

GENERAL GOVERNMENT AND STATEWIDE ISSUES

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

INVESTMENTS IN BUSINESS AND INNOVATION

The state has made significant investments in recent years to support small businesses, including additional funding to bolster existing grant programs and technical assistance centers, new programs to support entrepreneurs and advance an inclusive economy, grants to provide direct assistance to businesses impacted by the COVID-19 Pandemic, and grants to small agriculture-related businesses impacted by both drought and recent storms. In addition to making a historic investment of nearly \$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. The Budget continues the state's commitment to support businesses and maintain investments made in recent years.

CALIFORNIA COMPETES

The California Competes grant program was created in the 2021 Budget Act to extend the success of the California Competes Tax Credit program to businesses that cannot

fully benefit from a nonrefundable tax credit, but still present vital job growth and investment opportunities that are at risk of taking place outside of California. The California Competes grant program is one of the state's main incentive programs for companies competing for federal funding under the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act. The 2022 and 2023 Budget Acts each included \$120 million one-time General Fund for the California Competes grant program, added language to give priority to grant program funds for semiconductor manufacturing and research and development, and removed the cap preventing any one grantee from receiving more than 30 percent of the program's total amount of grants allocated for semiconductor-related projects.

The Budget includes a total of \$60 million General Fund, comprised of \$10 million in savings from 2023-24 and \$50 million in new funding in 2024-25, to extend the California Competes grant program for one additional year.

SIGNIFICANT BUDGET ADJUSTMENT

- **Recapitalization of the Infrastructure State Revolving Fund**—An increase of \$50 million one-time General Fund to recapitalize the Infrastructure State Revolving Fund at the California Infrastructure and Economic Development Bank (IBank). This program provides financing to local governments for infrastructure related to clean energy, water, and environmental projects. With the investment of \$162 million General Fund when the program was created in 1999, IBank has issued over \$1 billion in loans, supporting over 100 projects and creating over 24,000 new jobs.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the Budget proposes General Fund solutions to achieve a balanced budget. These include:

- **City of Fresno Public Infrastructure Plan**—A delay of \$100 million General Fund for the City of Fresno's Public Infrastructure plan. The 2023 Budget Act included \$250 million General Fund to support the development of downtown Fresno. The Budget maintains \$50 million in 2023-24 for this purpose and delays the remaining \$200 million General Fund by one year, resulting in \$100 million being available in 2025-26 and 2026-27.

OFFICE OF PLANNING AND RESEARCH

The Office of Planning and Research (OPR) develops 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. OPR consists of the State Planning and Policy Program, California Strategic Growth Council, Office of Community Partnerships and Strategic Communications, and California Volunteers.

REORGANIZATION OF THE DEPARTMENT

OPR has expanded significantly in recent years, from a budget of \$54 million in 2016-17 to \$1.1 billion in 2024-25. In recognition of this growth and the number of programs and initiatives within OPR, the 2023 Budget Act began transitioning OPR to a more traditional department that relies on state civil service classifications. To further streamline efforts and enable OPR to focus on its core responsibilities, the Administration plans to review some programs within OPR to determine if other state departments are better suited to administer those programs.

Furthermore, the Administration proposes to establish California Volunteers as a separate entity from the OPR that may include other programs better aligned with its mission. The Administration will release a detailed proposal for this transition as part of the spring budget process.

SIGNIFICANT BUDGET ADJUSTMENT

- **California Environmental Quality Act Judicial Streamlining**—\$2.3 million ongoing General Fund to implement the newly adopted and newly renewed judicial streamlining provisions in the Public Resources Code for certain infrastructure and environmental leadership development projects.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the Budget proposes General Fund solutions to achieve a balanced budget. These include:

- **Office of Community Partnerships and Strategic Communications**—A reversion of \$5 million in 2023-24 and a reduction of \$8 million in 2024-25 and 2025-26 from the Office of Community Partnerships and Strategic Communications. The Budget

maintains \$60 million in 2023-24 and \$57 million in 2024-25 and 2025-26 to continue the state's top priority outreach campaigns.

- **California Experience Corps**—A reversion of \$8.8 million from the California Experience Corps program. In 2022-23, California Volunteers awarded \$1.2 million in grants to volunteer programs to engage older adults in volunteer service.

CANNABIS

The state continues to work to strengthen California's legal cannabis market. Efforts to date include reform and simplification of the tax structure, fee relief to support entry into the legal market, investment in grant programs that foster equity, providing resources to cities and counties to expand pathways for local licensing and regulation of cannabis retailers, and assisting local governments to move licensees from provisional licensure to annual licenses.

Comprehensive tax reforms included in Chapter 56, Statutes of 2022 (AB 195), suspended the cannabis cultivation tax and modified cannabis excise tax remittance to the point of sale. Additionally, the state created numerous tax programs: the High-Road Cannabis Tax Credit, Cannabis Equity Tax Credit, and the Cannabis Equity Retailer Vendor Compensation Program.

Moving forward, the state will continue focusing on reforms that support and strengthen enforcement against the illegal market, and reinforce compliance, accountability, and stability within the legal market.

UPDATED ALLOCATION OF CANNABIS TAX FUND

Proposition 64 specifies the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis and the past effects of its criminalization. Once these priorities have been met, the remaining funds are directed to youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities. AB 195 requires that these Allocation 3 programs are funded at a baseline of approximately \$670 million, to the extent available, and included a \$150 million General Fund appropriation to backfill revenues, which has been fully allocated in 2023-24.

The Budget estimates \$568.9 million will be available for Allocation 3 programs in 2024-25 as follows:

- **Education, prevention, and treatment of youth substance use disorders and school retention**—60 percent (\$341.3 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent (\$113.8 million)
- **Public safety-related activities**—20 percent (\$113.8 million)

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the Budget proposes General Fund solutions to achieve a balanced budget. This includes a budgetary loan of \$100 million from the Board of State and Community Correction's Cannabis Tax Fund subaccount to the General Fund from currently unobligated resources. See the Criminal Justice and Judicial Branch Chapter for additional information.

STATEWIDE BROADBAND NETWORK IMPLEMENTATION

Chapter 112, Statutes of 2021 (SB 156) established the California Department of Technology (CDT) Office of Broadband and Digital Literacy and requires CDT to develop a statewide open-access middle-mile network to expand access to high-speed broadband for all Californians and close the digital divide across the state. The state has made significant investments in previous years and provided a total of \$3.9 billion (\$2.5 billion State Fiscal Recovery Funds from the American Rescue Plan Act of 2021 and \$1.4 billion General Fund) for CDT to complete the more than 10,000 miles needed for the network through a combination of construction, purchases, and long-term leases.

To complement middle-mile development, the state previously provided the California Public Utilities Commission (CPUC) a total of \$1.45 billion (\$550 million Capital Projects Funds from the American Rescue Plan Act of 2021 and \$900 million General Fund) for last-mile broadband infrastructure grants. This is part of a multiyear plan to provide \$2 billion in grants to help enhance access to high-speed broadband service in unserved and underserved communities. Additionally, the state has previously invested \$175 million General Fund in the Broadband Loan Loss Reserve Fund. This is part of a proposed multiyear plan to provide \$500 million General Fund to local governments,

tribes, and non-profit organizations with loans for broadband infrastructure development.

SIGNIFICANT BUDGET ADJUSTMENT

The Budget includes the following adjustment to the broadband implementation project:

- **Middle Mile**—An additional \$1.5 billion General Fund over two years (\$250 million in 2024-25 and \$1.25 billion in 2025-26) for CDT to complete the development of the statewide middle-mile network. Due to changes in scope and the associated costs, as well as inflation costs, additional funding will be necessary to complete the project and bring broadband connectivity to the state's remaining unconnected and under-connected communities by December 31, 2026.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the Budget proposes General Fund solutions to achieve a balanced budget. These include:

- **Last Mile Infrastructure Grants**—A delay of \$100 million General Fund from 2024-25 to 2026-27 for last-mile infrastructure grants at the CPUC. This maintains the previously appropriated \$1.45 billion and reflects future investments of \$550 million General Fund over three years (\$100 million in 2024-25, \$200 million in 2025-26, and \$250 million in 2026-27), for a program total of \$2 billion.
- **Broadband Loan Loss Reserve (BLLR) Fund**—A reduction of \$250 million General Fund (\$150 million in 2024-25 and \$100 million in 2025-26) for the BLLR. The Budget maintains \$500 million for the program, with \$175 million General Fund in 2023-24, \$150 million in 2024-25, and \$175 million in 2025-26.

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$1.3 billion (\$676.3 million General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding contributions for active employees in 2024-25. Included in these costs are collectively bargained salary and benefit increases resulting from contract and side letter negotiations. Funding is also included for 2025 calendar year projected increases in health care and dental premiums and enrollment.

Collective bargaining negotiations will commence with two bargaining units representing Highway Patrol Officers and Firefighters, whose contracts or side letter agreements expire in summer 2024.

ADDRESSING THE BUDGET PROBLEM

In an effort to address the projected budget shortfall, the Department of Finance issued Budget Letter 23-27 directing state entities to reduce current year spending and take necessary measures to ensure more prudent spending. In addition, the Budget proposes the following:

- **Telework Stipend Savings**—The state will negotiate with each bargaining unit for the elimination of the telework stipend first offered to state employees in 2021-22. The Budget includes estimated savings of \$51.2 million (\$25.6 million General Fund), assuming the stipend is eliminated beginning with the July 2024 pay period. The state will make every attempt to reach these savings through collective bargaining.
- **Vacant Position Savings**—The Department of Finance will work closely with departments and agencies to determine the appropriate reductions associated with vacant positions in 2024-25. Appropriations reduced through this process will revert to full funding levels in future budget years.
- **Payroll Deferral**—The Budget proposes to defer state employees' payroll costs from June 30, 2025, to July 1, 2025. Deferring one month of payroll, estimated at \$3.2 billion (\$1.6 billion General Fund), will shift the associated costs from 2024-25 to 2025-26. This budgetary solution will reduce costs in 2024-25 to address the projected budget deficit. The proposed solution will only be reflected in the state's accounting and will not affect the timing of payments issued to state employees.

PAYING DOWN UNFUNDED PENSION LIABILITIES

The Administration remains committed to the security of state retiree benefits and the long-term sustainability of state pension obligations. Over the last decade, the state implemented significant measures to address its retirement liabilities through public pension law reform, implementation of funding strategies to pay down unfunded pension and retiree health benefits, and the allocation of billions of dollars in supplemental funding beyond the required annual contributions to the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS). The Budget includes:

- **State Employees' Retirement Contributions**—\$6.9 billion (\$3.5 billion General Fund) for the statutorily required annual state contribution to CalPERS for state pension costs in 2024-25. This is \$1.6 billion (\$1.2 billion General Fund) lower than the 2023 Budget Act due to the application of prior Proposition 2 debt repayment funding paid to CalPERS. Included in these costs are \$615.1 million General Fund for California State University retirement costs. Additionally, the Budget includes \$885 million one-time Proposition 2 debt repayment funding as a supplemental payment toward the state plans' unfunded liabilities.
- **Teachers' Retirement Contributions**—\$4.2 billion General Fund for the statutorily required annual state contribution to CalSTRS in 2024-25. The roughly \$302 million increase from the 2023 Budget Act is due to higher-than-anticipated growth in creditable compensation from 2021-22 to 2022-23.
- **State Retiree Health Care Benefits**—\$375 million in one-time Proposition 2 debt repayment funding in 2024-25 for the employer's share of contributions to pay for future retiree health benefits.

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

State Retirement and Health Care Contributions ^{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/}
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	3,731	2,134	374	735
2023-24	7,728	744	3,939	211	89	0	4,067	2,374	420	711
2024-25 ^{10/}	6,268	615	4,240	217	92	0	4,447	2,723	484	683

^{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), Chapter 12, Statutes of 2023 (SB 101), and Proposition 2 payments to CalPERS proposed in the 2024-25 Governor's Budget.

^{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 the 2023-24 or 2024-25 amounts. The fund is in a surplus position and CalPERS reported no normal cost in either year 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 the California State University (CSU).

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

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

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

^{10/} Estimated as of the 2024-25 Governor's Budget, contributions sourced from the General Fund are estimated to be \$2,873 million for CalPERS, \$615 million for CSU CalPERS, \$2,089 million for Active Health and Dental, and \$375 million for OPEB Prefunding. Fiscal year 2024-25 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are all General Fund costs.

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

EMERGENCY EXOTIC PEST RESPONSE

California is experiencing the largest fruit fly infestation in its history. With seven active quarantines and delimitation projects across 15 counties, the California Department of Food and Agriculture is working with local and federal partners to prevent the establishment of these invasive species in the state. Given the magnitude of the infestation, increased detection and eradication efforts this year necessitate additional resources. Accordingly, the Budget includes \$22.1 million General Fund in 2023-24 to respond to multiple potentially harmful and destructive exotic fruit fly infestations throughout the state.

SOUTH VALLEY LABORATORY REPAIR (TULARE COUNTY)

The Budget includes \$22.7 million General Fund in 2023-24 to repair extensive damage to the California Animal Health and Food Safety South Valley Laboratory caused by severe flooding in March 2023. The California Department of Food and Agriculture was appropriated \$2.3 million in the 2023 Budget Act for planning costs associated with these repairs. The additional funding will provide sufficient resources to complete the repair project.

This laboratory serves as one of the primary surveillance systems for emerging animal diseases in the state, and its work is essential for protecting animal and human health. Repairing the laboratory enables the Department to prevent, detect, contain, and eliminate livestock and poultry disease outbreaks. If not detected, these outbreaks could result in devastation and disruption to national and international trade of animal products from the state, with dire impacts to the health of Californians. The operation of this laboratory is critical to support Southern San Joaquin Valley's livestock and poultry products, which are valued at more than \$2.6 billion.

CHAPTERED LEGISLATION

With few limited exceptions, the Governor's Budget defers all new, discretionary spending decisions to this spring, for discussion with the Legislature, based on actual revenues. Therefore, the balanced plan reflected in the Budget defers the consideration of resource requests associated with recently chaptered legislation to the

May Revision. As part of the spring budget process, the Administration is committed to working closely with the Legislature to prioritize the budget related to recently chaptered legislation.

HEALTH CARE WORKER MINIMUM WAGE

Chapter 890, Statutes of 2023 (SB 525) increases the minimum wage incrementally to \$25 an hour for specified health care workers, effective June 1, 2024. Given the overall economic and General Fund revenue outlook and the significant fiscal impact of SB 525 on the state, the Administration is seeking early action in January by the Legislature to add an annual “trigger” to make the minimum wage increases subject to General Fund revenue availability, clarify the exemption for state facilities, and make other implementation clarifications.