

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 XIII B 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%