governmental agencies, California's COVID-19 response was able to address statewide health impacts and disparities. From the beginning of the pandemic, DPH used science and data to better understand COVID-19 and mitigate its impacts on the public. With the end of the state of emergencies at the federal and state level, DPH will continue to rely on science and data to ramp down COVID-19 direct response activities while maintaining a steady state of emergency preparedness. California is reducing emergency COVID-19 support across the state, as many of these activities continue to be integrated into the healthcare delivery system, and will continue to provide support for California's most vulnerable communities. Looking ahead, the state's significant investments in public health infrastructure will serve as the groundwork to improve the state's response to future public health emergencies.

Foundation for the Future of Public Health Update—The May Revision maintains $300 million ongoing General Fund to modernize state and local public health infrastructure and transition to a more resilient public health system. This investment is anchored in an expansion of the public health workforce and increasing capacity in foundational public health areas:

- In 2022-23, over 800 new public health staff were hired at the state and local level, with hundreds more actively under recruitment.
- DPH has established new systems to strengthen the Department's capacity to address current and emerging public health priorities, including the Office of Policy and Planning and the Regional Public Health Office.

SIGNIFICANT ADJUSTMENTS

- **Public Health Workforce Investments Restoration**—The May Revision restores funding of $49.8 million General Fund over four years for various public health workforce training and development programs.
- **2023-24 COVID-19 Response**—The May Revision reduces resources for COVID-19 response by $50 million General Fund. The decrease is driven in part by a ramp down of emergency response activities across the state consistent with the end of the state of emergencies at the federal and state level.
- **AIDS Drug Assistance Program Rebate Fund Loan**—The May Revision proposes a loan of $400 million from the AIDS Drug Assistance Program Rebate Fund to the General Fund. As part of Control Section 13.40, a budgetary loan from the AIDS Drug Assistance Program Rebate Fund to the General Fund is proposed from idle

resources not required for currently projected operational or programmatic purposes.

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 $3.5 billion ($3.3 billion General Fund) in 2023-24 to support the Department. The patient population is expected to reach 9,379 by the end of 2023-24, including patients receiving competency treatment in jail-based settings and community-based settings.

SIGNIFICANT ADJUSTMENTS

- **Budget Update**—Compared to the Governor's Budget, the May Revision reflects a decrease of $35.7 million General Fund in 2022-23 and $33.2 million General Fund 2023-24; these totals do not include reappropriations. Caseload and bed adjustments are relatively flat for 2022-23 and 2023-24 overall, and the waiting list for Incompetent to Stand Trial (IST) beds continues to decline to 992, with 200 of those receiving early stabilization services according to the most recent data.
- **COVID-19 Impacts**—The May Revision reduces COVID-19 response expenditures by $19.7 million in 2022-23 (from $83.1 million to $63.4 million) and $9.2 million in 2023-24 (from $51.2 million to $42.1 million) based on updated COVID-19 practices in accordance with Centers for Disease Control and Department of Public Health guidance.
- **Patient-Operated Expenses and Equipment**—The May Revision includes $26.6 million General Fund, an increase of $6.1 million General Fund in 2023-24 compared to the Governor's Budget, for patient-driven support costs.
- **COVID-19 Workers' Compensation Funds**—The May Revision reflects a decrease of $8 million General Fund in 2022-23 for unspent workers' compensation funding previously authorized for COVID-19 related claims.

DEPARTMENT OF HEALTH CARE ACCESS AND INFORMATION

The Department of Health Care Access and Information (HCAI) is committed to expanding equitable access to health care for all Californians—improving the health workforce, ensuring health care facilities are safe and reliable, and analyzing health information that can help make care more effective and affordable. The Budget includes $371.6 million ($189.1 million General Fund) in 2023-24 to support the Department.

SIGNIFICANT ADJUSTMENTS

- **Distressed Hospital Loan Program**—The May Revision includes up to $150 million one-time General Fund in total over 2022-23 and 2023-24 for the Distressed Hospital Loan Program to provide interest-free cashflow loans to not-for-profit hospitals and public hospitals in significant financial distress or to governmental entities representing a closed hospital, for purposes of preventing the closure of, or facilitating the reopening of, those hospitals. Funding for this program is from statewide General Fund savings at the May Revision and will not require new spending above the Governor's Budget.
- **CalRX and Reappropriation**—The May Revision includes a $2 million one-time General Fund reappropriation from the Capital Infrastructure Security Program, and allows the use of these funds for reproductive health care if necessary. These funds are available from the one-time $20 million General Fund from the capital Infrastructure Security program included in the 2022 Budget Act, which is not fully subscribed. This includes statutory changes to provide flexibility for the CalRx Program to procure various pharmaceutical drugs, such as Mifepristone or Misoprostol if necessary, to address urgent and emerging reproductive health care needs.
- **Temporarily Borrowing from Hospital Building Fund Reserve**—The May Revision proposes to borrow $150 million from the reserve of the fee-supported Hospital Building Fund to be repaid in 2026-27. As part of Control Section 13.40, a budgetary loan from the Hospital Building Fund to the General Fund is proposed from idle resources not required for currently projected operational or programmatic purposes.
- **Temporarily Borrowing from California Health Data and Planning Fund**—The May Revision proposes to borrow $15 million from the California Health Data Planning Fund reserve to be repaid in 2026-27. As part of Control Section 13.40, a budgetary

loan from the California Health Data and Planning Fund to the General Fund is proposed from idle resources not required for currently projected operational or programmatic purposes.

OTHER HEALTH AND HUMAN SERVICES SIGNIFICANT ADJUSTMENTS

- **Safety Net Reserve Drawdown**—The May Revision assumes the Safety Net Reserve is used to support health and social services programs in 2023-24, resulting in savings of $450 million General Fund in 2023-24.
- **Opioid and Fentanyl Response**—Building on the opioid response investments proposed at the Governor's Budget, the May Revision includes an additional $141.3 million in Opioid Settlements Fund over four years for the Department of Health Care Services to support the Naloxone Distribution Project, for a total of $220.3 million over four years. Additionally, the May Revision includes $30 million one-time Opioid Settlements Fund in 2023-24 to support the development of a lower cost, generic version of a naloxone nasal spray product through the CalRx Naloxone Access Initiative at the Department of Health Care Access and Information. This CalRx partnership will enable the state to make naloxone more accessible statewide.
- **Child Support Pass-Through to Formerly Assisted Families Update**—Pursuant to existing law, implementation of the Child Support Pass-Through to Formerly Assisted Families is contingent upon completing necessary automation changes in the Child Support Enforcement System. The Department of Child Support Services estimates an implementation date of April 2024. The additional time is necessary due to a greater degree of system change complexity than previously anticipated. The revised implementation date results in approximately $70 million of General Fund revenue in the May Revision.
- **Advancing Older Adult Behavioral Health**—The May Revision includes $20 million General Fund in 2023-24, $20 million General Fund in 2024-25, and $10 million General Fund in 2025-26 at the California Department of Aging to support the continuation of the Older Adult Friendship Line—a targeted media campaign for older adults, and competitive grants to local jurisdictions to build organizational capacity to identify and address older adult behavioral health and substance use disorder needs.
- **Health and Human Services Innovation Accelerator Initiative**—The May Revision includes an augmentation of $9 million General Fund ($10 million in total) at the Health and Human Services Agency to establish a new public-private partnership

that will create the environment for researchers and developers to create solutions to the greatest health challenges facing Californians, such as targeting diabetes-related morbidity and mortality, addressing disparities in maternal and infant mortality faced by women and their babies, and preventing and mitigating infectious disease. The Initiative will look to accelerate the translation of research and development into innovations that help to directly address disparities and inequities in California's safety-net programs.

- **Home and Community-Based Services Spending Plan Extension**—The May Revision includes a six-month extension until September 30, 2024 for specified programs such as the IHSS Career Pathways Program and the Senior Nutrition Infrastructure Program to fully spend allocated funding based on critical programmatic needs.

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 while 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 3.1 percent from 2021-22 to 2022-23 and by 0.1 percent from 2022-23 to 2023-24.

1991 Realignment Estimate at 2023 May Revision
(Dollars in Thousands)

Amount	CalWORKs MOE	Health	Social Services	Mental Health	Family Support	Child Poverty	Total
2021-22 State Fiscal Year (Actual)							
Base Funding							
Sales Tax Account	$752,888	$87,215	$2,409,972	$115,314	$418,627	$251,580	$4,035,595
Vehicle License Fee Account	367,663	1,070,952	216,223	104,743	185,798	419,359	2,364,738
Subtotal Base	**$1,120,551**	**$1,158,167**	**$2,626,195**	**$220,057**	**$604,425**	**$670,939**	**$6,400,333**
Growth Funding							
Sales Tax Growth Account:	$-	$109,354	$70,065	$221,816	$-	$261,392	$662,627
Caseload Subaccount	-	-	(70,065)	-	-	-	(70,065)
General Growth Subaccount	-	(109,354)	-	(221,816)	-	(261,392)	(592,562)
Vehicle License Fee Growth Account	--	364	-	737	-	869	1,970
Subtotal Growth	**$-**	**$109,718**	**$70,065**	**$222,553**	**$-**	**$262,261**	**$664,597**
Total Realignment 2021-22[1/]	**$1,120,551**	**$1,267,885**	**$2,696,259**	**$442,610**	**$604,425**	**$933,200**	**$7,064,929**
2022-23 State Fiscal Year (Projected)							
Base Funding							
Sales Tax Account	$752,888	$149,119	$2,480,037	$337,129	$466,077	$512,972	$4,698,222
Vehicle License Fee Account	367,663	1,071,315	216,223	105,480	185,798	420,228	2,366,708
Subtotal Base	**$1,120,551**	**$1,220,434**	**$2,696,259**	**$442,610**	**$651,875**	**$933,200**	**$7,064,929**
Growth Funding							
Sales Tax Growth Account:	$-	$6,672	$66,200	$13,534	$-	$15,949	$102,355
Caseload Subaccount	-	-	(66,200)	-	-	-	(66,200)
General Growth Subaccount	-	(6,672)	-	(13,534)	-	(15,949)	(36,155)
Vehicle License Fee Growth Account	-	23,553	-	47,774	-	56,298	127,625
Subtotal Growth	**$-**	**$30,225**	**$66,200**	**$61,309**	**$-**	**$72,247**	**$229,981**
Total Realignment 2022-23[1/]	**$1,120,551**	**$1,250,659**	**$2,762,459**	**$503,918**	**$651,875**	**$1,005,447**	**$7,294,910**
2023-24 State Fiscal Year (Projected)							
Base Funding							
Sales Tax Account	$752,888	$-	$2,537,092	$346,700	$619,636	$527,021	$4,783,337
Vehicle License Fee Account	367,663	1,210,828	216,223	153,255	69,837	476,527	2,494,333
Subtotal Base	**$1,120,551**	**$1,210,828**	**$2,753,315**	**$499,955**	**$689,473**	**$1,003,548**	**$7,277,670**
Growth Funding							
Sales Tax Growth Account:	$-	$-	$-	$-	$-	$-	$-
Caseload Subaccount	-	-	--	-	-	-	--
General Growth Subaccount	-	-	-	-	-	-	-
Vehicle License Fee Growth Account	-	3,989	-	8,092	-	9,536	21,618
Subtotal Growth	**$-**	**$3,989**	**$-**	**$8,092**	**$-**	**$9,536**	**$21,618**
Total Realignment 2022-23[1/]	**$1,120,551**	**$1,214,818**	**$2,753,315**	**$508,047**	**$689,473**	**$1,013,084**	**$7,299,288**

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

2011 Realignment Estimate at 2023 May Revision
(Dollars in Millions)

	2021-22	2021-22 Growth	2022-23	2022-23 Growth	2023-24	2023-24 Growth
Law Enforcement Services	**$2,936.5**		**$3,336.8**		**$3,422.8**	
Trial Court Security Subaccount	597.3	40.0	637.3	8.6	645.9	1.0
Enhancing Law Enforcement Activities Subaccount [1/]	489.9	258.1	489.9	347.3	489.9	336.8
Community Corrections Subaccount	1,593.0	300.3	1,893.2	64.5	1,957.7	7.5
District Attorney and Public Defender Subaccount	56.7	20.0	76.7	4.3	81.0	0.5
Juvenile Justice Subaccount	199.6	40.0	239.7	8.6	248.3	1.0
Youthful Offender Block Grant Special Account	*(188.6)*		*(226.4)*		*(234.6)*	
Juvenile Reentry Grant Special Account	*(11.0)*		*(13.2)*		*(13.7)*	
Growth, Law Enforcement Services		**658.5**		**433.3**		**346.8**
Mental Health [2/]	**1,120.6**	37.2	**1,120.6**	8.0	**1,120.6**	0.9
Support Services	**4,419.5**		**5,125.9**		**5,277.5**	
Protective Services Subaccount	2,650.1	334.6	2,984.7	71.8	3,056.5	8.4
Behavioral Health Subaccount	1,769.4	371.7	2,141.1	79.8	2,221.0	9.3
Women & Children's Residential Treatment Services	*(5.1)*		*(5.1)*		*(5.1)*	
County Intervention Support Services Subaccount [3/]	-		*(3.7)*		-	
Growth, Support Services		**743.5**		**159.6**		**18.6**
Account Total and Growth	**$9,878.5**		**$10,176.1**		**$10,186.3**	
Revenue						
1.0625% Sales Tax	9,117.5		9,319.1		9,338.8	
General Fund Backfill [4/]	13.0		19.8		20.7	
Motor Vehicle License Fee	748.0		837.2		826.7	
Revenue Total	**$9,878.5**		**$10,176.1**		**$10,186.3**	

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/] This chart reflects a fiscal year 2022-23 transfer of $3.7 million from Behavioral Health Subaccount Fund 3217 to the County Intervention Support Services Subaccount Fund 3325 pursuant to Government Code section 30027.10.

[4/] General Fund backfill pursuant to Revenue and Taxation Code sections 6363.9 and 6363.10; Chapter 690, Statutes of 2019; Chapter 78, Statutes of 2020; Chapter 82, Statutes of 2021; Chapter 225, Statutes of 2022; and Chapter 251, Statutes of 2022.

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HOUSING AND HOMELESSNESS

HOMELESSNESS

Since 2019, the state has invested over $17 billion to aid local governments in addressing homelessness, such as funding that financed approximately 60,000 units of permanent affordable housing and an additional 24,000 units currently in the construction pipeline. These long-term capital investments have been complemented by flexible homelessness aid that provides services and supports to result in an effective model of housing and services.

The state continues to focus on strengthening local collaboration between cities, counties, and service providers to prevent and address homelessness given the state's substantial investments. Consistent with the approach taken at the Governor’s Budget, the May Revision continues to include $3.7 billion in funding for homelessness programs, as committed in previous budgets. Despite the decrease in state revenue, investments in homelessness continue to be prioritized, preserving the allocations made in the 2022 Budget Act to allow the planned efforts and investments to make a meaningful impact.

ACCOUNTABILITY AND REGIONAL COORDINATION

Homelessness impacts both cities and counties. Cities, counties, and continuums of care must coordinate their efforts to provide persons experiencing homelessness with the services they need and linkage to affordable, permanent housing. Meaningfully addressing homelessness takes a three-part approach:

- Creating mechanisms for local efforts to address homelessness,
- Increasing regional coordination on homelessness solutions, and
- Holding local governments accountable for their respective roles in achieving outcomes that lead unhoused and unsheltered persons to access affordable, permanent housing and the services (for example, social services, behavioral health programs, and job training) they need to stay housed.

As part of the $1 billion one-time General Fund proposed in the Governor's Budget for the Homeless Housing, Assistance and Prevention Program (HHAP), the Administration proposed statutory language to focus that funding allocation on the highest priority needs, with a specific focus on reducing unsheltered homelessness. This includes prioritizing spending on supporting permanent housing and activities such as Homekey operating sustainability and Community Assistance, Recovery and Empowerment Act housing supports.

Local jurisdictions must continue to make progress toward meeting their state housing obligations, as progress on reducing homelessness is linked to affordable housing for low-income and low-wage households. The Administration is continuing to engage the Legislature in discussions about enhancing local accountability around homeless services and enhancing regional coordination on homelessness strategies.

SIGNIFICANT ADJUSTMENT

- The May Revision includes $500 million one-time Mental Health Services Fund in 2023-24 in lieu of General Fund for the Behavioral Health Bridge Housing Program, effectively eliminating the Governor's Budget proposed delay of $250 million General Fund to 2024-25. With this proposal, the May Revision maintains the $1.5 billion funded in the 2022 Budget Act for the Behavioral Health Bridge Housing Program. (See the Health and Human Services Chapter for additional information.)

HOUSING

Decades of underproduction created housing shortfalls that continue to challenge communities across the state. More recently, the 2021 and 2022 Budget Acts invested substantial funding toward housing planning and production that directly complemented recent changes to state law that facilitate housing development. For these investments and laws to work, local governments must do their part—not just to comply with their state housing obligations, but to accelerate their efforts to enable the development of equitable and affordable housing in their communities.

California continues to set requirements for local governments to meet their obligation to plan for and develop housing. The state remains committed to providing technical assistance to communities throughout the state, enabling them to leverage available tools to accelerate and streamline housing development. The state also continues to find ways to accelerate housing development by providing financing and enforcing state housing laws.

To address the budget problem, the May Revision includes $17.5 million in General Fund reductions and $345 million in deferrals related to housing programs. Including the $350 million proposed in the Governor's Budget, there are a total of $367.5 million in proposed housing reductions and $345 million in deferrals. Even with these reductions, funding for housing programs remains at approximately 88 percent of the allocations made in 2022-23 and proposed for 2023-24 ($2.85 billion). As proposed in the Governor's Budget, if there is sufficient General Fund in January 2024, $350 million of these reductions will be restored.

SIGNIFICANT ADJUSTMENTS

- **Foreclosure Intervention Housing Prevention Program**—The 2021 Budget Act included $500 million one-time General Fund for the Foreclosure Intervention Housing Prevention Program, which provides funds to various non-profit organizations to acquire foreclosed property and operate as affordable housing. The 2023-24 May Revision proposes to defer $345 million of the $500 million one-time General Fund over four fiscal years—for a revised allocation of: $50 million in 2023-24, $100 million in 2024-25, $100 million in 2025-26, and $95 million in 2026-27.
- **Downtown Rebound Program**—The 2000 Budget Act included $25 million one-time General Fund for the Department of Housing and Community Development to

provide funding for adaptive reuse of commercial and industrial structures to residential housing. The May Revision proposes to revert $17.5 million in unexpended funding that remained in this program after the Notice of Funding Availability.

Criminal Justice and Judicial Branch

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 rehabilitative programs to help them reintegrate into the community. The Department strives to facilitate the successful reintegration of 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 $14.4 billion ($14 billion General Fund and $374.6 million other funds) for CDCR in 2023-24.

The average daily adult incarcerated population for 2022-23 is now projected to be 95,560, a decrease of 0.6 percent since the fall 2022 projections. Spring projections indicate the adult incarcerated population will trend downward, decreasing by 2,678 between 2022-23 and 2023-24, from 95,560 to 92,882, respectively. On January 1, 2020, prior to the COVID-19 Pandemic, the CDCR population was 123,977. The population is projected to continue its long-term downward trend, declining to 89,946 in 2025-26.

The overall parolee average daily population is projected to be 37,222 in 2023-24. The average daily parolee population is projected to be 39,646 in 2022-23. The parole population is projected to decline to 36,061 by June 30, 2027.

Prison Capacity and Closure

The adult prison population has steadily declined in recent years, which has provided 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, and its final in-state contract community correctional facility in May 2021. In total, the termination of these contracts has saved the state hundreds of millions of dollars in annual expenditures.

In September 2021, CDCR closed the Deuel Vocational Institution in Tracy, achieving savings of $150.3 million General Fund annually beginning in 2022-23. CDCR initiated the closure of a second prison in November 2022, the California Correctional Center (CCC) in Susanville, which is expected to achieve an estimated $144.1 million in annual ongoing savings upon completion of the closure.

On December 6, 2022, CDCR announced its plan to terminate the lease of the California City Correctional Facility, its last privately-owned prison facility, by March 2024, ending its use as a state prison. It is expected to achieve an estimated $155.7 million in annual ongoing savings. CDCR also announced the planned closure of Chuckawalla Valley State Prison in Blythe by March 2025. To continue the flexibility required to meet the needs of the incarcerated populations, CDCR also announced the deactivation of specified facilities within six prisons by the end of 2023. The facilities are located within the California Rehabilitation Center, the California Institution for Men, the California Correctional Institution, Pelican Bay State Prison, the California Men's Colony, and the Folsom Women's Facility within Folsom State Prison. In total, CDCR estimates approximately $170 million in ongoing General Fund savings from these facility deactivations.

The Administration remains committed to meeting the needs of staff and the incarcerated populations while right-sizing California's prison system to reflect the needs of the state as the prison population declines.

San Quentin State Prison

The 2022 Budget Act included $500,000 and the Governor's Budget included $20 million General Fund to support initial planning efforts for the transformation of San Quentin State Prison. In March 2023, the Administration announced the state's plan to transform San Quentin from a maximum-security prison into a one-of-a-kind facility focused on improving public safety through rehabilitation and education. The prison, which will be renamed "San Quentin Rehabilitation Center," will be transformed under the vision and recommendations of a multidisciplinary Advisory Council announced by the Governor in early May. This effort will help build and inform the California Model, which will serve as a nationwide model to advance a more effective justice system that builds safer communities and reduces recidivism.

The May Revision proposes funding for two capital projects consistent with the Administration's vision to support the California Model: (1) $360.6 million Public Buildings Construction Fund for the Demolition of Building 38 and Construction of a New Educational and Vocational Center, and (2) $20 million General Fund for various improvement projects. The final recommendations from the Advisory Council will closely inform the scope of the projects, which have planned completion dates of 2025.

REENTRY PROGRAMS

Increasing access to rehabilitative and reentry programs is integral to improving post-release outcomes for incarcerated individuals and reducing recidivism. CDCR operates reentry programs that allow participants with up to two years left to serve to finish their term of incarceration in the community and provides a range of rehabilitative services that assist with substance use disorder treatment, employment, education, housing, family reunification, and social support, with the goal of facilitating their successful transition back into their communities following their release from prison.

CDCR contracts with service providers throughout the state to deliver reentry programs. Several of the competitively bid contracts currently in place are set to expire June 30, 2024. Given the recent challenges of the COVID-19 Pandemic and increases in inflation and costs of doing business, the Administration intends to increase per diem rates in future competitively bid contracts that will take effect on or after July 1, 2024.

SIGNIFICANT ADJUSTMENTS

- **Board of Parole Hearings Budget Augmentation to Support Core Functions**—$4.2 million General Fund in 2023-24 and $2.6 million ongoing to support several core Board of Parole Hearings functions. This includes resources to increase the flat rate for state-appointed attorney fees with one-time funding in 2023-24 to remain competitive with market rates. This proposal also adds a Supervising Administrative Law Judge position, continues an attorney training and monitoring contract, and supports the Board's Information Technology System, which has increased contract costs related to expansions of the system to meet recent legislative mandates.

- **COVID-19 Prevention and Response Activities**—A reduction of $45 million one-time General Fund in 2023-24 to better align funding levels with projected expenditures for COVID-19-related prevention and mitigation activities, bringing the total amount available for this purpose to $96.9 million General Fund.
- **COVID-19 Workers' Compensation**—A reduction of $30.9 million General Fund annually over four years to account for staff vacancy-related savings and to adjust funding for COVID-19-related workers' compensation claims in accordance with projected need.
- **Deferred Maintenance**—A reduction of $30 million General Fund in deferred maintenance funding. The 2021 Budget Act included $100 million one-time General Fund, available through June 30, 2024, to address critical infrastructure needs, of which $70 million General Fund has been either spent or encumbered.

Health Care Services for Incarcerated Individuals

The May Revision continues the state's commitment to delivery of health care services to incarcerated individuals. The Budget includes $3.9 billion General Fund in 2023-24 for health care programs, which provide incarcerated individuals with access to medical, mental health, and dental care services that are consistent with the standards and scope of care appropriate within a custodial environment.

Expansion of Tele-Mental Health Services

In recent years, the Department has strategically expanded the use of telehealth services to improve access to primary and specialty care and psychiatry services for incarcerated individuals. The use of telehealth services has proven successful in enhancing the Department's ability to deliver critical medical and mental health care services to patients effectively while supporting staff recruitment and retention for clinical positions that have historically been hard to fill.

Building on the success of these models, the May Revision includes $11 million General Fund and 85 positions in 2023-24 and $17.3 million and 144 positions beginning in 2024-25 to expand the use of tele-mental health within the Statewide Mental Health Program to include psychology and social work disciplines in addition to psychiatry, which the Department began implementing in 2014-15. This will equip the Department with more tools to deliver timely and quality mental health care to patients while also increasing its ability to recruit and retain clinicians during a nationwide shortage of mental health professionals.

SIGNIFICANT ADJUSTMENTS

- **Contract Medical Adjustments**—$39.7 million ongoing General Fund to address a projected deficit in the budget for Contract Medical services, which supports the provision of specialty care services for patients in prisons and community settings. This proposal will provide adequate funding for contract medical services in the near-term, while providing time for the Administration to develop a refined methodology for budgeting contract medical services beginning in 2024-25 that accounts for patient acuity and rising medical costs.
- **CalAIM Justice-Involved Initiative Medi-Cal Reimbursement System**—$3.3 million one-time ($200,000 General Fund and $3.1 million in reimbursement authority) in 2023-24, $4.5 million General Fund in 2024-25, and $3.7 million General Fund in 2025-26, to enable California Correctional Health Care Services to develop an information technology system to support the Medi-Cal billing process. This system, in conjunction with implementation of the statewide CalAIM Justice-Involved Initiative, will enable the state to draw down federal reimbursements for certain health-related services provided to incarcerated individuals prior to their release.

DIVISION OF JUVENILE JUSTICE

The Division of Juvenile Justice (DJJ) will close on June 30, 2023, pursuant to Chapter 18, Statutes of 2021 (SB 92). DJJ ceased intake of new youth on July 1, 2021, with limited exceptions, consistent with Chapter 337, Statutes of 2020 (SB 823).

DJJ estimates that approximately 150 youth will remain at the time of DJJ's closure. DJJ continues to work closely with counties, and youth who have not been released from DJJ by June 30, 2023 will be transferred to the county probation department within their county of commitment.

Consistent with the Governor's Budget, the May Revision reflects a decrease of $92.1 million ($89.3 million General Fund and $2.8 million various funds) in 2023-24, and $95.8 million beginning in 2025-26 ($93 million General Fund and $2.8 various funds) associated with the closure of DJJ.

LOCAL PUBLIC SAFETY

CRIMINAL JUSTICE INVESTMENTS FOR SAFER COMMUNITIES

In recent years, the state has made investments in programs that promote safer communities, including a focus on positive policing strategies, and resources to support peace officer wellness and training. Additionally, the state has made substantial investments in programs to reduce organized retail theft, gun violence, illegal drugs, and other crimes, which are maintained in the May Revision.

SIGNIFICANT ADJUSTMENTS

- **Grants for Missing and Murdered Indigenous Persons**—The 2022 Budget Act provided funding to address public safety on tribal lands by including $12 million General Fund over three years for the Board of State and Community Corrections to establish a competitive grant program to help California tribes identify, collect case-level data, publicize, and investigate and solve cases involving missing Indigenous persons. Those funds are available to provide resources for tribal police and prosecutors, counseling services, education, and other activities. The May Revision includes an additional investment of $12 million one-time General Fund for these purposes. Indigenous persons experience crime and victimization at disproportionally higher rates than other populations. California has one of the largest and most diverse Native American populations in the United States.
- **Nonprofit Security Grant Program**—$10 million one-time General Fund to provide security assistance to nonprofit organizations at risk of hate-motivated violence, which includes members of the Asian American Pacific Islander, LGBTQ+, Black, Latinx, and Jewish communities. Security enhancement projects include reinforced doors and gates, high-intensity lighting and alarms, and other security-related improvements.
- **Gun Buyback Program**—The 2022 Budget Act established the Local Law Enforcement Gun Buyback Grant Program at the Board of State and Community Corrections. The Budget allocated $25 million General Fund to this program to support competitive gun buyback grant programs structured to reduce firearm violence. Over the past year, there have been numerous mass shootings across the nation, including in California. In January 2023, eleven people were killed in the Monterey Park shooting; two days later, seven people were killed in the Half Moon Bay shooting. Many others have died in senseless shootings. The state is strongly

committed to getting firearms off the streets, and a competitive grant program is not conducive to quickly achieving this goal. Therefore, the May Revision proposes reallocating the funding to the Office of Emergency Services to work directly with local law enforcement agencies to expedite targeted, coordinated gun buybacks.

- **Proposition 47 Savings**—The May Revision includes an additional $11.9 million General Fund in savings for Proposition 47, for a total savings of $112.9 million in 2023-24. Proposition 47 invests savings from reduced prison utilization in prevention and support community programs and funds are allocated according to the formula specified in the voter-approved measure, 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.
- **Post Release Community Supervision**—The May Revision includes an additional $1.1 million General Fund for county probation departments to supervise the temporary increase of individuals on Post Release Community Supervision as a result of Proposition 57 credit earning opportunities. The May Revision includes a total of $9.3 million General Fund for this purpose in 2023-24.

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 $1.3 billion, including $491.6 million General Fund, to support DOJ.

SIGNIFICANT ADJUSTMENTS

- **Litigation Deposit Fund Loan**—The May Revision includes a $400 million budgetary loan from the Litigation Deposit Fund to the General Fund in 2023-24 to assist in closing the projected statewide budgetary shortfall and to ensure the submission of a balanced budget plan. This proposal also includes statutory changes to authorize this budgetary loan from idle resources not required for currently projected operational or programmatic purposes.

- **eDiscovery Storage and Review Platform Augmentation**—The May Revision includes $1.9 million ($702,000 General Fund and $1.2 million various Special Funds) in 2023-24, increasing to $4 million ($1.5 million General Fund and $2.5 million various Special Funds) in 2026-27 and ongoing to collect, store, and process electronic discovery information related to litigation. This request is necessary to cover the increased costs of storing the growing volume of litigation documents.
- **Carry Concealed Weapon Permit**—An April 1 proposal included $5 million ($3 million General Fund and $2 million Fingerprint Fees Account) in 2023-24 and $3.2 million ($2.7 million General Fund and $519,000 Fingerprint Fees Account) in 2024-25 to process additional carry concealed weapon permit applications. A recent federal court ruling has resulted in an increase in the number of carry concealed weapon permits that are processed by the Department.
- **Office of General Counsel**—An April 1 proposal included a net-zero transfer of existing resources in 2023-24 and ongoing to establish the Office of General Counsel within the Department. The Office will provide internal legal guidance, ensure compliance with data confidentiality and document retention policies, and oversee legal ethics and conflict of interest concerns.
- **Ammunition Authorization Program Fee Increase**—An April 1 proposal included statutory changes to provide the Department with authority to adjust the Ammunition Authorization Program fee to align with the reasonable costs for regulating ammunition transactions in California. This proposal also includes a loan of $4.3 million General Fund to the Ammunition Safety and Enforcement Special Fund in 2023-24 and 2024-25 to support operating costs while the Department updates the fee.
- **Firearms Information Technology System Modernization Project**—An April 1 proposal included $6.4 million Dealers Record of Sale Account in 2023-24 and $1.5 million ongoing to continue the Project Approval Lifecycle process and address ongoing workload pertaining to the Firearms Information Technology System Modernization Project. The May Revision includes an additional $1.1 million ongoing to update cost estimates to continue the Project Approval Lifecycle process and for additional workload pertaining to the Project.
- **Criminal Records Relief (SB 731)**—An April 1 proposal included $1.8 million Special Fund in 2023-24 and $1.5 million in 2024-25 to make information technology modifications to existing systems to provide criminal record relief for eligible

individuals pursuant to Chapter 814, Statutes of 2022 (SB 731). This adjustment also includes statutory changes to provide the Department with sufficient time to implement system modifications.

- **Sex Offender Registration (SB 384)**—An April 1 proposal included $1.7 million ongoing General Fund to process workload and provide system support and maintenance to implement Chapter 541, Statutes of 2017 (SB 384), which established a tiered system for sexual offenders and specifies registration timelines and criteria for each tier.

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 Judicial Council is responsible for managing the resources of the Judicial Branch. 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 billion ($3.1 billion General Fund and $1.9 billion other funds) in 2023-24 for the Judicial Branch, of which $2.9 billion is provided to support trial court operations.

MAINTAINING ACCESS TO JUSTICE

In a continued effort to address judicial workload needs and provide timely access to justice, an April 1 proposal included $2.7 million Appellate Court Trust Fund in 2023-24, and $2.3 million in 2024-25 and 2025-26 to address increased appellate case workload, and support data reporting and Appellate Self-Help Resource Center website enhancements. These resources will improve efficient case processing and avoid excessive case delays in the California Courts of Appeal.

COMMUNITY ASSISTANCE, RECOVERY, AND EMPOWERMENT (CARE) ACT

The May Revision includes additional investments to support the implementation of the CARE Act. This includes $8.9 million General Fund in 2023-24 and $4.7 million in 2024-25 to account for the early implementation of the CARE Act in Los Angeles County. In total, the Budget provides the Judicial Branch $32.7 million in 2023-24, $55.3 million in 2024-25, and $68.5 million ongoing for CARE Act implementation. The May Revision also includes an additional $16.8 million in 2023-24, $29.8 million in 2024-25, and $32.9 million ongoing to double the number of hours per participant for legal services from 20 hours to 40 hours. In total, the Budget provides $22.9 million in 2023-24, $51.6 million in 2024-25, and $64.4 million ongoing to support public defender and legal services organizations that will provide legal counsel to CARE participants. For county behavioral health funding, see the Health and Human Services Chapter.

Significant Adjustments

- **Court Appointed Special Advocate Program**—$20 million in 2023-24 and 2024-25 to restore funding for the Court Appointed Special Advocate program, which was proposed for reductions in the Governor's Budget.
- **Trial Court Trust Fund Backfill**—$105.1 million ongoing General Fund to continue backfilling the Trial Court Trust Fund for revenue declines expected in 2023-24.
- **Ability-to-Pay Backfill Reduction**—Reductions totaling $20.7 million General Fund in 2023-24 and $30 million ongoing to reflect updated estimates of revenue losses due to the implementation of the Ability-to-Pay program established by Chapter 57, Statutes of 2021 (AB 199). The associated revenue loss for all courts is lower than expected and is estimated to total $26.4 million in 2023-24, and $28.4 million ongoing.
- **Federal Byrne State Crisis Intervention Program Grant**—Reimbursement authority totaling $5.9 million in 2023-24 and $5.7 million in 2024-25 and 2025-26 to support an interagency agreement with the Board of State and Community Corrections to implement federal funds from the Byrne State Crisis Intervention Program. The Judicial Council will implement a statewide project that improves execution of firearm relinquishment orders, and expands and enhances collaborative courts by providing funding, training, and technical assistance.

General Government and Statewide Issues

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

Investments in Business 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 and advance an inclusive economy. 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.

Consistent with the approach taken at the Governor's Budget, the May Revision continues the state's commitment to support businesses and maintain investments made in recent years. The May Revision also proposes statutory changes to extend the sunset date for several programs administered by the Office of the Small Business Advocate to allow additional time to award grants and for program closeout activities.

Significant Adjustments

- **Small Agricultural Business Relief Grants**—An increase of $25 million one-time General Fund to expand the scope of the current California Small Agricultural Business Drought Relief Grant Program to provide direct assistance to eligible agriculture-related businesses that have been affected by recent storms. By expanding the program's reach and continuing to support the ability of agricultural business to remain open and add or restore jobs, this proposal also aims to advance support for workers of impacted businesses. See the Climate Change Chapter for additional information.
- **Technical Assistance to Small Businesses**—An increase of $23.5 million Federal Funds, to be spent over 5 years, for the Office of the Small Business Advocate to provide technical assistance to small businesses, including businesses owned by socially- and economically-disadvantaged individuals, applying for State Small Business Credit Initiative capital programs.
- **City of Fresno Public Infrastructure Plan**—The Governor's Budget included $300 million one-time General Fund to be spent over three years for the Local Government Budget Sustainability Fund, to provide grants to support revenue stability in counties with high unemployment and high rates of poverty. The May Revision maintains $50 million for this purpose and reallocates $250 million to support the City of Fresno's Public Infrastructure Plan to invest in the downtown area. This plan includes projects to build parking structures, develop green space, improve walkability, and for water infrastructure.
- **California Small Business COVID-19 Relief Grant Program**—A decrease of an additional $50 million one-time General Fund from this program due to declining General Fund revenues, bringing the total reduction to $142 million. Since Governor's Budget, the Office of the Small Business Advocate has continued to award grants to eligible businesses and estimates there will be an additional amount remaining after all grants have been awarded.

Office of Planning and Research

The Office of Planning and Research (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, among other things. The OPR consists of the State Planning and Policy Program, California

Strategic Growth Council, Office of Community Partnerships and Strategic Communications, and the California Volunteers.

The OPR has expanded significantly in recent years, from $54 million in 2016-17 to $1.4 billion, of which approximately $850 million is one-time or limited term. In recognition of this growth and the number of programs within OPR, the May Revision proposes transitioning to a more traditional department that relies on state civil service classifications. The May Revision initiates this transition by modifying proposals included in the Governor's Budget and proposing civil service classifications to support information technology functions. Additionally, the May Revision reduces various Governor's Budget proposals in response to declining General Fund revenues.

Specifically, the May Revision reduces new proposals included in the Governor's Budget from a total of $9.2 million and 26 positions to $7.2 million and 16 positions, of which 13 will be established as civil service classifications. The Administration will continue to evaluate existing positions within OPR and make further modifications over the next year.

SIGNIFICANT ADJUSTMENT

- **Information Technology Unit**—$5.3 million ongoing General Fund and 15 positions in 2023-24 to establish an Information Technology Unit within OPR to support internal departmental oversight and administration of information technology needs.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) continues to modernize its operations through projects like the Digital eXperience Platform project, a comprehensive replacement of DMV's major IT software programs. DMV is also continuing the pilot of the mobile driver license program that will allow customers to have a copy of their driver's license on a mobile application on their phone. Projects such as these will improve the overall customer experience when completing DMV transactions in the field office and through alternative service channels.

However, the May Revision projects that the Motor Vehicle Account (MVA) will be insolvent at the end of 2024-25. Reductions in available MVA funds would have negative impacts on the DMV's modernization efforts and, if not addressed, could lead to other programmatic impacts. To maintain fund solvency, the Administration is exploring potential revenue and expenditure solutions for the fund.

In light of the reduced General Fund revenue estimates, the May Revision also proposes the following reduction:

- **REAL ID**—The May Revision proposes to revert $104.7 million of DMV's multi-year General Fund appropriation for REAL ID workload and other operational improvements. Since DMV began issuing REAL IDs in 2018, 15.6 million Californians have chosen to get a REAL ID and DMV is issuing an average of 200,000 unique REAL IDs per month. Given the shift of the federal REAL ID enforcement date from May 2023 to May 2025, nearly every eligible Californian will have had an opportunity to convert to a REAL ID on their normal renewal cycle by that time, and the REAL ID workload has been spread over additional years.

Fiscal Stability for Boating Programs

The Harbors and Watercraft Revolving Fund, the primary fund that supports boating-related activities, has become structurally imbalanced over the course of several years. The May Revision proposes the following adjustments to revenues and program expenditures to address the fiscal shortfall:

- **Increase Boating Registration Fees**—Beginning January 1, 2024, increase the vessel registration fee from $10 per year to $40 per year (from $20 to $80 biennially) and re-evaluate registration fees every four years thereafter. California's vessel registration fee is one of the lowest in the country and was last increased in 2005. It is estimated that this fee increase will generate approximately $20.9 million of additional annual revenue.
- **Align Program Expenditures with Available Resources**—Reduce Aquatic Invasive Species program expenditures by $5.3 million ongoing and local assistance funding for Boat Launching Facilities grants by $6 million. Funding for Boat Launching Facility grants will be considered in future budgets as the fund stabilizes and is able to support this program.
- **Prioritize Public Safety**—The Boating Safety and Enforcement Financial Aid program, which provides funds to local governments for boating safety and law enforcement, will remain funded at the current level of $11.5 million per year.

By providing fiscal stability, this May Revision proposal will allow the Department of Parks and Recreation to continue to research, evaluate, and implement initiatives identified in stakeholder working groups to further address the stabilization of the fund. Included in this effort is an economic impact study of the boating industry and boating facilities in California to inform future strategies.

Museum of Tolerance

The May Revision includes $2.1 million one-time General Fund to the California Natural Resources Agency for renovations of the Museum of Tolerance to enhance diversity training for education and criminal justice professionals.

Employment Development Department

The May Revision proposes a one-time loan of $306 million from the Unemployment Compensation Disability Fund to the General Fund to pay the annual interest payment on the state's Unemployment Insurance loan balance for the 2023 calendar year. The loan provision will include language to prevent the State Disability Insurance contribution rate from increasing because of the loan.

Department of Industrial Relations

The May Revision proposes to restore $15 million in 2023-24 and $15 million in 2024-25 for the Department of Industrial Relation's Women in Construction Priority Unit. The Governor's Budget proposed to pause this funding for two years as part of the proposed budget solutions and the May Revision proposes to restore this funding.

Employee Compensation and Collective Bargaining

The May Revision increases employee compensation by a net total of $22.2 million in 2023-24 and ongoing, relative to the Governor's Budget, to reflect increased employee compensation costs resulting from updated payroll information, updated health and dental rates, increased enrollment in health and dental plans, and a change in the health plan enrollment composition.

Collective bargaining negotiations are ongoing with 15 of the state's 21 bargaining units, whose contracts are expired or will expire in summer 2023, including Service Employees' International Union, Local 1000; California Correctional Peace Officers' Association; California Statewide Law Enforcement Association; California Associations of Professional Scientists; International Union of Operating Engineers (craft and maintenance employees in bargaining unit 12); Union of American Physicians and Dentists; and American Federation of State, County and Municipal Employees.

State Retirement Contributions

The state continues to make all required pension payments and will continue to pay down its unfunded retirement liabilities to protect the long-term security of state employees' retirement benefits.

Significant Adjustments

- The May Revision estimates $1.7 billion in one-time Proposition 2 debt repayment funding in 2023-24 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 two to one.
- State contributions to the California Public Employees' Retirement System (CalPERS) have decreased by a net total of $1.7 million in 2023-24 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 and the application of 2021-22 and 2022-23 supplemental pension payments.
- State contributions to the State Teachers' Retirement System (CalSTRS) increased by $8.8 million General Fund in 2023-24, 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 increased by $2.2 million General Fund in 2023-24. The contribution rate increase is due mainly to the amortization of investment losses.

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 [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/]
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	3,398	1,938	339	600
2021-22	5,363	677	3,862	194	91	1	3,501	2,019	356	1,292 [9/]
2022-23	7,475	744	3,712	208	86	1	3,771	2,208	392	735
2023-24 [10/]	7,728	744	3,939	211	89	0	4,089	2,417	428	711

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), Chapter 78, Statutes of 2021 (AB 138), Chapter 67, Statutes of 2022 (SB 191), and Proposition 2 payments to CalPERS proposed in the 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 2021 Budget.

5/ No state employer contributions to the Legislators' Retirement System are included in 2023-24. The fund is in a surplus position and CalPERS reported no normal cost in 2023-24 due to the termination of all active members.

6/ These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and 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, as employee prefunding contributions were suspended in 2020-21 due to the Personal Leave Program 2020.

10/ Estimated as of the 2023-24 May Revision, contributions sourced from the General Fund are estimated to be $3,928 million for CalPERS, $744 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.

CANNABIS

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, which began on 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 what is known as Allocation 3 programs, which include 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 the extent available, and included a $150 million General Fund appropriation to backfill revenues to help meet that baseline.

The May Revision estimates $567.4 million will be available for these purposes in 2023-24, which includes $150 million General Fund to backfill the estimated decline in revenues:

- **Education, prevention, and treatment of youth substance use disorders and school retention**—60 percent ($340.4 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent ($113.5 million)
- **Public safety-related activities**—20 percent ($113.5 million)

These figures reflect a total decrease of $102.2 million compared to the Governor's Budget estimate.

STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIIIB of the California Constitution, the 2023-24 limit is estimated to be $141.5 billion. The revised limit is the result of applying the growth factor of 4.09 percent to the prior year limit. The revised 2023-24 limit is $2.6 billion above the $138.9 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: 2.76%
  - May Revision Percentage Growth: 4.43%
- State Civilian Population
  - January Percentage Growth: -0.02%
  - May Revision Percentage Growth: -0.34%
- K-14 Average Daily Attendance
  - January Percentage Growth: -0.68%
  - May Revision Percentage Growth: -0.30%

INFRASTRUCTURE

California is in the midst of a public works investment not seen since the mid-20th Century. Just as that period built the roads, highways, water systems, and schools to meet the needs of a growing California, so too will this new period of public investment build the future for the 21st and 22nd Centuries.

Thanks to unprecedented local, state and federal investments, the state will spend more than $180 billion over the next decade on clean energy, roads, bridges, public transit, water storage and conveyance, and faster internet for all Californians. In the process, more than 400,000 new jobs will be created, building the infrastructure to make Californians more mobile, better connected, safer, and more prepared for the future.

Achieving climate goals and meeting the needs for California's future will require building massive new public works projects. This will require streamlining regulations and training more workers so more federal dollars can be drawn down faster to build projects needed to reach our ambitious climate goals, ensure availability of clean water, improve mobility and transportation, and increase access to fast internet for all Californians.

The May Revision proposes statutory changes to expedite infrastructure projects that advance California's climate, equity, and economic goals and maximize the state's share of federal infrastructure spending while maintaining appropriate environmental review.

The Governor has already signed 20 CEQA-related bills in order to streamline the construction of housing and emergency shelter. The Administration remains committed to working with the Legislature on additional legislation to speed the planning, permitting, and construction of needed housing. Additionally, the Administration will continue its efforts to hold local governments accountable for planning and developing their fair share of housing across the state.

FEDERAL INVESTMENTS

In recent years, the federal government has enacted significant investments which California has leveraged to support and modernize the state's infrastructure.

First, the American Rescue Plan Act provided state and local recovery funds to help states recover from the COVID-19 Pandemic and its negative economic impacts. Of these funds, California allocated $7.1 billion to promote an equitable recovery by expanding broadband infrastructure to underserved communities; constructing and preserving affordable housing in vulnerable communities; acquiring, rehabilitating, and converting buildings into long-term affordable housing for those experiencing homelessness; and investing in infrastructure to expand access to behavioral health services.

Second, the Infrastructure Investment and Jobs Act (IIJA) provided additional and new funding for airports, bridges, broadband, clean energy, environmental remediation and resilience, ports, public transportation, roads, and waterways infrastructure. As of May 2023, California has received about $48.6 billion in formula and competitive funding to the state, local governments, tribes, and households—with more funding to be announced.

Lastly, the Inflation Reduction Act provided significant energy and climate investments in pollutant reduction, clean energy equipment upgrades, climate adaptation technical assistance, environmental justice, disaster response and resilience, and agriculture sustainability projects. As of May 2023, California has received about $645 million in formula and competitive funding to the state, local governments, tribes, and households—with more funding to be announced.

STATE TRANSPORTATION

The 2022 Budget Act included $15 billion for new transportation infrastructure programs and projects that align with the state's climate goals. Given the projected decline in

General Fund revenues, the Governor's Budget included $2.7 billion in General Fund reductions, partially mitigated by $500 million from state transportation funds, to maintain $12.8 billion of transportation investments. The May Revision maintains this overall level of funding, but also includes an additional fund shift.

This considerable level of investment will position the state to continue pursuing significant federal funding through the IIJA and other federal programs by leveraging funding from both state and local sources. To date, California has secured $38 billion in IIJA formula funding for highway and transit programs and has already received billions in competitive federal transportation grants with the possibility of billions more over the five years of IIJA implementation.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation (Caltrans) continues to pursue IIJA funding as the Federal Highway Administration, Federal Transit Administration, and others release additional guidance and competitive grant opportunities. Additionally, the May Revision includes $39 million and 143 full-time equivalents for Caltrans engineering work for the state's many transportation programs.

The May Revision maintains a continued commitment to address transportation-related climate issues. As the largest contributor of greenhouse gas emissions, the transportation sector must align project delivery with climate change solutions and the state must continue to move toward a multi-modal, zero-emission transportation future to reduce carbon emissions and improve health benefits, while supporting safety, equity, and economic growth. While the state's transit agencies have benefitted from large infusions of capital dollars, both state and federal, post-pandemic ridership trends have resulted in significant operating challenges for many of the state's transit agencies, particularly as federal relief dollars begin to run out. The Administration welcomes discussion with the Legislature on potential near- and long-term solutions to support the viability of transit across the state.

CRITICAL STATE INFRASTRUCTURE

The California Infrastructure Planning Act (Chapter 606, Statutes of 1999) requires the Governor to submit a five-year infrastructure plan to the Legislature for consideration with the annual budget bill. The 2023 Five-Year Infrastructure Plan (Plan) focuses limited available resources on core state responsibilities. This Chapter, along with other information on the Department of Finance website, meets the requirements of the Act.

The Plan reflects approximately $56.6 billion in state infrastructure investments over the next five years. This includes investments in capital assets that support core state functions, including state office buildings, fire protection facilities, state parks, correctional facilities, and courts.

See the Infrastructure Plan—Proposed Spending figure for a summary of the proposed funding by program area and the Statewide Capital Funding by Department and Fund Source figure for a summary of the proposed funding by year, department, and fund source. Appendix 1, which includes a detailed listing of the specific projects proposed to be funded, can be found on the Department of Finance website.

Infrastructure Plan—Proposed Spending

(Dollars in Thousands)

Capital Expenditures: Program Area	Five-Year Capital Funding
Transportation	$50,221,788
Judicial Branch	$2,887,425
Natural Resources	$1,741,553
General Government	$654,768
Corrections and Rehabilitation	$538,518
Education	$306,528
Health and Human Services	$206,808
Total	**$56,557,388**

Statewide Capital Funding by Department and Fund Source
(Dollars in Thousands)

Program Area	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Judicial Branch						
Judicial Branch	261,662	116,705	2,054,252	316,514	138,292	2,887,425
Subtotal	**$261,662**	**$116,705**	**$2,054,252**	**$316,514**	**$138,292**	**$2,887,425**
Transportation						
Department of Transportation	10,063,526	10,008,000	10,150,000	10,300,000	8,858,000	49,379,526
Department of the California Highway Patrol	305,870	256,207	9,500	10,000	75,500	657,077
Department of Motor Vehicles	83,388	0	74,623	17,111	10,063	185,185
Subtotal	**$10,452,784**	**$10,264,207**	**$10,234,123**	**$10,327,111**	**$8,943,563**	**$50,221,788**
Natural Resources						
Exposition Park	15,151	366,401	0	0	0	292,151
Tahoe Conservancy	250	250	1,800	0	0	2,300
Department of Forestry and Fire Protection	36,931	201,454	115,709	290,890	448,872	1,093,856
Department of Parks and Recreation	37,922	1,000	25,937	0	0	64,859
Department of Water Resources	163,986	35,000	0	0	0	198,986
Subtotal	**$254,240**	**$604,105**	**$143,446**	**$290,890**	**$448,872**	**$1,652,152**
Health and Human Services						
Department of State Hospitals	48,058	60,351	5,782	14,243	78,374	206,808
Subtotal	**$48,058**	**$60,351**	**$5,782**	**$14,243**	**$78,374**	**$206,808**
Corrections and Rehabilitation						
Department of Corrections and Rehabilitation	462,300	10,128	4,024	17,280	44,786	538,518
Subtotal	**$462,300**	**$10,128**	**$4,024**	**$17,280**	**$44,786**	**$538,518**
Education						
Department of Education	6,921	16,801	38,367	10,000	2,138	74,227
California Community Colleges	232,301	0	0	0	0	232,301
Subtotal	**$239,222**	**$16,801**	**$38,367**	**$10,000**	**$2,138**	**$306,528**
General Government						
Office of Emergency Services	176,460	0	0	0	0	176,460
Department of General Services	402,000	36	0	0	0	402,036
Department of Veterans Affairs	2,759	63,513	0	0	0	66,272
Infrastructure Planning	2,000	2,000	2,000	2,000	2,000	10,000
Subtotal	**$583,219**	**$65,549**	**$2,000**	**$2,000**	**$2,000**	**$654,768**
Statewide Total	**$12,301,485**	**$11,137,846**	**$12,481,994**	**$10,978,038**	**$9,658,025**	**$56,557,388**
Proposed, By Fund						
General Fund	690,534	322,641	55,762	91,915	44,574	1,205,426
Special Fund	3,367,536	3,268,810	3,324,750	3,379,100	2,917,660	16,257,856
Public Buildings Construction Fund/ Non-Governmental Cost Funds	1,125,847	805,874	2,248,495	586,123	755,451	5,521,790
General Obligation Bond Funds	401,510	0	9,625	0	0	411,135
Federal Funds	6,211,100	6,240,440	6,330,050	6,420,900	5,440,340	30,642,830
Reimbursements/Other Governmental Cost Funds	504,958	500,081	513,312	500,000	500,000	2,518,351
Statewide Total	**$12,301,485**	**$11,137,846**	**$12,481,994**	**$10,978,038**	**$9,658,025**	**$56,557,388**

JUDICIAL BRANCH

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, and the Judicial Council. The Supreme Court is located in San Francisco and Los Angeles. The courts of appeal are organized into six districts and operate in nine different locations.

The trial courts are located in 58 counties statewide, in approximately 430 facilities, with 2,200 courtrooms containing approximately 16 million square feet of space. The facilities of the Supreme Court, courts of appeal, and trial courts encompass not only the public courtroom spaces but also the chambers and workspaces where judicial officers and courtroom staff prepare for proceedings; secure areas, including holding cells; and building support spaces.

The Plan includes $2.9 billion ($155.4 million General Fund and $2.7 billion Public Buildings Construction Fund) for 16 judicial branch projects over the next five years, focused on the most critical projects identified in the 2019 Facilities Reassessment.

For the 2023-24 fiscal year, the Administration proposes $261.7 million ($108.6 million General Fund and $153.0 million Public Buildings Construction Fund) for two new projects for the New Nevada City Courthouse in Nevada County and the New Sixth Appellate District Courthouse in Sunnyvale, two continuing projects for the New San Bernardino Juvenile Dependency Courthouse and the New Fort Ord Courthouse in Monterey County, for the partial reimbursement of construction loans for three courthouses in Sacramento, El Centro, and Redding. The Judicial Branch continues work on 18 existing projects. The largest of these projects under construction is the new Sacramento Courthouse, which will cost $514.8 million and will consist of approximately 540,000 square feet. This project is scheduled for completion in February 2024.

CALIFORNIA OFFICE OF EMERGENCY SERVICES

The Office of Emergency Services (Cal OES) oversees a headquarters facility, an administrative building, and an Inland Regional Operations Center in Sacramento County; a Coastal Regional Operations Center in Fairfield in Solano County; a Southern Regional Operations Center located at the Los Alamitos Joint Forces Training Base in Orange County; the California Specialized Training Institute at Camp San Luis Obispo; and various small field offices throughout the state.

The Public Safety Communications division (PSC) is comprised of a main leased complex in Sacramento and 48 field locations throughout the state. These locations include 7 area offices and 41 area shops, positioned geographically to facilitate maintenance and installation services to remote communication sites and customers throughout the state. In addition, the PSC maintains and operates 11 communications vaults/towers and a total of more than 3,500 radio frequency points of presence.

The Plan includes $176.5 million ($1.8 million General Fund and $174.7 million Public Buildings Construction Fund) in 2023-24 for two capital projects including the security checkpoint enhancements at the Cal OES Headquarters facility in Sacramento and the construction of a new Southern California Regional Emergency Operations Center (SREOC). The headquarters project will enhance site security and entry ways. The relocation and construction of the new SREOC will improve emergency response capabilities in Southern California.

TRANSPORTATION

The May Revision continues to reflect the transportation infrastructure package included in the 2022 Budget Act and the Governor's Budget, with proposed adjustments included to account for a reduction in forecasted General Fund revenue. The May Revision includes a reduction of $2.85 billion General Fund, partially offset by $650 million of new state transportation funds for a net reduction of $2.2 billion. This reflects an additional fund shift of $150 million as compared to the Governor's Budget. These adjustments will maintain a total of $12.8 billion in continuing new transportation infrastructure investments, including:

- $5.65 billion for high-priority transit and rail infrastructure projects that will improve rail and transit connectivity between state and local/regional services that are designed to reduce traffic congestion and greenhouse gas production.
- $4.2 billion for the High-Speed Rail Authority to continue building the 119-mile Central Valley Segment from Madera to just north of Bakersfield.
- $1.4 billion for Active Transportation Program projects, the Highways to Boulevards Pilot, and bicycle and pedestrian safety projects.
- $1.2 billion for projects that improve goods movement on rail and roadways at port terminals, including railyard expansions, new bridges, and zero-emission modernization projects.
- $350 million for grade separation projects that support critical safety improvements and expedite the movement of traffic and rail by separating the vehicle roadway from the rail tracks.

Caltrans will continue delivering over $20 billion worth of planned state highway repair and rehabilitation projects in the State Highway Operations and Protection Program (SHOPP) over the next five years. Additionally, Caltrans will allocate almost $12 billion of local assistance direct funding.

Caltrans and local partners will invest over $3 billion in State Transportation and Improvement Program (STIP) projects through the plan period. This program supports the implementation of regional Sustainable Community Strategies, as well as interregional travel. Lastly, over $3.5 billion will be available for congested corridors, state/local partnerships, and trade corridor enhancement projects through 2027-28.

CALIFORNIA HIGHWAY PATROL

The California Highway Patrol (CHP) operates nearly 500 facilities of varying types statewide, including 8 field division offices, 103 area commands, 24 dispatch/communications centers, 39 commercial vehicle inspection facilities and platform scales, 8 air operations facilities, 34 resident posts, 267 remote telecommunication sites, a training academy, and various administrative facilities. These facilities, consisting of approximately 1.6 million gross square feet of state-owned properties and 742,000 gross square feet of leased properties, support the CHP's mission to provide the highest level of safety, service, and security to the people of California.

The Plan includes $657.1 million ($42 million General Fund and $615.1 million Public Buildings Construction Fund) over the next five years for various facility replacement projects statewide. This includes 11 continuing area office replacement projects, 6 future area office replacement projects, and funding for statewide planning and site identification activities. The exact location and methodology of each future project will be determined upon the completion of current and future statewide site searches.

For the 2023-24 fiscal year, the Administration proposes $305.9 million ($11.5 million General Fund and $294.4 million Public Buildings Construction Fund) for eleven continuing area office replacement projects located at Quincy, Humboldt, Baldwin Park, Santa Fe Springs, San Bernardino, Gold Run, Redding, Los Banos, Antelope Valley, Barstow, and Porterville. The facilities at these locations have numerous structural deficiencies and are too small to meet the programmatic needs of today's CHP. In addition, the Administration also proposes funding for statewide planning and site identification activities.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) operates 247 facilities statewide including an estimated 1.6 million gross square feet of state-owned properties and 1.2 million gross square feet of agency-leased properties. Many offices contain multiple programs, including vehicle/vessel identification and compliance, driver license and personal identification, driver safety, occupational licensing, and investigation. These facilities support the DMV's mission to serve the public by licensing drivers, registering vehicles, securing identities, and regulating the motor vehicle industry in pursuit of public safety.

The Plan includes $185.2 million ($42.5 million General Fund and $142.7 million Public Buildings Construction Fund) over the next five years for four continuing replacement projects, two new field office replacement projects, and three field office renovation projects to address structural and programmatic deficiencies.

For the 2023-24 fiscal year, the Administration proposes $83.4 million ($2.5 million General Fund and $81 million Public Buildings Construction Fund) for the construction and build phases of replacement projects at Delano, Inglewood, and San Francisco, and for the performance criteria phase of the El Centro Field Office Replacement project. These projects address safety and space deficiencies.

EXPOSITION PARK

Exposition Park, which consists of the Office of Exposition Park Management, the California African American Museum, and the California Science Center, is a 160-acre campus located in Los Angeles. Attractions in Exposition Park include the Natural History Museum of Los Angeles County, the City of Los Angeles Rose Garden, the Los Angeles Memorial Coliseum, and the Los Angeles Football Club Banc of California Stadium.

The Plan includes $381.6 million ($8.9 million General Fund, $291.2 million Public Buildings Construction Fund, and $81.5 million other funds) over the next five years for the Southeast Underground Parking Structure project and continuation of the Parkwide Surveillance System project. These projects will provide for increased security, increased revenue generation opportunities, and an improved visitor experience. In addition, the project will better prepare Exposition Park for the 2028 Summer Olympics.

For the 2023-24 fiscal year, the Administration proposes $15.2 million ($500,000 General Fund, $14.1 million Public Buildings Construction Fund, and $600,000 other funds) for continuation of the Parkwide Surveillance System and for the new Southeast Underground Parking Structure project. The Southeast Underground Parking Structure project includes three stories of underground parking, surface level green space, and event space.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

The Department of Forestry and Fire Protection (CAL FIRE) operates more than 530 facilities statewide. These facilities include, but are not limited to, 234 fire stations, 112 telecommunications facilities, 31 conservation camps, 8 fire crew camps, 21-unit headquarters, 16 administrative headquarters, 13 air attack bases, 10 helitack bases, 8 state forests, 1 forestry nursery, and 3 training centers. CAL FIRE facilities support fire protection and resource management efforts for more than 31 million acres of both state- and privately-owned wildlands throughout California.

The Plan includes $1.1 billion ($236 million General Fund and $857.8 million Public Buildings Construction Fund) over the next five years for the continuation and addition of critical infrastructure projects statewide, including but not limited to, the replacement of aging fire stations, unit headquarters and communication facilities, the creation of a new training center, and the replacement of helitack bases and improvements to air attack bases to accommodate CAL FIRE's new helicopter fleet and C-130 aircraft deployment plans.

For the 2023-24 fiscal year, the Administration proposes $36.9 million ($30.4 million General Fund and $6.5 million Public Buildings Construction Fund) for the continuation and addition of critical major capital projects, including the replacement of various fire stations, unit headquarters, conservation camps, and helitack bases, as well as for air attack base infrastructure improvements. These projects are in various stages of completion from acquisition to design and construction. The Administration also proposes initial funding for the Additional CAL FIRE Training Center: New Facility project which will address CAL FIRE's long-term training facility needs.

DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation consists of 280 parks, beaches, trails, wildlife areas, open spaces, off-highway vehicle areas, and historic sites totaling approximately 65 million acres of land, including 343 miles of coastline, 991 miles of lake, reservoir and river footage, more than 15,000 campsites and alternative camping facilities, and more than 6,000 miles of motorized and non-motorized trails.

The Department of Parks and Recreation anticipates acquiring Dos Rios Ranch as the 281st unit of the State Park System during the 2023-24 fiscal year. Funding for this acquisition was originally provided in the 2020 Budget and this acquisition will create recreational opportunities and park access to historically underserved communities in the Central Valley.

The Plan includes $64.9 million ($36.5 million General Obligation bond funds and $28.4 million other funds) over the next five years for continuing major capital projects at various units of the State Park System, and for one new project at Border Field State Park.

For the 2023-24 fiscal year, the Administration proposes $37.9 million ($26.8 million General Obligation bond funds and $11.1 million other funds) for several continuing projects at various units of the State Park System as well as $1 million for the initial phase of the Border Field State Park: Monument Mesa Day Use and Interpretive Area project. Included in the Border Field State Park project are updates to the outdoor educational plaza to include mixed-use group event areas, interpretive elements and exhibits, and updated walkways and landscaping to improve the visitor experience.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources (DWR), Division of Flood Management and the Division of Multibenefit Initiatives are committed to a wide and necessary array of flood risk reduction investments such as U.S. Army Corps of Engineers (USACE)-led urban projects, repair of storm-damaged infrastructure, and systemwide multi-benefit projects. DWR has taken a comprehensive look at funding needs over the next five years and beyond, and will continue to work on flood management projects that reduce flood risk and enhance flood system resiliency to address the impacts of climate change, improve operations and maintenance of the flood management system, and improve ecosystem functions.

Much of the existing flood management system in the Central Valley is made up of a complex, integrated system of levees, channel improvements, bypasses, operable and passive weirs, closure structures, pumping plants, and other related flood management facilities. DWR, in partnership with the Central Valley Flood Protection Board (Flood Board), participates with USACE and local entities in the operation, maintenance, repair, rehabilitation, and replacement of these facilities.

The Central Valley Flood Protection Act of 2008 requires DWR to prepare, and the Flood Board to adopt, the Central Valley Flood Protection Plan (Flood Plan). The Flood Plan is California’s strategic blueprint to improve flood risk reduction in the Central Valley. The Flood Plan lays out strategies to:

- Prioritize the state's investment in flood management over the next three decades;
- Promote multi-benefit projects; and
- Integrate and improve ecosystem functions associated with flood risk reduction projects.

The Five-Year Capital Outlay Plan supports DWR flood risk reduction projects that:

- Implement improvements to the State Plan of Flood Control (SPFC) identified in the Flood Plan in coordination with the USACE, Flood Board, and local agencies, and address other known critical deficiencies in the Central Valley flood system.
- Advance flood improvements along the American and Sacramento Rivers and the Yolo Bypass, and locations in the San Joaquin such as Paradise Cut.
- Complete work on 5 to 6 urban multi-benefit projects that reduce flood risk, protect habitat, and provide recreation.
- Work with USACE and local agencies to provide financial assistance to complete design and construction of flood risk reduction projects across the state.

The Plan includes $198.9 million General Fund over the next five years for various flood management system projects in the Central Valley.

For the 2023-24 fiscal year, the Administration proposes $163.9 General Fund, including $25 million for Systemwide Flood Risk Reduction projects, Paradise Cut Bypass Expansion and Ecosystem Enhancement and Yolo Bypass Fix-In-Place. The Administration also proposes $90.5 million for the USACE Urban Projects/Feasibility Studies, $43.7 million for the South Delta Permanent Operable Gates, and $4.8 million for the Joint Operations Center replacement project.

DEPARTMENT OF STATE HOSPITALS

The Department of State Hospitals oversees five hospitals that have a campus infrastructure of more than 6.6 million square feet of space in 474 buildings on 2,600 acres of land and provides evaluation and treatment services in a safe and responsible manner to state hospital patients.

The Plan includes $206.8 million ($48.2 million General Fund and $158.6 million Public Buildings Construction Fund) over the next five years for facility upgrades, including a dining and kitchen renovation at Atascadero State Hospital, and the development and installation of a recycled water irrigation system at Napa State Hospital.

For the 2023-24 fiscal year, the Administration proposes $48 million ($8.1 million General Fund and $39.9 million Public Buildings Construction Fund) for the following five projects:

- $4.7 million for the construction phase of the Potable Water Booster System project at Atascadero State Hospital;
- $1 million for working drawings for the Sewer and Wastewater Treatment Plant project at Atascadero State Hospital;
- $39.9 million for the construction phase of the Consolidation of Police Operations project at Metropolitan State Hospital;
- $1.9 million for working drawings for the Central Utility Plant Replacement at Metropolitan State Hospital; and
- $536,000 for the Fire Water Line Connection project at Metropolitan State Hospital.

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The Department of Corrections and Rehabilitation (CDCR) operates 36 youth and adult correctional facilities, 35 firefighting and conservation camps, and jointly administers the state financing programs for construction of new county jails with the Board of State and Community Corrections. CDCR's aging infrastructure and changing population drives significant infrastructure needs.

The Plan includes $538.6 million ($139.1 million General Fund and $399.5 million Public Buildings Construction Fund) over the next five years for various capital projects statewide. These projects fall into the following major categories:

- Fire and life safety upgrades
- Heating, ventilation, and air-cooling upgrades
- Kitchen and dining facilities
- Medical facilities, classrooms, and yard improvements

For the 2023-24 fiscal year, the Administration proposes $462.4 million ($101.8 million General Fund and $360.6 million Public Buildings Construction Fund) for projects that address a variety of infrastructure needs. The May Revision proposes funding for two capital projects in support of the Administration's vision to transform San Quentin from a maximum-security prison into a one-of-a-kind facility focused on improving public safety through rehabilitation and education: (1) $360.6 million Public Buildings Construction Fund for the Demolition of Building 38 and Construction of a New Educational and Vocational Center project and (2) $20 million General Fund for various improvement projects. These projects will support the California Model, which will serve as a nationwide model to advance a more effective justice system that builds safer communities and reduces recidivism. The final scope of these projects will be informed by the recommendations of the multidisciplinary Advisory Council established by the Governor. These projects have planned completion dates of 2025.

EDUCATION FACILITIES

Since 1998, California voters have approved more than $42 billion in statewide General Obligation bonds to construct or renovate public school classrooms used by the state's approximately six million K-12 students and $11.5 billion in statewide General Obligation bonds to construct or renovate public college and university facilities. The May Revision includes roughly $2.9 billion General Fund to support the debt service costs associated with these bonds. In addition to state General Obligation bonds, school districts may use developer fees, local General Obligation bonds, and Mello-Roos bonds to construct additional classrooms or renovate existing classrooms and community colleges may use local General Obligation bonds to support their facility needs.

The 2022 Budget Act reflected multi-year support of $4.3 billion one-time General Fund to support K-12 new construction and modernization projects through the School Facility Program (SFP). The 2023 Governor's Budget proposed reducing this one-time support from approximately $4.3 billion to $4.2 billion. The 2022 Budget Act also included $100 million one-time General Fund and included a planned $550 million General Fund in 2023-24, to support the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program. The California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program supports the construction of new school facilities or retrofitting existing school facilities for the purpose of providing transitional kindergarten, full-day kindergarten, or preschool classrooms. The Governor's Budget proposed delaying this $550 million investment to 2024-25.

CALIFORNIA DEPARTMENT OF EDUCATION—STATE SPECIAL SCHOOLS

The State Special Schools Division includes three residential schools (Schools for the Deaf in Riverside and Fremont and a School for the Blind in Fremont) and three diagnostic centers (Fresno, Fremont, and Los Angeles). These facilities comprise a total of approximately 1 million gross square feet on 167 acres. The schools provide comprehensive educational programs composed of academic, extracurricular, and residential activities for students with auditory and/or visual impairments. The diagnostic centers provide assessment services for students in special education with complex educational needs, along with professional learning and technical assistance support for educators and community partners.

The Plan includes $74.2 million ($35.8 million General Fund and $38.4 million Public Buildings Construction Fund) over the next five years for four continuing and two new projects to address aging infrastructure at the Fremont School for the Blind, Fremont School for the Deaf, and Riverside School for the Deaf.

For the 2023-24 fiscal year, the Administration proposes $6.9 million General Fund for the construction and working drawings phases of three continuing projects, including the Middle School Activity Center project at the Fremont School, and the Remove Modular Buildings and the Athletic Complex Replacement and Expansion projects at the Riverside School.

HIGHER EDUCATION

Each year, millions of Californians pursue postsecondary degrees and certificates, enroll in courses, or participate in other kinds of education and training. The three public segments that support these educational opportunities are the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC).

CALIFORNIA COMMUNITY COLLEGES

The CCCs comprise the largest postsecondary system of education in the nation. The system serves approximately 1.8 million students annually at 73 locally-governed community college districts encompassing 116 campuses, 78 approved off-campus centers, and 24 district offices. The districts' assets include more than 25,000 acres of land, 6,000 buildings, and 87 million gross square feet of space. The system also holds instruction at numerous off-campus outreach centers.

Proposition 51 (Prop 51) of 2016 authorized $2 billion in state General Obligation bonds to support the improvement and construction of community college facilities. Over 98 percent of these bonds have been committed to addressing nearly 100 critical infrastructure projects.

The Plan includes $232.3 million General Obligation bonds for two new projects at Golden West College and College of San Mateo, and for twelve continuing phases of projects approved in prior budgets.

UNIVERSITY OF CALIFORNIA AND CALIFORNIA STATE UNIVERSITY

The UC and CSU currently fund capital projects from within their annual support budgets. This provides the universities with the flexibility to factor infrastructure development costs and priorities within their comprehensive fiscal plans. In accordance with statute, both the UC and the CSU submit annual capital outlay proposals for legislative review and Department of Finance approval. The UC did not submit capital proposals for 2023-24. The CSU submitted capital proposals totaling $1.5 billion ($1.3 billion Statewide Revenue Bonds and $179 million campus funds). Preliminarily approved project lists for CSU will be submitted to the Legislature in May 2023.

Given the ongoing need to construct and/or renovate educational facilities, the Legislature and Administration will need to engage in a conversation regarding the potential placement of a general obligation bond supporting the construction and/or modernization of education facilities on a future ballot for consideration by the voters.

DEPARTMENT OF GENERAL SERVICES

STATE OFFICE BUILDING PROGRAM

The Department of General Services (DGS) manages approximately 36.5 million square feet of space that supports a variety of state programs and functions. In addition, DGS oversees approximately 2 million square feet in new office space that is currently under construction or renovation in the Sacramento area. These construction activities are in furtherance of the DGS Real Estate Strategic Plan (Strategic Plan), formerly known as the DGS Sequencing Plan, which provides a strategy for the renovation or replacement of numerous state office buildings in the Sacramento region. Many of these buildings are decades old and beyond their useful life.

In recent years, appropriations have provided funding for the renovation of various office buildings in Downtown Sacramento. The Gregory Bateson Building, scheduled for completion in December 2024, will house various tenants from the California Natural Resources Agency not included in the consolidation at the New Natural Resources Headquarters. The Natural Resources Building, scheduled for completion in October 2025, will house a partial consolidation of the Labor and Workforce Development Agency, including the Employment and Development Department. Lastly, the Jesse Unruh Building, which is scheduled for completion in June 2025, will once again house the State Treasurer's Office (STO). The STO is temporarily located at the Paul Bonderson Building while the Unruh Building is under construction.

Furthermore, the 2022 Budget Act provided a one-time $917 million transfer from the General Fund to the State Project Infrastructure Fund (SPIF) to fully fund the remaining design, pre-construction, and construction activities for the State Capitol Annex projects. To date, a total of $263 million General Fund has been transferred to the SPIF to fund ongoing planning and pre-construction activities. The Annex projects are currently scheduled for completion in 2026.

As part of Control Section 13.40, a budgetary loan of $500 million from the SPIF to the General Fund is proposed from idle resources not required for currently projected operational or programmatic purposes. These funds, which are earmarked for the Capitol Annex projects, are not needed for the continuation of design and construction activities through 2023-24 and will be returned to the fund as needed in 2024-25 and 2025-26.

For the 2023-24 fiscal year, the Administration proposes $402 million General Fund to pay a portion of the construction loan for the design-build phase of the Sacramento Region: New Richards Boulevard Office Complex project. Additionally, the Plan includes $36,000 General Fund for the execution of a lease-purchase option to acquire the California Tower Building in Riverside. This is the final step of a 25-year lease-purchase agreement, set to expire in October 2024.

DEBT FINANCING

The state has long used debt financing as a tool for infrastructure investment. When the state borrows to pay for infrastructure, roughly one out of every two dollars spent on infrastructure investments pays long-term interest costs, rather than construction costs.

Budget challenges in the early 2000s resulted in a greater reliance on debt financing, rather than pay-as-you-go funding. From 1974 to 1999, California voters authorized $38.4 billion of General Obligation bonds. From 2000 to 2022, voters expanded the types of programs funded by bonds and authorized approximately $123.8 billion of General Obligation bonds. Of all previously approved bonds, debt obligations of approximately $70.2 billion in General Obligation bonds and approximately $7.9 billion in lease revenue bonds remain outstanding as of April 1, 2023. Additional information related to General Obligation and lease revenue bond issues can be found on the State Treasurer's website.

As shown in the Debt Service on General Obligation and Lease Revenue Bonds figure, debt service on infrastructure bonds is expected to increase to $8.9 billion by 2026-27, assuming only limited new lease revenue bonds are authorized.

Debt Service on General Obligation and Lease Revenue Bonds
(Dollars in Millions)

Fiscal Year	General Fund Revenues	All Funds Debt Service	All Funds Service Ratio[1/]	General Fund Debt Service	General Fund Service Ratio [1/]
2022-23[e/]	$204,888	$7,541	3.68%	$5,148	2.51%
2023-24[e/]	$206,197	$8,116	3.94%	$5,740	2.78%
2024-25[e/]	$209,161	$8,357	4.00%	$5,906	2.82%
2025-26[e/]	$206,773	$8,589	4.15%	$6,130	2.96%
2026-27[e/]	$212,372	$8,867	4.18%	$6,325	2.98%

[1/] The debt service ratio expresses the state's debt service costs as a percentage of its General Fund revenues.
[e/] Estimated

The debt service ratio is a measure of relative indebtedness. It expresses the state's debt service level as a percentage of its General Fund revenues. The debt service ratio is projected to increase in 2023-24 to 2.78 percent, based on currently authorized General Fund-supported General Obligation and lease revenue bond debt.

ECONOMIC OUTLOOK

Despite increased economic uncertainties surrounding highly publicized tech sector layoffs and a banking crisis that saw three of the four largest bank failures in U.S. history in March and April 2023, the U.S. and California economies have seen continued deceleration of inflation and steady though slowing job growth within a tight labor market. U.S. Gross Domestic Product (GDP) grew by 1.1 percent in the first quarter of 2023, buoyed by strong consumption as American consumers have remained resilient. Having recovered all the jobs lost during the COVID-19 Pandemic, both the U.S. and California economies are now firmly in the post-pandemic and subsequent recovery period.

Inflation has decelerated more rapidly than projected in the Governor's Budget, with U.S. inflation at 5 percent year-over-year in March compared to a 5.9 percent projection and a peak of 9.1 percent in June 2022. California inflation was at 5.4 percent year-over-year in February 2023 (the latest available data) compared to a projection of 7.1 percent and a peak of 8.3 percent in June 2022. However, headline inflation remains elevated even as the Federal Reserve has increased target interest rates by 5 percentage points since March 2022 with the most recent increase of 0.25 base percentage point in May 2023. Port and trucking congestion, fuel prices, and microchip shortages all eased in late 2022, contributing to generally lower inflation for most goods, although inflation in most services remained elevated as demand shifts away from goods. Shelter inflation, the largest component of services, has not yet begun to fall on a year-over-year basis despite recent declines in market rents, and continued to accelerate through early 2023, reflecting rapid rent increases during the last two years.

The U.S. and California labor markets continue to add jobs, but at slower rates as they move beyond the period of rapid recovery from pandemic-induced losses and approach steady-state levels consistent with historical trends. California's nonfarm employment grew by an average of 32,700 jobs monthly during the first quarter of 2023, less than half the monthly average gain of 68,200 jobs from a year ago in the first quarter of 2022, but higher-than-average monthly gains of 23,100 jobs in the first quarter of each year during the post-Great Recession period of 2015 to 2019. Likewise, the U.S. added an average of 344,700 jobs monthly in the first quarter of 2023, considerably less than the 560,700 average monthly jobs added in the first quarter of 2022, but above the nearly 200,000 average monthly job gain in the first quarter of the five years from 2015 to 2019.

The May Revision forecast projects the U.S. economy to grow slowly through the third quarter of 2023, with U.S. real GDP growth averaging 0.5 percent in the second and third quarters amidst tighter financial conditions. Both high interest rates and increasingly cautious lending in the wake of recent major bank failures are expected to limit interest-sensitive spending such as business expansions and building construction. The Federal Reserve is projected to ease monetary policy by the end of 2023 as inflation is projected to continue cooling. This, in turn, will lead business investment to recover and the economy to return to its projected long-run average quarterly growth range of 1.5 to 2 percent beginning in the fourth quarter of 2023.

Concerns over the financial and tech sectors due to the fallout in the banking industry and announced tech industry layoffs have exacerbated uncertainties for California's economic outlook. The financial activities and information sectors (the latter containing many firms typically considered to be tech firms) provide many of the state's highest paying jobs and contribute a disproportionate share towards the state's income tax revenues. These two sectors have lost 8,500 jobs (0.6 percent of their combined December 2022 total) in the first three months of 2023, compared to a gain of 14,600 jobs in the same period a year ago. These recent job losses kept nonfarm employment in the financial activities sector below its pre-pandemic (February 2020) level. Meanwhile, information employment remains above its pre-pandemic level, despite recent job losses. The immediate actions of the Treasury Department, the Federal Reserve, and central banks around the world have so far prevented a systemic contagion effect from the banking crisis, and the May Revision forecast does not project any further drags on the economy as a result.

Many of the layoffs in the tech sector seem to be located outside the state and represent a correction to apparent over-hiring at some firms during the pandemic. The state's tech firms are projected to resume adding jobs by the end of the year as financial conditions stabilize. As such, the May Revision forecast projects no further major financial or tech industry-related disruptions within the forecast window (2023 through 2026).

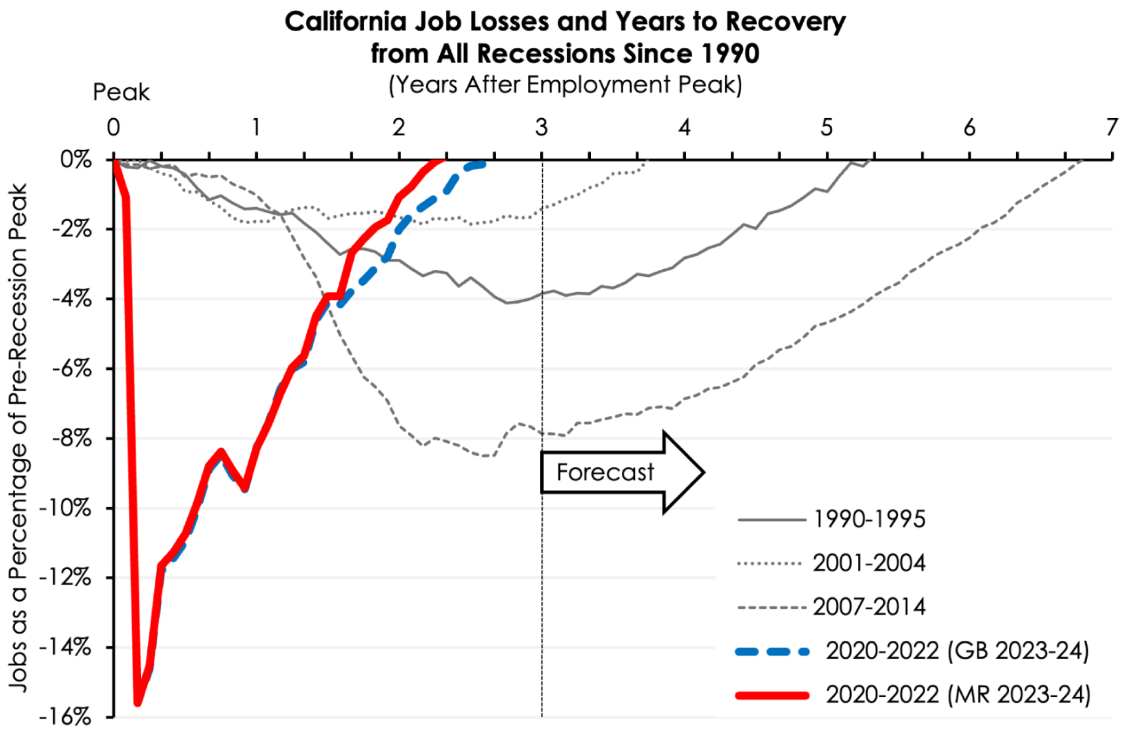
CALIFORNIA JOB GROWTH NORMALIZES, WAGE GROWTH STALLS

According to the annual benchmark revisions to California labor market data released in March 2023, California recovered all of the nearly 2.8 million jobs lost at the onset of the COVID-19 Pandemic in March and April 2020 by June 2022—five months earlier than previously estimated in the Governor's Budget forecast. (See figure on California Job Losses and Years to Recovery.) The stronger nonfarm job recovery was driven by gains in high-wage sectors which recovered to their pre-pandemic February 2020 level in April 2022, followed by low-wage sectors in July 2022.

Low-wage sectors—industries with average wages below the 2019 average wage for all industries—lost a higher share of jobs than high-wage sectors did during the COVID-19 Recession, but now see more robust job growth. Recent tech-related layoffs significantly weakened job growth in high-wage sectors. As of March 2023, the latest data available, California's high-wage sectors gained an average of 8,700 jobs per month during the first quarter of 2023, compared to 30,800 average monthly job gains in the first quarter of 2022. In contrast, low-wage sectors gained about 24,000 average jobs per month in the first quarter of 2023, compared to 37,400 monthly job gains in the same period in 2022.

Unlike the nonfarm job recovery, California's labor force has yet to recover to its pre-pandemic level as of March 2023 growing by 1.4 percent in 2022, somewhat lower than the Governor's Budget projection of 1.9 percent. Despite the labor force growing at twice the 2019 pre-pandemic growth of 0.7 percent, only 77.7 percent of the just over 1 million people that left the workforce in the first three months of the COVID-19 Pandemic have returned as of March 2023. The slow growth in the labor force has contributed to a rapid decline in unemployment despite tepid household employment growth. California's unemployment rate averaged 4.2 percent in 2022, 0.2 percentage point lower than the Governor's Budget forecast of 4.4 percent.

Following annual benchmark revisions to labor market data, the state's unemployment rate fell to its record-low rate of 3.8 percent in July and August 2022, two months earlier



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, 2023-24 May Revision Forecast.

than previously estimated in the Governor's Budget. The nation reached its record-low (since 1953) unemployment rate of 3.4 percent in January 2023, five months later. U.S. civilian (household) employment recovered to its pre-pandemic level in the fourth quarter of 2022, while California's civilian employment has plateaued since the middle of 2022.

The state's highest paying sectors (information and finance in particular) saw significant wage declines in 2022, due largely to much lower levels of irregular payments such as bonuses and options, as rising interest rates contributed to a 19.4-percent decline in the S&P 500 stock index over the course of the year. Thus, California's average wage growth fell to just 0.1 percent in 2022 after strong growth of 11.1 percent in 2020 and 7.5 percent in 2021.

THE FORECAST: PROJECTED SLOWING GROWTH

As with the Governor's Budget, economic growth is projected to continue in the May Revision forecast, driven by stronger levels of consumption relative to other components. However, GDP growth is projected to slow through the third quarter of 2023 as high interest rates and tighter financial conditions dampen consumer and business demand, slowing interest-sensitive consumption and investment. Credit conditions are projected to begin easing in late 2023, and GDP is then projected to recover to steady-state growth rates of between 1.5 and 2 percent through 2026. (See figure on Economic Indicators at the end of this chapter.)

INFLATION PROJECTED TO COOL

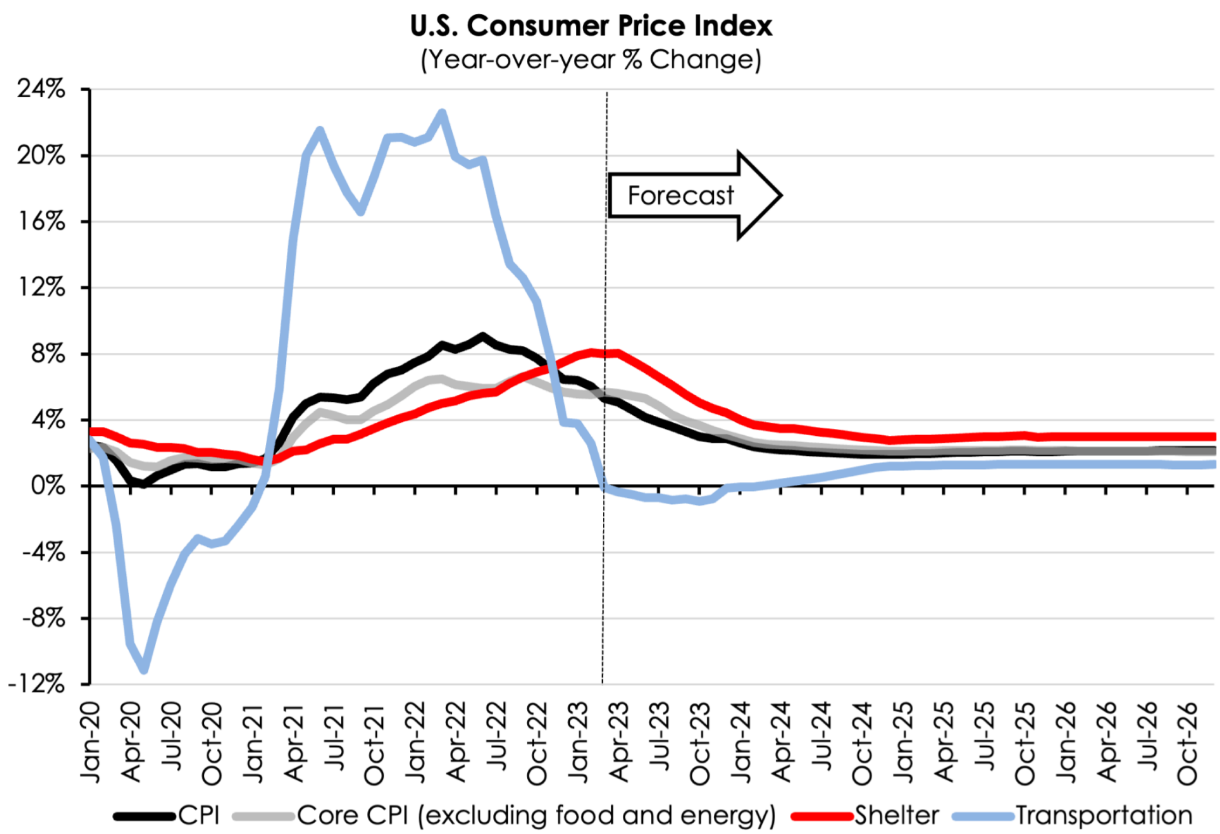
The May Revision forecast projects that U.S. headline inflation will continue to slow due to cooling demand as the Federal Reserve maintains the restrictive monetary policy stance it adopted in March 2022 through the rest of 2023. The supply chain issues that contributed to high inflation in 2021 and much of 2022 have mostly been resolved; as a result, inflation in most categories of goods has been slowing, although inflation in service sectors has been more persistent as consumption shifts towards services and away from goods.

Shelter inflation remains high, as average rents on existing leases are still well above their early 2022 levels even as asking rents on units currently on the market have stagnated for several months. Shelter inflation is projected to ease, slowing to historical rates of slightly above 2 percent for the nation and 3 percent for the state by late 2024. (See figure on U.S. Consumer Price Index.)

STEADY JOB GROWTH PROJECTED TO RETURN

California's nonfarm job growth is projected to slow in 2023 and into early 2024, in line with the slowing of U.S. real GDP growth. Recent data indicates that nonfarm employment growth is reverting to historical trends and entering a new normal after the rapid post-pandemic recovery period. The current high interest rate environment and more cautious lending by banks are expected to create tighter credit conditions that would curtail job growth in credit-sensitive sectors. California companies' venture capital funding boomed following the pandemic but declined to pre-pandemic levels in late 2022 and early 2023. As a result, the information sector is projected to lose 15,600 jobs from 2022 to 2024 compared to a projected gain of 15,300 in the Governor's Budget forecast.

California's labor force is projected to continue growing, though at a slower rate of 1 percent in 2023 as it approaches its pre-pandemic level. Thereafter, it is projected to slow to 0.5-percent growth in 2026 partially due to revised population projections, especially for working-age individuals between the ages of 16 and 64. Similarly, California's civilian employment is projected to recover in late 2025 as the labor market



Source: U.S. Bureau of Labor Statistics; CA Department of Finance, 2023-24 May Revision Forecast.

further relaxes in response to the Federal Reserve's monetary policy and as economic activity slows.

California's unemployment rate is projected to increase through 2025 as current tight financial conditions soften the labor market. The unemployment rate is projected to peak in early 2025 at 5.2 percent before moderating to 5 percent thereafter. Historically, California's unemployment rate has been slightly above but closely correlated to the U.S. rate. However, recent trends have somewhat diverged as the state's labor market has softened at a faster pace than the nation's, which was at 3.5 percent unemployment in March 2023.

MODEST WAGE GROWTH PROJECTED

California average wage growth is projected to recover to around 3 percent in 2023 and 2024, as the Federal Reserve winds down its current tight monetary policy, inflation eases, and employment growth slows. Wage growth in the highest-paying sectors is projected to be very slow in 2023 as companies adjust to the post-pandemic period and irregular payments remain at fairly low levels. As these sectors recover somewhat, average wages are then projected to grow by around 4 percent in 2025 and 2026, similar to the growth rates in 2018 and 2019 before the COVID-19 Pandemic began.

PERSONAL INCOME GROWTH CONTINUES DESPITE SLOWER WAGE GROWTH

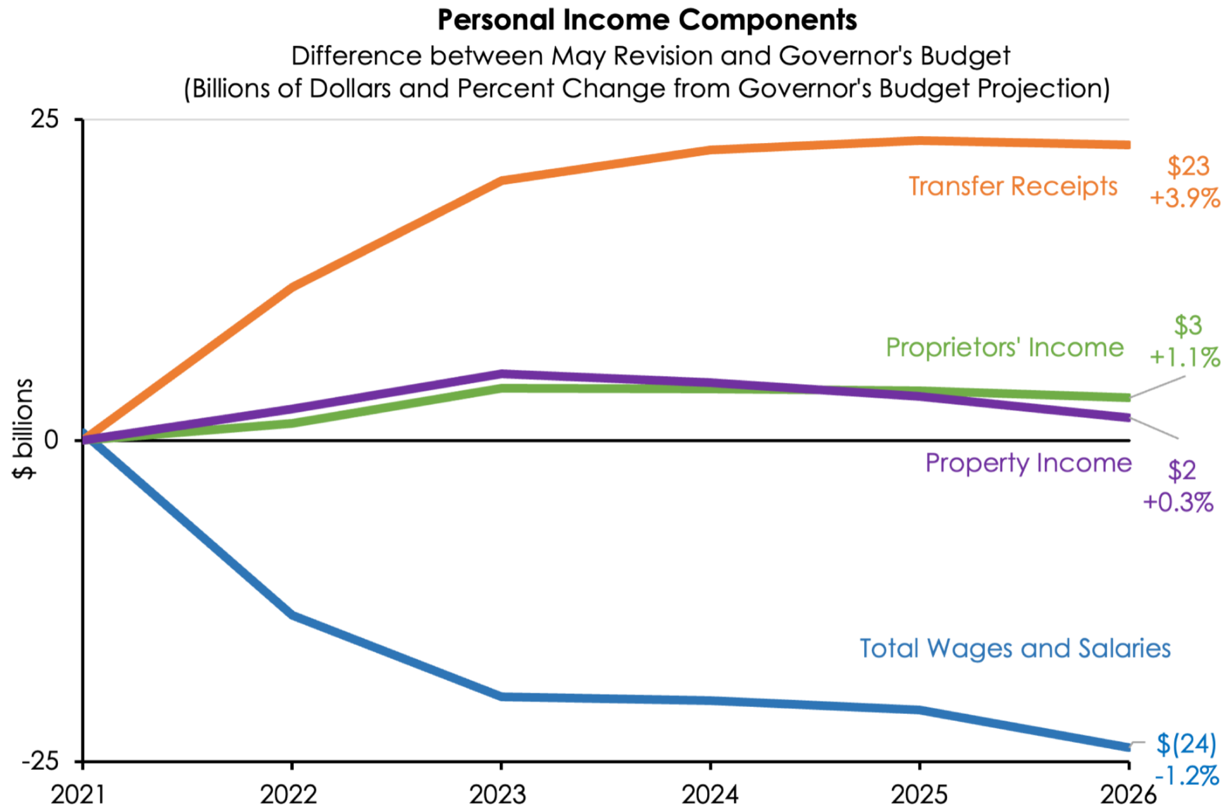
Actual California headline personal income growth in 2022 matched the Governor's Budget projection of 0.4 percent. The May Revision forecast incorporated two additional quarters of data and revisions to historical data. The revisions showed personal income growth was slightly slower in the first half of 2022—contracting 3.3 percent compared to a projected 2.4-percent contraction in the Governor's Budget with minor revisions to its components. Headline personal income growth is still projected to moderate in 2024 (to 4.1 percent) in line with slower growth in nonfarm payroll employment in late 2023 into 2024.

Total wages and salaries saw the largest downward revision to actual data with a level shift down of about $14 billion through 2022. (See figure on Personal Income Components.) Despite this, total wages are still projected to continue to drive headline growth throughout the forecast window, as they make up more than half of total personal income, but at a slowing rate as high interest rates hamper nonfarm job growth in 2023 and early 2024. Weaker job growth is also projected to slightly slow growth in proprietors' income, or the profits of non-corporate businesses.

Property income is the sum of interest, rental, and dividend income, and is projected to have its largest growth over the forecast window in 2023 driven by interest income which is largely pegged to the federal funds rate. Rental income, which tends to be driven by shelter inflation, is also expected to peak in 2023 and remain elevated through early 2024 as rents begin to ease in line with slowing shelter inflation. Dividends are expected to see slower growth as higher interest rates lead to more risk and increased investor uncertainty in the stock market.

Transfer receipts saw the largest upward revision to data, with a level shift up of about $12 billion in 2022. This increase was mainly driven by higher-than-projected transfer receipts in the fourth quarter of 2022.

Compared to the Governor's Budget, there are no significant changes expected for headline personal income growth. Assuming interest rates begin to ease in 2024, the majority of the personal income components would begin reverting to their historical growth trends in 2025 and 2026. Headline growth is projected to average 4.5 percent throughout the May Revision forecast window.



Note: Changes to projections reflect revisions to historical data.
Source: U.S. Bureau of Economic Analysis; CA Department of Finance, 2023-24 May Revision Forecast.

PERMITS TO DECLINE IN 2023 BUT PROJECTED TO GROW THEREAFTER

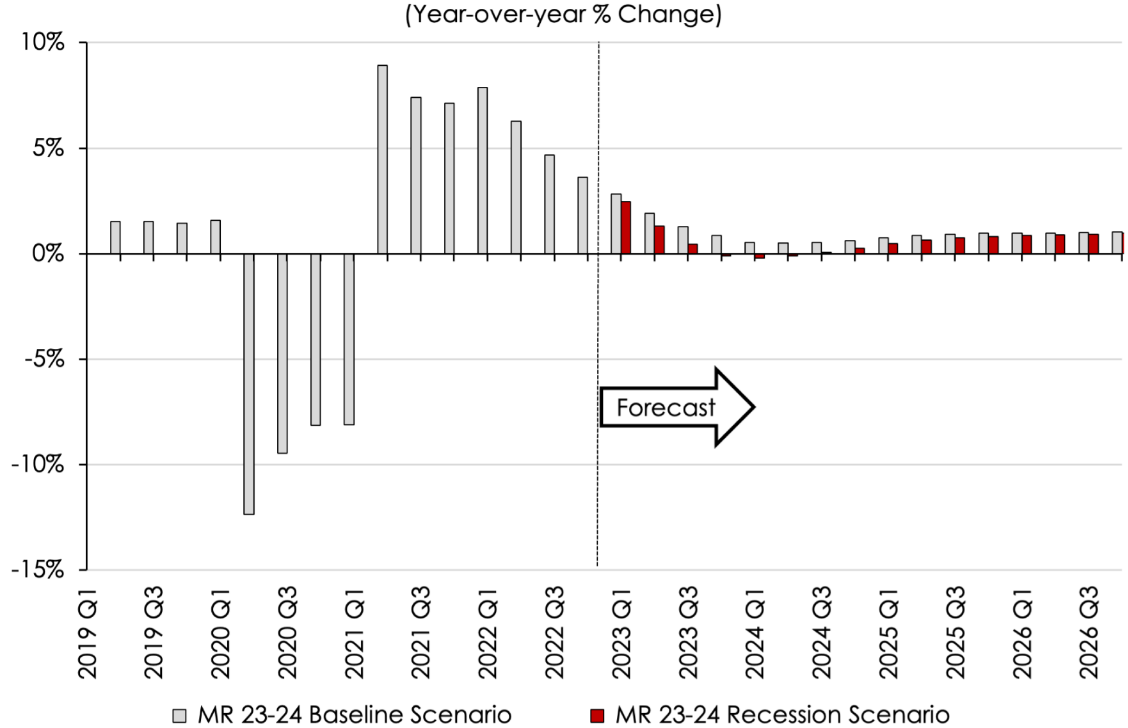
As California population growth slows and projections of future growth decreases, California is now estimated to need around 148,000 housing units permitted annually (down from the Department of Housing and Community Development's 2018 estimate of 180,000) to keep pace with projected population growth. Even with this updated projection, California still has an ongoing critical housing shortage. The May Revision forecast projects a continued decline in permits due to increased interest rates slowing the demand for housing and making construction loans more expensive. Residential permits are then expected to begin growing in 2024 through 2026 as the Federal Reserve cuts interest rates, averaging 121,600 units annually which could increase the gap between supply and demand and exacerbate the housing crisis.

RISKS TO THE FORECAST

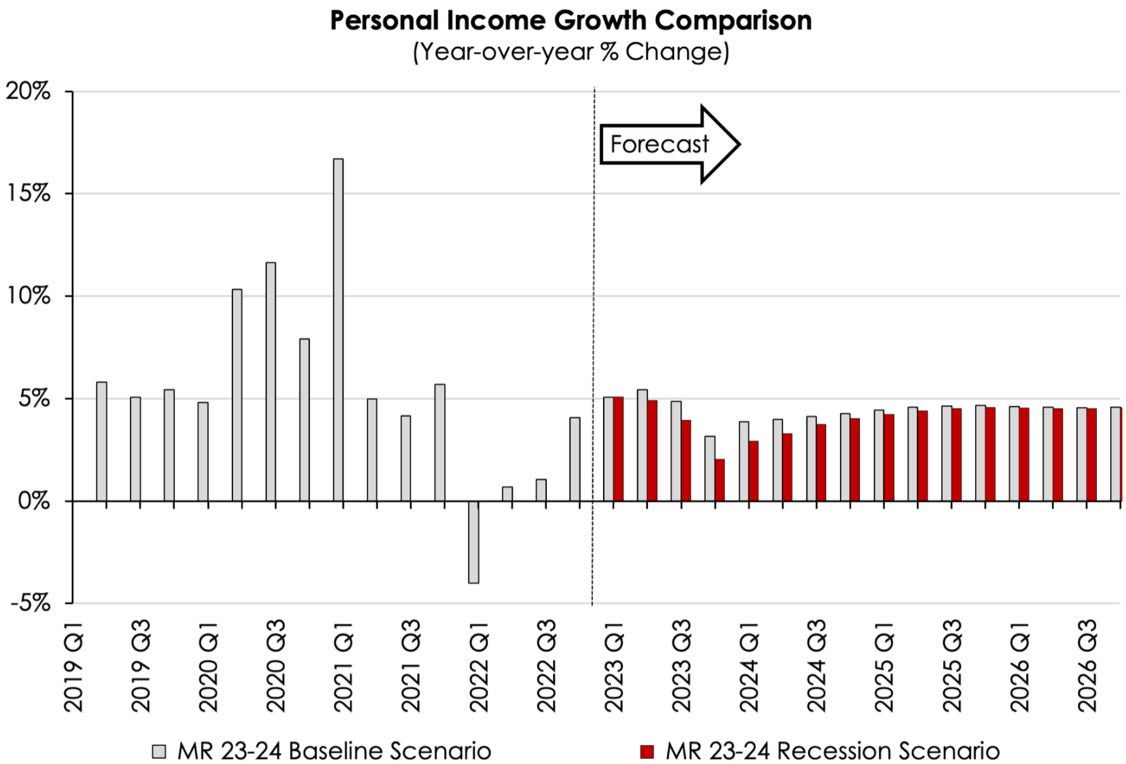
Additional layoffs in the tech industry that may spill over into ancillary industries and residual concerns over conditions in the banking sector pose significant risks to the May Revision forecast. The tech firms that employ many of the state's highest earners could see further layoffs to correct for over-hiring during the height of the COVID-19 Pandemic. Also, the collapses of Silicon Valley Bank, Signature Bank, and First Republic Bank have sparked additional risk in the banking sector, and the economic outlook could worsen if banks further curtail lending to bolster their reserves. The Federal Reserve could also potentially hamper economic activity if it keeps target interest rates too high for too long—even while banks are lending less under tighter lending conditions.

While the May Revision forecast does not project a recession in the forecast window, Finance has developed an alternative scenario. This alternative scenario projects a relatively mild recession beginning at the end of 2023 driven by a deeper slump in the tech and financial sectors, further slowing nonfarm employment and wage growth especially in high-income sectors. A potential recovery to steady-state growth would begin toward the end of 2024. However, a more moderate recession could occur due to a prolonged downturn in the tech and financial sectors and banking worries take longer to ease and asset markets soften further. This scenario would see weaker economic activity and increased job losses that would spread to other sectors. A moderate recession would last through the end of 2024 and recovery would not begin until 2025 heading into 2026. (See figures on Nonfarm Employment Growth Comparison and Personal Income Growth Comparison.)

Nonfarm Employment Growth Comparison
(Year-over-year % Change)



Source: U.S. Bureau of Economic Analysis, CA Department of Finance, 2023-24 May Revision Forecast.



Source: U.S. Bureau of Economic Analysis, CA Department of Finance, 2023-24 May Revision Forecast.

Other risks to the forecast also remain, including an escalation of tensions between China and Taiwan that could disrupt the world economy, or a protracted standoff over the federal debt ceiling later this spring that could roil financial markets as the Treasury's "extraordinary measures" are estimated to only last through early June. Long-term structural downside risks to the state economy and budget also remain, including climate change and its attendant more frequent extreme weather events such as wildfires, drought, and floods, chronic stock market volatility, high housing and living costs, and income inequality.

Economic Indicators
Annual Percentage Change unless Otherwise Indicated

					Forecast			
Column1	2019	2020	2021	2022	2023	2024	2025	2026
United States								
Real GDP								
May Revision, April 2023	2.3%	-2.8%	5.9%	2.1%	1.0%	1.5%	1.5%	1.7%
Governor's Budget, November 2022	2.3%	-3.4%	5.7%	1.7%	0.9%	1.3%	1.9%	1.9%
Unemployment Rate (percent)								
May Revision, April 2023	3.7%	8.1%	5.4%	3.6%	3.6%	4.1%	4.4%	4.5%
Governor's Budget, November 2022	3.7%	8.1%	5.4%	3.7%	3.9%	4.5%	4.7%	4.6%
Nonfarm Employment								
May Revision, April 2023	1.3%	-5.8%	2.9%	4.3%	1.6%	-0.4%	-0.2%	0.1%
Governor's Budget, November 2022	1.3%	-5.8%	2.8%	4.0%	0.9%	-0.5%	0.0%	0.4%
Personal Income								
May Revision, April 2023	5.1%	6.7%	7.4%	2.4%	4.9%	4.7%	4.4%	4.4%
Governor's Budget, November 2022	4.1%	6.5%	7.5%	3.0%	4.6%	3.9%	4.5%	4.5%
CPI Inflation Rate (percent)								
May Revision, April 2023	1.8%	1.2%	4.7%	8.0%	4.2%	2.1%	2.0%	2.1%
Governor's Budget, November 2022	1.8%	1.2%	4.7%	8.1%	4.7%	2.5%	2.3%	2.3%
California								
Unemployment Rate (percent)								
May Revision, April 2023	4.1%	10.2%	7.3%	4.2%	4.6%	5.1%	5.2%	5.0%
Governor's Budget, November 2022	4.1%	10.3%	7.4%	4.4%	4.5%	5.1%	5.2%	5.0%
Civilian Labor Force								
May Revision, April 2023	0.7%	-2.3%	0.1%	1.4%	1.0%	0.8%	0.6%	0.5%
Governor's Budget, November 2022	0.6%	-2.5%	-0.1%	1.9%	1.4%	0.9%	0.7%	0.5%
Nonfarm Employment								
May Revision, April 2023	1.5%	-7.1%	3.5%	5.6%	1.7%	0.5%	0.9%	1.0%
Governor's Budget, November 2022	1.5%	-7.1%	3.6%	6.2%	1.6%	0.5%	0.8%	1.0%
Residential Permits (thousands of units)								
May Revision, April 2023	110	106	120	114	109	115	121	129
Governor's Budget, November 2022	110	106	120	121	122	127	134	142
Average Wages								
May Revision, April 2023	4.4%	11.2%	7.5%	0.1%	3.0%	3.0%	3.7%	3.9%
Governor's Budget, November 2022	4.4%	11.1%	7.4%	0.5%	3.4%	3.0%	3.7%	3.9%
Real Average Wages								
May Revision, April 2023	1.4%	9.5%	3.2%	-7.3%	-1.3%	-0.1%	0.8%	0.9%
Governor's Budget, November 2022	1.4%	9.4%	3.1%	-7.2%	-1.9%	-0.6%	0.5%	0.8%
Personal Income								
May Revision, April 2023	5.6%	8.7%	7.7%	0.4%	4.6%	4.1%	4.6%	4.6%
Governor's Budget, November 2022	5.6%	8.7%	7.7%	0.4%	4.5%	4.1%	4.6%	4.7%
CPI Inflation Rate (percent)								
May Revision, April 2023	3.0%	1.7%	4.3%	7.4%	4.3%	3.1%	2.9%	3.0%
Governor's Budget, November 2022	3.0%	1.7%	4.3%	7.7%	5.3%	3.6%	3.2%	3.1%

2023-24 May Revision Forecast based on data available as of April 2023.
Governor's Budget Forecast based on data available as of November 2022. Figures in italics indicate forecasts, including 2022 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, 2023-24 May Revision Forecast.

REVENUE ESTIMATES

While uncertainty and risks to the U.S. and California economies have increased since the Governor's Budget was proposed, the state's economic outlook is only modestly downgraded, due largely to actual economic data coming in slightly lower than projected and tighter monetary conditions from more cautious lending in the banking sector. At the same time, tax receipts continue to come in substantially lower than projected at the Governor's Budget. Personal income tax and corporation tax receipts are down around $9 billion cumulatively in the first ten months of the 2022-23 fiscal year. However, it is important to note, cash results outside of personal income tax withholding are distorted by tax deadlines shifting to October as well as the impact of the Pass-Through Entity (PTE) Elective Tax on personal income tax payments.

The PTE Elective Tax increases payments reflected in the corporation tax and correspondingly increases personal income tax credit usage, negatively impacting personal income tax. PTE Elective Tax payments are projected to average around 9.5 percent of General Fund revenues before transfers over the budget window (fiscal years 2021-22 through 2023-24), up from 7.7 percent in the Governor's Budget. PTE Elective Tax payments and credit usage represent a substantial share of revenues and continue to make it challenging to interpret cash results for personal and corporate income taxes.

In January, the Franchise Tax Board (FTB) extended to May 15 various filing and payment deadlines for individuals and businesses in California who reside in counties impacted by winter storms between January and April, in line with tax relief announced by the Internal Revenue Service (IRS). In early March, the FTB further extended these deadlines to mid-October after the IRS announced another deadline extension in late February. Following additional disaster declarations through mid-March, the extension was granted to 55 counties comprising over 99 percent of Californians.

The Governor's Budget cashflow assumed around $21 billion in personal income and corporate tax payments shifting from January through April to May. Withholding receipts are down $2.9 billion through April, indicating genuine weakness in personal income tax trends. Gauging the magnitude of the overall shortfall is difficult since the variance in other personal and corporate income tax payments relative to the forecast may be over or understated by taxpayers' behavioral response to the delayed tax deadlines differing from the assumptions made in the Governor's Budget.

Weak cash data continues to indicate a sharp reversal of post-pandemic strength in stocks and other assets which had an outsized impact on high-income taxpayers' earnings. The revenue outlook continues to project normalization of trends following exceptionally strong revenue growth in 2020-21 and 2021-22; however, the forecast is downgraded due to lower cash receipts. Before accounting for transfers to the Budget Stabilization Account (BSA) and budget actions designed to address the budget problem, General Fund revenue is projected to be $8.4 billion lower than assumed in the Governor's Budget forecast over the budget window.

There are several risks to the forecast, including uncertainty when forecasting off the spike in revenues experienced through 2021-22, economic recession risks, and increased uncertainty from January through April's incomplete cash data for tax year 2022. The May Revision forecast assumes the delayed tax filing deadlines shift around $42 billion from January through September to October, with $28.4 billion attributed to personal income tax and $13.3 billion attributed to corporation tax. Delayed tax deadlines add significant uncertainty to the revenue forecast as projections are locked down without critical cash data usually available when finalizing the May Revision forecast. Furthermore, predicting taxpayer behavior is difficult, as there is no comparable precedent to this year's delayed deadlines in terms of scale and length of delay.

BUDGET WINDOW

The 2023-24 May Revision General Fund Revenue Forecast figure compares the revenue forecasts by source in the Governor's Budget to the May Revision forecast over the budget window:

- The personal income tax forecast is lower by $14.3 billion due to weak withholding tax receipts, downgraded wage growth, a slightly downgraded economic outlook, and higher participation in the PTE Elective Tax. Excluding the impact of the PTE Elective Tax, the personal income tax forecast is projected to be $3.2 billion lower. Offsetting these factors is an upgrade in capital gains realizations in the near term, following record-high levels in 2021.
- The corporation tax forecast is $6.2 billion higher due to upgraded PTE Elective Tax payments. Excluding PTE Elective Tax payments, corporation tax revenues are projected to be $4.3 billion lower due to weak cash payments and expectations of lower corporate profits.
- The sales tax forecast is revised upward by $100 million due largely to strong cash receipts through the first nine months of fiscal year 2022-23.
- Revenue projections for insurance tax, alcoholic beverages tax, and cigarette tax are largely unchanged from the Governor's Budget forecast while the revenue forecast for pooled money interest is $1.6 billion higher due to higher interest rates.
- The forecast for other minor and not otherwise classified revenues is $800 million lower, due largely to lower than estimated federal reimbursements of wildfire and COVID-19 Pandemic costs.

After accounting for solutions and transfers, which include loan repayments as well as automatic and discretionary transfers to the Rainy Day Fund, baseline General Fund revenues at the May Revision forecast are down $6.2 billion relative to the Governor's Budget.

The PTE Elective Tax, enacted as part of the 2021 Budget Act to help California business owners mitigate the impact of the federal limit on state and local tax deductions on federal tax returns, continues to prove more popular than anticipated. The PTE Elective Tax allows pass-through business entities to generate income tax credits for their owners by paying an elective tax at the business entity level instead of the individual level. PTE Elective Tax credit usage is assumed to be around $11.2 billion higher than assumed at Governor's Budget through 2023-24, while payments made by business entities are assumed to be over $10.5 billion higher, leading to a net loss of over $600 million. The May Revision forecast continues to assume the impact of PTE Elective Tax credit usage on personal income tax payments and refunds happens evenly throughout the year. Overall, the PTE Elective Tax continues to make it challenging to interpret cash results as the timing of its impact is uncertain; however, its uptake indicates it is likely saving California residents billions of dollars in federal taxes.

2023-24 May Revision
General Fund Revenue Forecast
Reconciliation with the 2023-24 Governor's Budget
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change From Governor's Budget	
Fiscal 2021-22 (Final)				
Personal Income Tax	$136,762	$137,144	$382	0.3%
Corporation Tax	45,298	45,128	-169	-0.4%
Sales & Use Tax	32,915	33,026	112	0.3%
Insurance Tax	3,495	3,495	0	0.0%
Alcoholic Beverage	431	431	0	0.0%
Pooled Money Interest	362	362	0	0.0%
Cigarette	54	54	0	0.0%
Other Revenues	3,851	3,861	11	0.3%
Subtotal	$223,168	$223,503	$335	0.2%
Transfer To/From BSA	-5,224	-7,065	-1,841	35.2%
Other Transfers	15,947	16,099	152	1.0%
Total	**$233,891**	**$232,537**	**-$1,354**	-0.6%
Fiscal 2022-23				
Personal Income Tax	$128,905	$122,769	-$6,136	-4.8%
Corporation Tax	38,482	42,091	3,610	9.4%
Sales & Use Tax	32,851	33,072	222	0.7%
Insurance Tax	3,641	3,673	31	0.9%
Alcoholic Beverage	436	433	-3	-0.8%
Pooled Money Interest	1,794	2,133	339	18.9%
Cigarette	49	47	-2	-3.7%
Other Revenues	4,589	2,079	-2,510	-54.7%
Subtotal	$210,746	$206,297	-$4,449	-2.1%
Transfer To/From BSA	-1,620	-544	1,076	-66.4%
Other Transfers	-359	-957	-598	166.9%
Transfer Solutions	116	334	218	187.5%
Total	**$208,883**	**$205,129**	**-$3,754**	-1.8%
Fiscal 2023-24				
Personal Income Tax	$126,695	$118,136	-$8,559	-6.8%
Corporation Tax	39,308	42,081	2,773	7.1%
Sales & Use Tax	33,599	33,366	-233	-0.7%
Insurance Tax	3,863	3,881	18	0.5%
Alcoholic Beverage	441	438	-3	-0.6%
Pooled Money Interest	1,686	2,928	1,242	73.7%
Cigarette	45	43	-1	-3.1%
Other Revenues	4,040	5,736	1,696	42.0%
Revenue Solutions	30	30	0	0.0%
Subtotal	$209,707	$206,640	-$3,067	-1.5%
Transfer To/From BSA	-911	0	911	-100.0%
Other Transfers	195	-608	-802	-412.4%
Transfer Solutions	1,183	3,022	1,839	0.0%
Total	**$210,174**	**$209,054**	**-$1,120**	-0.5%
Three-Year Total Excluding BSA and Solutions			**-$8,430**	
Three-Year Total			**-$6,228**	

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 2026-27. Total General Fund revenues from these sources are expected to decrease from $215.3 billion in 2021-22 to $193.6 billion in 2023-24 as revenue trends are projected to normalize before resuming growth through 2026-27 when revenues reach $204.8 billion. Projected revenue levels in 2026-27 are nearly 50 percent higher than in 2018-19 and imply an annual growth rate of around 5 percent from these pre-pandemic levels. Revenues are assumed to moderate to lower levels following growth of nearly 30 percent in 2020-21 and of over 19 percent in 2021-22. Year-over-year increases in revenues from these three sources in 2024-25 through 2026-27 are below historical norms largely due to capital gains declining each year from 2022 through 2026. Growth rates for the personal income tax and the corporate income tax are distorted by the PTE Elective tax in 2025-26 and 2026-27 as the PTE Elective tax is only in effect through the end of 2025.

Long-Term Revenue Forecast—Three Largest Sources

(General Fund Revenue—Dollars in Billions)

	2020-21	2021-22[e/]	2022-23[e/]	2023-24[e/]	2024-25[e/]	2025-26[e/]	2026-27[e/]
Personal Income Tax	$128.9	$137.1	$122.8	$118.2	$118.9	$127.5	$141.8
(Year-over-Year Change)	*29.4%*	*6.4%*	*-10.5%*	*-3.7%*	*0.6%*	*7.2%*	*11.2%*
Corporation Tax	$22.6	$45.1	$42.1	$42.1	$43.4	$36.4	$26.6
(Year-over-Year Change)	*61.9%*	*99.8%*	*-6.7%*	*0.0%*	*3.1%*	*-16.1%*	*-26.8%*
Sales and Use Tax	$29.1	$33.0	$33.1	$33.4	$34.4	$35.5	$36.3
(Year-over-Year Change)	*14.0%*	*13.6%*	*0.1%*	*0.9%*	*3.0%*	*3.3%*	*2.2%*
Total	**$180.5**	**$215.3**	**$197.9**	**$193.6**	**$196.7**	**$199.4**	**$204.8**
(Year-over-Year Change)	***29.8%***	***19.3%***	***-8.1%***	***-2.2%***	***1.6%***	***1.4%***	***2.7%***

[e/]Estimated

Source: California Department of Finance, 2023-24 May Revision Forecast.

PERSONAL INCOME TAX

Compared to the Governor's Budget forecast, the personal income tax forecast is higher by $382 million in 2021-22, lower by $6.1 billion in 2022-23, and lower by $8.6 billion in 2023-24. These figures include revenue losses from credit usage related to the PTE Elective Tax estimated at $19 billion in 2021-22, $18 billion in 2022-23, and $18.7 billion in 2023-24, which represent an increase over the Governor's Budget forecast of $3.5 billion, $3.9 billion, and $3.7 billion, respectively. Excluding the impact of the PTE Elective Tax, the personal income tax forecast is estimated to be higher by $3.9 billion in 2021-22, lower by $2.2 billion in 2022-23, and lower by $4.9 billion in 2023-24.

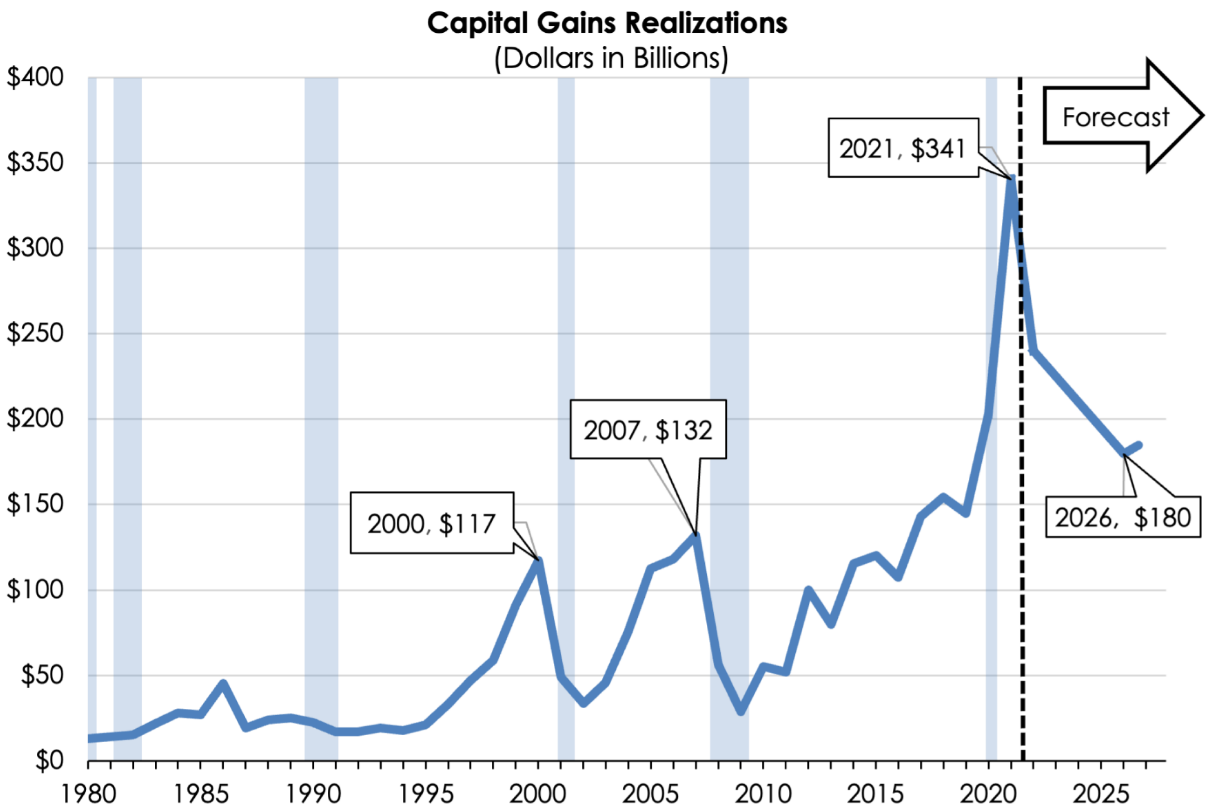
Despite continued low unemployment, taxable wages have been revised lower in the forecast, reflecting lower withholding receipts and lower economic wage growth through 2022. Typically, wages comprise around 55 percent to 60 percent of all personal income tax receipts. This share was at 56.1 percent in 2021, down from 60.4 percent in 2019 and 58.4 percent in 2020. Growth in taxable wages was revised down from 6.5 percent to 5.6 percent in 2022, from 5.1 percent to 4.7 percent in 2023, and was unchanged at 3.5 percent in 2024.

Personal income tax wage withholding receipts are projected to be $6.7 billion lower than Governor's Budget in the budget window. Withholding increased by 7 percent in 2020 and surged by another 20 percent in 2021 due largely to strong bonuses and stock-based compensation that benefitted high-income earners. This trend reversed itself in 2022 as asset prices decreased and withholding declined year-over-year by 1.2 percent. Due to weakness in cash results through April and slower projected growth for economic wages, withholding growth in 2023 has been revised down from 5 percent to 1.2 percent. The wedge between taxable wage growth and withholding growth in 2023 is consistent with expectations that lower-wage sectors will comprise a larger share of the wage gains compared to higher-wage sectors, unwinding some of the distortions and exceptional growth accruing to high-income earners from a booming stock market in 2020 and 2021.

After increasing by 16.3 percent in 2020 and by 26.9 percent in 2021, the S&P 500 ended 2022 down 19.4 percent and was in bear territory—down 20 percent or more from its previous peak—for a significant portion of 2022. As of the end of April, the S&P 500 was around 13 percent below its previous peak and the Nasdaq was still in bear territory. Stock market growth assumptions were largely unchanged from Governor's Budget as the S&P 500 tracked fairly close to forecast, coming in 1.1 percent below forecast in the fourth quarter of 2022, and just about 0.3 percent lower in the first quarter of 2023.

Capital gains realizations are revised higher from $198 billion to $240 billion for 2022 and from $174 billion to $225 billion in 2023 based on tax data reflecting higher-level capital gains realizations for 2021. Tax data for 2021 capital gains realizations are $48 billion higher than the Governor's Budget estimate, reaching a record-high level of $341 billion due to strong year-over-year growth of 67.9 percent (see figure on Capital Gains Realizations).

This level is equal to 11.3 percent of personal income—the highest proportion of capital gains realizations as a share of the economy ever recorded. Given the May Revision forecast for the stock market is fairly close to the Governor's Budget, assumed rates of decline for capital gains are fairly similar to the previous forecast. However, due to the significantly higher peak in 2021, the May Revision forecast projects higher levels of capital gains in the near term, positively impacting the forecast through 2025. In the longer run, the May Revision projects capital gains realizations to return to its historical

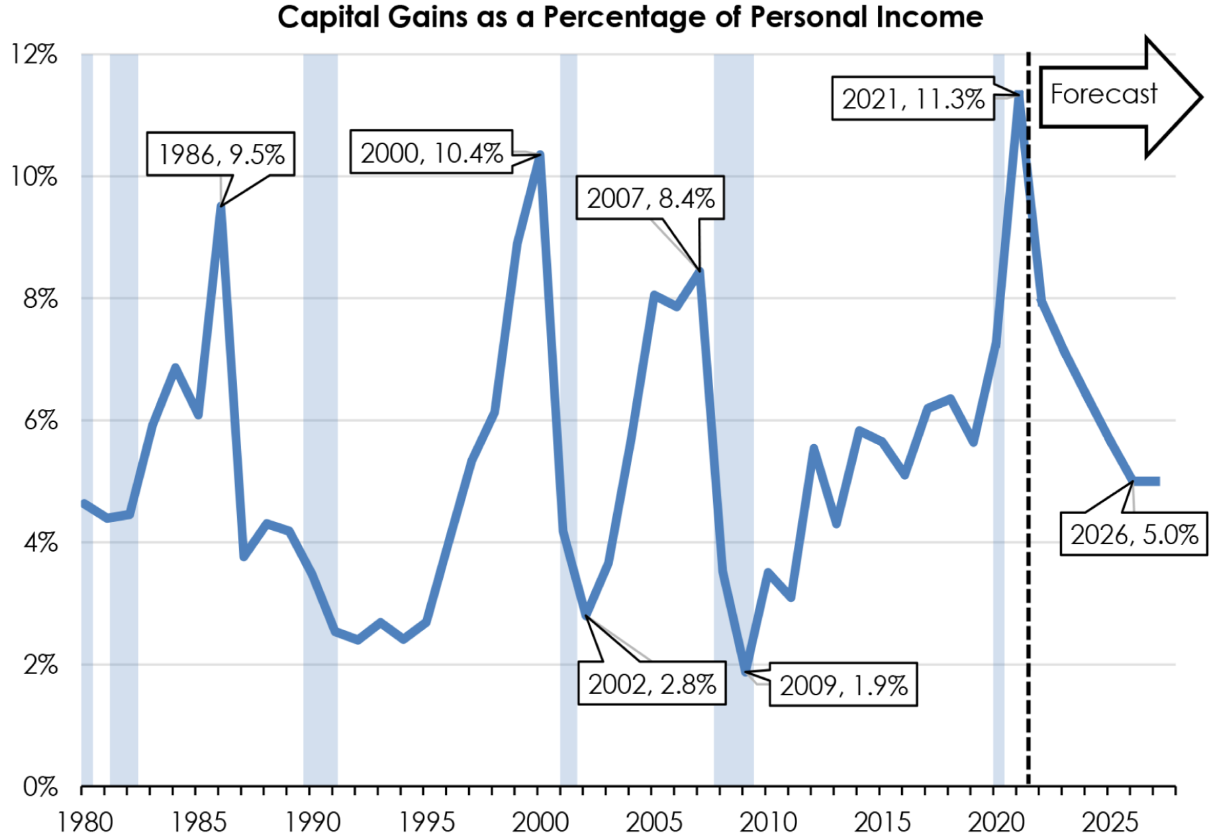


Shaded areas indicate previous U.S. recessions.
Source: California Department of Finance, 2023-24 May Revision Forecast.

share of 5 percent of personal income in 2026, one year later than projected at Governor's Budget (see figure on Capital Gains Realizations as a Percentage of Personal Income).

Forecasting revenues associated with capital gains is subject to significant uncertainty because realizations are heavily dependent on stock market performance and when taxpayers choose to buy or sell stocks. Stock market performance is inherently unpredictable but it significantly impacts high-income taxpayers' earnings. The highest-income Californians continue to pay a very large share of the state's personal income tax. For the 2021 tax year, the top one percent of income earners paid nearly 50 percent of personal income taxes, up 0.8 percentage point from 2020. This percentage has been greater than 40 percent for 17 of the last 18 years. Therefore, financial shocks to the income of a relatively small group of taxpayers can have significant impacts on revenues.

The personal income tax forecast includes Propositions 30 and 55 revenues, which are estimated at $13.2 billion in 2021-22, $10.7 billion in 2022-23, and $10.1 billion in 2023-24. These estimates are lower than the Governor's Budget by $2.7 billion, $2 billion, and $2.4 billion, respectively, due to lower personal income tax liability overall and less



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Source: California Department of Finance, 2023-24 May Revision Forecast.

income gains going to high-income earners compared to what was assumed at Governor's Budget.

Finally, in addition to uncertainty from the stock market, the delayed IRS deadline creates additional risk to the forecast. The May Revision forecast assumes $28.4 billion in personal income tax payments shifting from January through September to October. Delayed personal income tax payments that are now due in October for impacted taxpayers include January estimated payments, final payments, and miscellaneous payments related to tax year 2022, as well as April, June, and September estimated payments related to the current year. This represents 23 percent of personal income tax revenues projected for 2022-23 and nearly 14 percent of General Fund revenues before transfers.

CORPORATION TAX

The corporation tax forecast is lower by $169 million in 2021-22, higher by $3.6 billion in 2022-23, and higher by $2.8 billion in 2023-24. These figures include revenue gains of

$21.6 billion in 2021-22, $19.3 billion in 2022-23, and $19.3 billion in 2023-24 from PTE Elective Tax payments, which represent an increase of $1.2 billion, $5 billion, and $4.3 billion, respectively over the Governor's Budget forecast. Excluding the impact of the PTE Elective Tax, the corporation tax forecast is lower by $1.4 billion in both 2021-22 and 2022-23 and lower by $1.5 billion in 2023-24. Corporate profit growth in 2021 through 2023 was revised lower in line with downgraded expectations for nominal GDP growth.

The May Revision forecast assumes higher credit and net operating losses usage in the near term compared to Governor's Budget due to incorporation of new information from tax year 2021 data.

Due to the delayed IRS tax filing deadlines, the May Revision forecast assumes $13.3 billion in corporation tax payments shifting from January through September to October, of which $8.3 billion are PTE Elective Tax payments. Delayed payments that are now due in October for impacted taxpayers include April, June, and September estimated payments, final and extension payments normally due in April, PTE Elective Tax payments for tax year 2022 normally due in March, and PTE Elective Tax prepayments for tax year 2023 normally due in June. The total amount of corporation tax payments assumed to shift to October of $13.3 billion represents 32 percent of corporation tax revenues projected for 2022-23 and around 6 percent of General Fund revenues before transfers.

SALES AND USE TAX

The sales tax forecast is $112 million higher in 2021-22, $222 million higher in 2022-23, and $233 million lower in 2023-24. The increase in sales tax revenues attributed to 2021-22 is the result of an upward revision to total taxable sales in the second quarter of 2022. Taxable sales are expected to increase by 2.3 percent in 2022-23 and by 0.2 percent in 2023-24. In comparison, taxable sales were projected to grow by 0.4 percent in 2022-23 and by 2 percent in 2023-24 in the Governor's Budget forecast. Overall, sales tax revenues have tracked closely to the Governor's Budget forecast, with cash receipts through March up a cumulative $215 million.

Taxable consumer spending is expected to be 0.8 percent higher than projected at Governor's Budget in 2022-23 but lower by 1.6 percent in 2023-24 as spending patterns are projected to normalize and shift back from goods to services. Taxable sales were 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 saw strong sales due to the pandemic. These sectors also saw particularly high inflation in 2020-21 and 2021-22 as demand drove prices up. This trend is expected to unwind primarily in 2022-23 and 2023-24.

Taxable capital investment is expected to be lower than the Governor's Budget by 1.1 percent in 2022-23 and by 2 percent in 2023-24 due to higher actual and projected interest rates. Persistent inflation has led the Federal Reserve to raise interest rates higher than projected at the Governor's Budget.

PROPERTY TAX

The property tax is a local revenue source; however, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools generally offset General Fund expenditures.

Preliminary data suggest statewide property tax revenues increased around 7.4 percent in 2022-23, which is 1.4 percentage points higher than the 6-percent growth rate anticipated in the Governor's Budget forecast. Property tax revenues are expected to grow 4.5 percent in 2023-24, which is 0.5 percentage point lower than the 5-percent growth expected in the Governor's Budget. Strong growth in 2022-23 is likely due to home price increases that took place in 2021. A more moderate growth is expected in 2023-24 due to higher interest rates that led to lower property transfers and price declines in 2022. 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 43 percent or $40.1 billion of 2023-24 property tax revenues will go to K-14 schools. This includes $2.6 billion that schools are expected to receive in 2023-24 pursuant to the dissolution of redevelopment agencies.

REVENUE IN A RECESSION

The May Revision revenue forecast is based on a scenario that assumes continued but slowing economic growth and does not assume a recession. As discussed in the Economic Outlook Chapter, several risk factors could negatively impact the economy and lead to a recession, which could either be mild or more severe. A significant financial shock from tightening financial conditions, worsening of the recent banking crisis, persistent supply chain issues, continued elevated inflation, further stock market and asset price declines, and geopolitical turmoil are all issues that pose a risk to ongoing economic and revenue growth.

Even in a mild recession, revenue declines below the May Revision forecast could be significant. The magnitude of the revenue loss would depend upon the depth and duration of a recession, as well as its relative impact on higher-income individuals. A mild recession could lead to General Fund revenue losses of over $20 billion relative to the May Revision forecast in 2023-24. Based on a scenario that assumes a moderate recession occurring in fiscal year 2023-24 that results in a 40-percent peak-to-trough drop in the S&P 500 to around 2,900 and capital gains realizations dropping to $103 billion in 2024, the Big Three revenues would decrease by around $40 billion in 2023-24, largely driven by personal income taxes. The Big Three revenues are then projected to remain around that level in 2024-25 before bouncing back with an average growth rate of 6.7 percent in 2025-26 and 2026-27. Despite this catch-up growth, the Big Three Revenues are projected to remain around $29 billion lower than the May Revision forecast in 2026-27 (see figure on Big Three Revenues in a Moderate Recession).

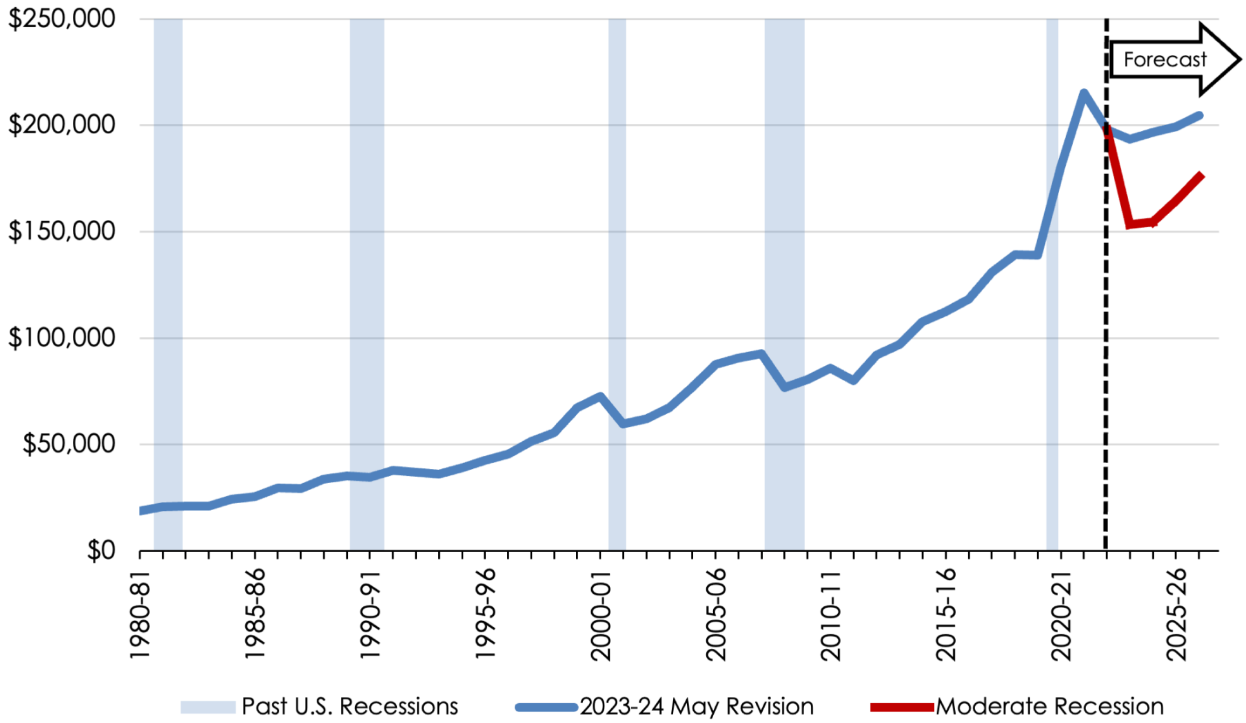
TAX PROPOSALS

The May Revision maintains several proposals in the Governor's Budget. These proposals include the following:

- An extension of the Film and Television Tax Credit from 2025-26 to 2029-30 and partial refundability for credits issued through the extended program, Program 4.0.
- A requirement that income derived from an incomplete gift non-grantor trust be subject to income tax for California residents.
- Removal of the geographic requirement of the New Employment Credit for semi-conductor related businesses who compete for federal funding under the CHIPS Act.
- A requirement that the Department of Finance's Tax Expenditure Report be released by November 1 on a biennial basis instead of by September 15 every year.

The May Revision also includes tax relief to Californians who have student loans or fees discharged as part of financial relief to individuals impacted by economic disruptions

Big Three Revenues in a Moderate Recession
(Dollars in Millions)



Shaded areas indicate previous U.S. recessions.
Source: California Department of Finance, 2023-24 May Revision Forecast.

and hardships from the COVID-19 Pandemic, that were part of the May 2023 budget legislation. These include the following:

- In conformity with federal law, exclusion from gross income for taxable years 2021 through 2025 of any amount of qualified student loan debt discharged under the American Rescue Plan Act due to hardship related to the COVID-19 Pandemic, including any amount discharged through the federal student loan debt relief plan.
- Exclusion from gross income for taxable years 2022 through 2026 of any amount related to the discharge of any unpaid fees due or owed by community college students through the California Community College COVID-19 Recovery Block Grant program.
- Clarification that any Higher Education Emergency Grant funds received by students in postsecondary education to support expenses and financial needs of students related to the COVID-19 Pandemic are not subject to state income taxation in taxable years 2020 through 2027. Existing federal and state law already exclude these grants from taxation as they qualify as disaster relief payments and are excluded from income pursuant to Internal Revenue Code 139, to which California conforms.

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