

GENERAL GOVERNMENT AND STATEWIDE ISSUES

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

GOVERNOR'S OFFICE OF LAND USE AND CLIMATE INNOVATION

The Governor's Office of Planning and Research (OPR) has expanded significantly in recent years, from a budget of \$54 million in 2016-17 to \$1.7 billion in 2023-24. In recognition of this growth and the number of programs and initiatives within OPR, the 2023 Budget began transitioning OPR to a more traditional department that relies on state civil service classifications. The Budget makes changes within OPR to further streamline efforts and enable OPR to focus on its core responsibilities, by renaming OPR the Governor's Office of Land Use and Climate Innovation and transferring the following programs to state entities that are better suited to administer these programs:

- California Initiative to Advance Precision Medicine to the California Health and Human Services Agency;
- California Jobs First Program to the Governor's Office of Business and Economic Development; and,
- Zero-Emission Vehicle Program to the Governor's Office of Business and Economic Development.

In addition, the Budget establishes a new department, the Governor's Office of Service and Community Engagement (GO SERVE), to engage Californians in service, volunteering, and civic action to tackle our state's most pressing challenges. GO SERVE will oversee California Volunteers, the Office of Community Partnerships and Strategic Communications, and the Youth Empowerment Commission, which were all previously administered by OPR. See below for additional information on GO SERVE.

SIGNIFICANT ADJUSTMENTS

- **Information Technology Unit**—\$3.7 million General Fund in 2024-25 and 2025-26 to establish a baseline for the department to meet its information technology infrastructure needs.
- **California Environmental Quality Act Judicial Streamlining**—\$2.3 million General Fund in 2024-25 through 2026-27 to implement recently adopted and amended judicial streamlining provisions in the Public Resources Code for certain infrastructure and environmental leadership development projects.
- **Administrative Workload**—\$977,000 ongoing General Fund to address increased administrative workload to support the transition to a more traditional state department relying on civil service classifications.

ADDRESSING THE BUDGET PROBLEM

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

- **California Education Learning Lab**—A reduction of \$5.5 million in 2024-25 and 2025-26, and \$4 million in 2026-27 and ongoing to the California Education Learning Lab. The Budget maintains \$5.5 million in 2024-25 and 2025-26 and \$4 million beginning in 2026-27 to support this program that will remain in the Governor's Office of Land Use and Climate Innovation.
- **Golden State Awards**—A reversion of \$9.9 million one-time General Fund from 2022-23 from the Golden State Awards program. This reversion results in the discontinuation of this program.

GOVERNOR'S OFFICE OF SERVICE AND COMMUNITY ENGAGEMENT

The Budget establishes the Governor's Office of Service and Community Engagement (GO SERVE) to elevate paid service and volunteerism in the state, promote more youth and community engagement, and advance public awareness and outreach campaigns to tackle the state's most pressing challenges. GO SERVE consists of the Office of Community Partnerships and Strategic Communications, California Volunteers, and the Youth Empowerment Commission.

SIGNIFICANT ADJUSTMENTS

- **College Corps Program**—\$5 million one-time General Fund in 2024-25 for the CaliforniansForAll College Corps Program. Overall, the funding for this program totals \$78.1 million General Fund in 2024-25 and \$63.1 million in 2025-26. This funding level reflects a one-time augmentation of \$5 million in 2024-25 and a reduction of \$10 million to the program in 2025-26 to help address the budget shortfall.
- **Youth Service Corps Program**—\$5 million one-time General Fund in 2024-25 for the CaliforniansForAll Youth Service Corps Program. Overall, the funding for this program totals \$83.1 million General Fund in 2024-25 and \$68.1 million beginning in 2025-26. This funding level reflects a one-time augmentation of \$5 million in 2024-25 and an ongoing reduction of \$10 million to base funding beginning in 2025-26 to help address the budget shortfall.
- **California Student Success Coach Grant Program**—\$5 million one-time General Fund in 2024-25 for the California Student Success Coach Grant Program. This program supports and expands the presence of student success coaches in high-need schools.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, in addition to the out-year reductions noted above, the Budget includes General Fund solutions to achieve a balanced budget. These include:

- **Office of Community Partnerships and Strategic Communications**—A reduction of \$50 million in 2024-25 and 2025-26. The Budget maintains \$15 million in 2024-25 and 2025-26 to advance the state's highest priority public awareness and community outreach campaigns.

- **Extreme Heat Awareness Campaign**—A reversion of \$14 million from 2023-24 for the Extreme Heat Awareness Campaign administered by the Office of Community Partnerships and Strategic Communications.
- **California Climate Action Corps**—A shift of \$9.4 million from the General Fund to the Greenhouse Gas Reduction Fund in 2024-25 through 2027-28 to support the California Climate Action Corps program. The Budget shifts funding back to the General Fund beginning in 2028-29.
- **California Experience Corps**—A reversion of \$8.8 million from 2022-23 for 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.
- **Neighbor-to-Neighbor Program**—A reduction of \$8.5 million in 2024-25 and \$10 million in 2025-26 to the Neighbor-to-Neighbor program. The Budget maintains \$1.5 million in 2024-25 to continue administering existing grants.
- **Youth Empowerment Commission**—A reduction of \$1.5 million in 2027-28 through 2029-30 for the Youth Empowerment Commission. The Budget maintains \$1.5 million in 2024-25, 2025-26, and 2026-27 to support the Commission's efforts to advise and make recommendations on various legislative and fiscal issues affecting youth.

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's Office of Business and Economic Development (GO-Biz) serves as the state's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, economic growth, export promotion, permit assistance, innovation and entrepreneurship.

In March 2024, GO-Biz and the Labor and Workforce Development Agency co-launched the California Jobs First Council to focus on streamlining the state's economic and workforce development programs to create more jobs. The Council's operational plan will guide the state's investments in economic and workforce development to create more family-supporting jobs and prioritize industry sectors for future growth. See the Labor and Workforce Development Chapter for additional information regarding the California Jobs First Program.

SIGNIFICANT ADJUSTMENTS

- **Recapitalization of the Infrastructure State Revolving Fund**—An increase of \$25 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 government 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.
- **Clean Energy and Infrastructure Assessment Project (AB 585)**—An increase of \$2.3 million General Fund in 2024-25 and \$252,000 in 2025-26 to prepare an assessment, in consultation with the California Public Utilities Commission, California Energy Commission, and State Air Resources Board, of the barriers, challenges, and impediments limiting the deployment and development of clean energy projects, pursuant to Chapter 335, Statutes of 2023 (AB 585).
- **Federal Grant Awards**—An increase of \$3.3 million ongoing Federal Trust Fund to receive federal awards to help small businesses in California expand their customer base into foreign markets, rebuild regional economies by supporting statewide planning and research, and to provide support for economically distressed communities.
- **Zero-Emissions Vehicle (ZEV) Program**—A transfer of \$2.1 million one-time General Fund in 2024-25 to transition the ZEV Program from the Governor’s Office of Land Use and Climate Innovation (formerly the Office of Planning and Research) to GO-Biz to create efficiencies and consolidate efforts to develop and implement the ZEV Market Development Strategy.
- **California Jobs First Program**—A transfer of \$3.5 million General Fund in 2024-25 and \$406,000 beginning in 2025-26 to transition the California Jobs First Program from the Governor’s Office of Land Use and Climate Innovation to GO-Biz to consolidate efforts to implement the program.

ADDRESSING THE BUDGET PROBLEM

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

- **City of Fresno Public Infrastructure Plan**—A delay of \$200 million General Fund for the City of Fresno Public Infrastructure plan. The 2023 Budget Act included \$250 million

General Fund to support infrastructure development in downtown Fresno. The Budget maintains \$50 million in 2023-24 for this purpose and delays the remaining \$200 million to 2026-27.

- **Electric Transmission Financing**—A reversion of \$225 million total from 2022-23 and 2023-24 for electric transmission infrastructure financing from the Climate Catalyst Revolving Loan Fund back to the General Fund.
- **Local Government Budget Sustainability Fund**—A reversion of \$50 million General Fund from 2023-24 for the Local Government Budget Sustainability fund that was created to provide short-term grants to local entities facing significant challenges to their near-term financial sustainability.
- **Wildfire and Forest Resilience**—A reversion of \$6 million from 2021-22 from the Climate Catalyst Revolving Loan Fund back to the General Fund for financing for wildfire and forest resilience projects.
- **Small Agricultural Business Drought Relief Grant Program**—A reversion of \$5 million General Fund from 2022-23 to help small businesses in the agriculture sector negatively impacted by the drought.

CANNABIS

The state continues to work to strengthen California's legal cannabis market through reform of the tax structure, fee relief to support entry into the legal market, and assistance to local governments to move licensees from provisional licensure to annual licenses. The 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. The state also created numerous tax programs: the High-Road Cannabis Tax Credit, Cannabis Equity Tax Credit, and the Cannabis Equity Retailer Vendor Compensation Program.

UPDATED ALLOCATION OF THE 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.

The Budget estimates \$574.4 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**—\$344.6 million (60 percent)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—\$114.9 million (20 percent)
- **Public safety-related activities**—\$114.9 million (20 percent)

ADDRESSING THE BUDGET PROBLEM

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

- **Cannabis Tax Fund Loan**—A budgetary loan of \$175 million from the Board of State and Community Correction's Cannabis Tax Fund subaccount to the General Fund from resources not currently projected to be used for operational or programmatic purposes. See the Criminal Justice and Judicial Branch Chapter for additional information.
- **Cannabis Local Jurisdiction Retail Access Grant Program**—A reversion of \$16.5 million General Fund from 2023-24 from the Cannabis Local Jurisdiction Retail Access Grant program. The Department of Cannabis Control awarded \$3.2 million in grants to 15 local jurisdictions that did not have a local cannabis retailer licensing program to assist them in developing such a program and in issuing permits pursuant to the program.

STATEWIDE BROADBAND NETWORK IMPLEMENTATION

The Budget includes \$250 million one-time General Fund in 2024-25 to complete key segments of the Middle-Mile Network. Additionally, the Budget includes provisional authority allowing up to \$250 million in additional General Fund in 2024-25, to build out additional segments beyond the currently funded public and statewide, open-access Middle-Mile Network. To access these additional funds, the California Department of Technology Office of Digital Literacy must provide a report to the Joint Legislative

Budget Committee that includes a breakdown of stand-alone California Department of Transportation projects related to the Middle-Mile Broadband Initiative. Reporting metrics include the locations of projects, total costs per year and the funding source, construction timelines, and Last-Mile projects that are anticipated to connect to the Middle-Mile Network.

To complement middle-mile development, the Budget maintains the multiyear plan to provide \$2 billion in last-mile grants through 2027-28 (\$1.45 billion General Fund and \$550 million federal funds from the American Rescue Plan Act of 2021) to help enhance access to high-speed broadband service in unserved and underserved communities. Additionally, the Budget maintains a total of \$50 million General Fund for the Broadband Loan Loss Reserve program.

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. 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 Budget currently projects that the Motor Vehicle Account (MVA) will be insolvent as soon as 2025-26. 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.

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

- **California Commercial Drive Test Centers**—A reversion of \$30.7 million General Fund across 2023-24, 2024-25, and 2025-26 for California Commercial Drive Test Centers. DMV has achieved its goal of providing commercial drive test appointments within 30 days and, therefore, the need for dedicated drive test centers to address supply chain issues has been reduced.

FRANCHISE TAX BOARD

The Franchise Tax Board (FTB) ensures the fair and efficient administration of the state's personal income tax and corporation tax, which are two of the state's largest revenue sources.

SIGNIFICANT ADJUSTMENT

- **Direct File Implementation**—\$700,000 General Fund in 2024-25, \$1.7 million in 2025-26, and \$2.1 million in 2026-27 for the FTB to link CalFile with the Internal Revenue Service's Direct File portal. Beginning in 2026, this will allow qualified tax filers to complete pre-populated state tax returns that draw from the federal tax return data they submit to Direct File.

TAX POLICY CHANGES

The Budget includes the following tax policy changes:

- **Net Operating Loss (NOL) Suspension and Credit Limitation**—Suspends the carryover NOL tax deduction for medium and large businesses and limits business incentive tax credits, with the exception of the low-income housing tax credit and the Pass-Through Entity Elective Tax, from offsetting more than \$5 million of tax liability for tax years 2024, 2025, and 2026. This tax policy change includes a refundability component to ensure taxpayers subject to the temporary credit limitation can fully utilize their credits after the limitation period ends, as well as trigger mechanisms for tax years 2025 and 2026. This change is projected to increase General Fund revenues by \$5.9 billion in 2022-23 through 2024-25.
- **Apportionment Factor Fix**—Clarifies existing law that when a corporation receives income that is excluded from taxable business income, then it must exclude this income from its apportionment factor. This fix aligns statute with original legislative intent as well as with the FTBs prior legal rulings and longstanding guidance on the matter and is consistent with constitutional principles that dictate that states should apportion income for taxation in an equitable and fair manner. It eliminates a potential loophole and fiscal risk to the state, while providing clear statutory authority and guidelines to taxpayers on how to determine what income should be included in their apportionment factor. This fix is projected to prevent revenue losses of \$216 million in 2022-23 through 2024-25.

- **Elimination of the Bad Debt Deduction and Refund**—Disallows deductions for non-retailer lenders for sales tax paid on bad debts, effective in January 2025. This change is projected to increase General Fund revenues by \$2.5 million in 2022-23 through 2024-25.
- **Elimination of Direct Oil and Gas Subsidies**—Eliminates the Immediate Deduction for Intangible Drilling Costs, Percentage Depletion Rules for Fossil Fuels, and Oil Recovery Costs Credit beginning in tax year 2024. This change is projected to increase General Fund revenues by \$22 million in 2022-23, 2023-24, and 2024-25.
- **Sunset Date for 280E Exemption for Cannabis Businesses**—Extends the sunset date from January 1, 2025 to January 1, 2030 for the exemption from Internal Revenue Code Section 280E for licensed cannabis businesses, thereby continuing to allow licensed cannabis businesses to be eligible to take ordinary state tax deductions and utilize state tax credits, which Section 280E prohibits at the federal level due to cannabis businesses being deemed unlawful under federal law.
- **State Disaster Tax Relief**—Shifts the authority to determine whether and to what extent the state will conform to the federal postponement of certain tax-related deadlines when disaster relief has been granted by the Internal Revenue Service for a disaster declaration made by the Federal Emergency Management Agency from the FTB to the Director of Finance. Additionally, in cases where the state does not conform or only partially conforms, it sets a process for the state to grant individualized relief equal to the federal postponement of the tax-related deadlines to taxpayers, upon their request, if they can provide specified supporting documentation of being impacted by the disaster.

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

EMERGENCY INVASIVE FRUIT FLY RESPONSE

California is experiencing the largest fruit fly infestation in its history. The California Department of Food and Agriculture is working with federal and local 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 one-time funding of \$25 million General Fund and \$28.8 million Federal Funds to complete the response to the detections and address new anticipated detections.

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$1.2 billion ongoing (\$639.5 million General Fund) for employee compensation, health care, and retiree health care prefunding costs for active state employees. Included in these costs are collectively bargained salary and benefit increases. The Budget also includes funding for 2025 calendar year increases in health care and dental premiums and enrollment.

Collective bargaining negotiations are ongoing with three bargaining units representing the California Highway Patrol, Firefighters, and Professional Scientists, whose contracts have expired.

STATE RETIREMENT CONTRIBUTIONS

The state continues to make all required pension payments and will continue to pay down its unfunded retirement liabilities to improve the long-term sustainability of the state retirement systems and the state employees' retirement benefits are paid out during their retirement years.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS) CONTRIBUTIONS

The Budget includes \$6.9 billion (\$3.5 billion General Fund) for the state's contributions to CalPERS. Included in these contributions are \$608.5 million one-time General Fund for California State University retirement costs. The contribution amount is a \$1.6 billion (\$1.2 billion General Fund) decrease from 2023-24 due to the application of the 2023-24 CalPERS supplemental pension payment to the state's overall pension liability, as adopted under Chapter 9, Statutes of 2024 (AB 106).

Additionally, the Budget includes \$337 million in one-time Proposition 2 debt repayment funding for fiscal year 2024-25 to further reduce the unfunded liabilities of the CalPERS state plans. As of the 2024 Budget, an additional \$3 billion is projected to be paid to CalPERS over fiscal years 2025-26 to 2027-28 to continue to reduce the state's unfunded liability; however, this will depend on the availability of Proposition 2 debt repayment funding during this period.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (CALSTRS) CONTRIBUTIONS

The Budget includes \$4.3 billion General Fund for state contributions to CalSTRS. This is roughly \$318 million more than the contributions in 2023-24, due mainly to the growth in creditable compensation for state teachers from 2021-22 to 2022-23.

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

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	3,771	2,208	392	735
2023-24	7,728	744	3,939	211	89	0	4,089	2,417	428	711
2024-25 ^{10/}	6,251	609	4,257	217	92	0	4,447	2,723	484	663

^{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 approved in the 2024 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 2023-24 as the fund was in a surplus position due to the termination of all active members. In 2024-25, a one-time contribution of \$75,085 is expected due to negative impacts of investment losses and cost of living adjustments to the fund. The one-time contribution will return the plan to 100 percent funded status.

^{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 Budget Act, contributions sourced from the General Fund are estimated to be \$2,868 million for CalPERS, \$609 million for CSU CalPERS, \$2,089 million for Active Health and Dental, and \$663 million for OPEB Prefunding. Fiscal year 2024-25 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are funded entirely by the General Fund.

GOVERNMENT EFFICIENCY AND COST SAVING MEASURES

To achieve a balanced budget and further promote government efficiencies, the 2024 Budget includes reductions to nearly all state departments' budgets beginning in 2024-25. The Department of Finance will work with agencies and departments in the fall to implement the following reductions:

- **Vacant Positions Funding Reduction and Elimination of Positions**—\$1.5 billion (\$762.5 million General Fund) in 2024-25 for savings associated with vacant positions and the elimination of approximately 10,000 positions starting in 2025-26 and ongoing.
- **State Operations Ongoing Reductions**—An across-the-board reduction to state operations of approximately 7.95 percent, beginning in 2024-25. This reduction includes personal services, operating expenses and equipment, and consulting and professional services costs.