



SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Legislative Office Building
1021 N. Street, Room 502
Sacramento, CA 95814

Senator Nancy Skinner, Chair

OVERVIEW OF THE MAY REVISION

May 12, 2023

Staff of the Senate Committee on Budget and Fiscal Review prepared the attached Overview of the May Revision. More detailed program information follows these highlights as described in the Table of Contents. Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analyses for legislative hearings beginning May 16, 2023.

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Overview of the Governor's 2023-24 May Revision

OVERVIEW OF THE GOVERNOR'S 2023-24 MAY REVISION

On May 12, 2023, the Governor released his May Revision for budget year 2023-24. The Governor now projects budget year General Fund expenditures of \$224.1 billion, available resources of \$233.2 billion (prior year balance, revenues and transfers), and \$3.8 billion in the Special Fund for Economic Uncertainties (SFEU), the state's general budget reserve.

Across the prior year, current year, and budget year, the available General Fund resources have decreased by approximately \$8.4 billion as compared to the Governor's January budget proposal. After accounting for transfers and adjustments, the additional budget shortfall identified in the May Revision is \$9.3 billion and when combined with January estimates, the total shortfall is projected to be \$31.5 billion. This shortfall is driven by underperformance in revenue estimates from the 2022-23 Budget Act related to personal income tax and recent inflationary trends and dampened economic indicators. The General Fund budget summaries for January and May are listed below.

**2022-23 and 2023-24
General Fund Summary
(Dollars in Millions)**

	January Budget		May Revision	
	2022-23	2023-24	2022-23	2023-24
Prior Year Balance	\$52,713	\$21,521	\$55,462	\$24,119
Revenues and Transfers	208,884	210,174	205,129	209,054
Total Resources	261,597	231,695	260,591	233,173
Non-Proposition 98 Exp.	160,973	143,060	158,357	145,733
Proposition 98 Exp.	79,103	80,554	78,115	78,368
Total Expenditures	240,076	223,614	236,472	224,101
Fund Balance	21,521	8,081	24,119	9,072
Encumbrances	4,276	4,276	5,272	5,272
Special Fund for Economic Uncertainties	17,245	3,805	18,847	3,800
Safety Net Reserve	900	900	900	450
Public School System Stabilization Account	8,108	8,473	9,936	10,684
Budget Stabilization Act	\$21,487	\$22,398	\$22,252	\$22,252

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Reserves and Long-Term Liabilities. The May Revision reflects \$37.2 billion in budgetary reserves. These reserves include: \$22.3 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund) for fiscal emergencies; \$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 Rainy Day Fund is at its constitutional maximum (10 percent of General Fund revenues) requiring \$2.3 billion to be dedicated for infrastructure investments in 2023-24. The May Revision does reflect a reduction of \$450 million in the Safety Net Reserve from \$900 million at the Governor's January budget. This \$450 million is used in the May Revision plan to support health and social services programs in 2023-24.

Economic Forecast. The Administration notes that despite uncertain economic trends, California's economy continues to be stable and a recession is not predicted as of the May Revision. While revenues are down over the forecast period, many economic risks appear to be tempered.

According to the Department of Finance (DOF) Economic Outlook:

In comparison to the Governor's budget, inflation is falling faster than anticipated, with U.S. inflation at five 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, inflation still remains high even as the Federal Reserve continues to tighten monetary policy. While inflation related to supply chain and consumer goods is responding, inflation for services and housing remains concerning.

Job growth continues but at a slower pace than the initial COVID-19 pandemic recovery. According to DOF, 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. Some of this impact is due to layoffs in the financial activities and information sectors that provide many of the state's highest paying jobs and contribute a disproportionate share towards the state's income tax revenues. 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. California's labor force is projected to continue growing, though at a slower rate of one

Overview of the Governor's 2023-24 May Revision

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

According to DOF, the U.S. economy is projected 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. 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.

Although the California economic recovery continues at a slower pace, the May Revision notes that there are downside risks to the forecast including: 1) continued layoffs in the tech sector among high-wage employees that could have impacts on other industries and the state's economy, and 2) dampened lending and credit activity as a result of recent bank closures, further reducing economic growth. These risks remain alongside potential additional economic impacts from the continued war in Ukraine, tensions between China and Taiwan, or a failure to resolve the federal debt ceiling discussions. California also continues to face risks related to climate change and extreme weather patterns, housing insufficiency, high cost of living, and volatile revenue streams. Both the May Revision and the Senate's plan continue to include significant reserves and responsible budgeting to mitigate these potential risks to the extent possible.

Revenue Changes since January. Overall, the May Revision forecast for 2021-22 through 2023-24 General Fund revenues has decreased by \$6.2 billion over the budget window: \$1.4 billion in 2021-22, \$3.8 billion in 2022-23, and \$1.1 billion (after transfers and transfer solutions) in 2023-24. According to Department of Finance estimates, for the three main revenue sources:

- 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 Pass-through Entities (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.

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- 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.

The PTE tax, enacted as part of the 2021 Budget Act as a way to help California business owners mitigate the impact of the federal limit on state and local tax deductions on federal tax returns, has proved more popular than anticipated, but also makes revenue projections more difficult. 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.

In conformity with federal Internal Revenue Service (IRS) actions, 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 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.

Both the delay in tax filing deadlines and the usage of the PTE elective tax have introduced more uncertainty into revenue estimates.

The General Fund revenue forecasts for the January budget and the May Revision are compared in the following table:

2022-23 and 2023-24 General Fund Revenue Sources (Dollars in Millions)

Revenue Source	January Budget		May Revision	
	2022-23	2023-24	2022-23	2023-24
Personal Income Tax	\$128,905	\$126,725	\$122,769	\$118,166
Sales and Use Tax	32,851	33,599	33,072	33,366
Corporation Tax	38,482	39,308	42,091	42,081
Other Revenues	10,265	11,453	7,741	15,441
Total	\$210,503	\$211,085	\$205,673	\$209,054

Totals may not add due to rounding.

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Change in General Fund Expenditures. The overall General Fund expenditures by program area as proposed in January, and revised in May, are presented below:

**2022-23 and 2023-24
General Fund Expenditures
(Dollars in Millions)**

Agency	January Budget		May Revision	
	2022-23	2023-24	2022-23	2023-24
Legislative, Judicial, Executive	\$11,852	\$9,061	\$18,407	\$9,630
Business, Consumer, Housing	1,472	1,078	3,740	1,448
Transportation	2,191	1,700	1,986	1,190
Natural Resources	9,723	8,774	15,943	7,512
Environmental Protection	1,989	1,226	3,892	339
Health and Human Services	71,447	64,701	62,644	73,244
Corrections and Rehabilitation	14,775	14,996	15,695	14,676
K-12 Education	81,176	70,350	77,019	78,871
Higher Education	22,518	21,846	22,659	22,598
Labor and Workforce	1,638	2,179	1,274	856
Government Operations	3,847	5,270	6,892	4,439
General Government	986	7,556	6,321	9,297
Total	\$210,030	\$213,127	\$249,229	\$227,363

Closing the Budget Gap. Overall, the proposed budget closes the \$31.5 billion budget gap as follows:

- **Funding Delays**—Delays an additional \$695 million (for a total of \$8.1 billion) across the 2021-22 through 2023-24 fiscal years, and spreads it across the multiple years without reducing the total amount of funding.
- **Reductions/Pullbacks**—Includes an additional \$1.1 billion in reductions and some adjustments (for a total of \$6.7 billion) for various items across the 2021-22 through 2023-24 fiscal years.
- **Fund Shifts**—Shifts an additional \$3.3 billion (for a total of \$7.5 billion) in certain expenditures in the 2022-23 and 2023-24 fiscal years from the General Fund to other funds.
- **Trigger Reductions**—Maintains the \$3.9 billion in trigger reductions proposed in January, reducing funding for certain items in the 2020-21 through 2023-24 fiscal years and placing them in a “trigger” that would restore the reductions in the 2024

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Governor’s budget if it is determined that sufficient funds will be available to cover certain commitments.

- **Limited Revenue Generation and Borrowing**—Includes an additional \$3.7 billion (for a total of \$4.9 billion) in revenue and borrowing from special fund.
- **Safety Net Reserve Withdrawal**—Includes a withdrawal of \$450 million from the Safety Net Reserve.

Comparison to the Senate’s “Protect Our Progress” Budget Plan. The Governor’s May Revision is another good step toward reaching a budget agreement for the 2023-24 fiscal year.

- The Governor’s updated proposal reflects key Senate priorities, such as a new Climate Bond, and follows our “Protect Our Progress” approach to the budget in several important ways, which include avoiding ongoing cuts to core programs, preserving the Rainy Day Fund, and expanding responsible borrowing and fund shifts to avoid cuts to climate and other infrastructure investments.
- While there is much to appreciate in the Governor’s updated proposal, the May Revision does not reflect the same commitment to responsible budgeting that has been the hallmark of Democratic fiscal leadership over the past decade, including in these key ways:
 - The proposal fails to account for the clear need for multi-year commitments to address the homelessness crisis and to expand child care. By not building in long-term costs, this proposal does not responsibly account for actual expected spending.
 - The proposal allocates one-time Safety Net Reserves to pay for ongoing costs of program expansions. The Safety Net Reserve was created to cover the temporary costs of counter-cyclical programs like CalWORKs and Medi-Cal during times of increased unemployment. Using the funds to pay for one year of ongoing costs does not help the programs in the long-term, and would leave struggling Californians vulnerable during the next temporary dip in employment.

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- The proposal leaves the budget significantly out of balance in the out years. By pushing problems off into the future, the projected out-year budget problem exceeds even the historically high level of reserves. As a result, core programs would be in jeopardy of being cut.
- By contrast, rather than pushing the budget problem to the out-years, the Senate's "Protect Our Progress" Budget plan mitigates the problem by spreading out lucrative tax breaks for successful businesses and partially reversing the Trump tax cuts for the top 1 percent of big corporations.
- As the Senate works to update the "Protect Our Progress" budget plan in the coming weeks, we remain committed to preserving transit, broadband and other infrastructure investments that strengthen our economy and our communities.
- We look forward to working with the Governor, the Assembly, and advocates over the coming weeks to finalize a responsible budget that protects our progress and strengthens the quality of life for California families and communities.

Key Features of the May Revision. Highlights of the May Revision are outlined in the sections below.

Education and Child Care

- Proposition 98 Guarantee and Investments in Education. The May Revision funds a Proposition 98 Guarantee level of \$106.8 billion in 2023-24. This is a decrease from the January budget proposal by \$2 billion, due to the decreases in General Fund revenue. In addition, the 2022-23 Proposition 98 Guarantee decreases by \$220 million to \$106.8 billion. The May Revision updates the cost-of-living adjustment from 8.14 percent in the Governor's budget to 8.22 percent, and includes \$2.7 billion one-time Proposition 98 General Fund to support ongoing Local Control Funding Formula (LCFF) costs. The May Revision also includes total reductions of \$2.9 billion and \$2.5 billion Proposition 98 General Fund in the Arts, Music, and Instructional Materials Discretionary Block Grant and the Learning Recovery Emergency Block Grant, respectively.
- The May Revision also includes additional Proposition 98 General Fund investments to county offices of education through an alternate formula to support the operations of juvenile court schools and county community schools, differentiated assistance, and the proposed equity leads.

Higher Education

- Affordable 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. In response to a projected state budget deficit, the Governor's January budget proposed delaying \$250 million in student housing grant funds from 2023-24 to 2024-25. Delaying this amount would leave \$500 million (of the originally intended \$750 million) available for new housing projects in 2023-24.

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.

- The May Revision maintains the Governor's proposed five percent base increases to UC (\$217 million General Fund in 2023-24 and ongoing) and CSU (\$227 million General Fund in 2023-24 and ongoing).
- The May Revision shifts current and planned General Fund support for various UC and CSU capital outlay projects to bonds issued by UC and CSU. To support the underlying debt service on those bonds, the May Revision includes ongoing General Fund increases
- The May Revision includes 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.

Health

- The May Revision includes a Managed Care Organization (MCO) Tax that is expected to provide an additional General Fund offset of \$2.5 billion in 2023-24 (for a total of \$3.4 billion inclusive of amounts estimated in the January budget).

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Over the tax period, \$11.1 billion is available for Medi-Cal reimbursement rates. Of this, \$237 million (\$98 million General Fund) in 2023-24 and \$580 million (\$240 million General Fund) annually thereafter would support rate increases to 87.5 percent of the Medicare rate for: 1) primary care, 2) obstetric care, and 3) non-specialty mental health services.

- The May Revision includes \$128.9 million General Fund in 2023-24, growing to \$290.8 million in 2026-27 and ongoing, to support county behavioral health and judicial branch costs for the Community Assistance, Recovery, and Empowerment (CARE) Act.
- The May Revision includes \$500 million from the Mental Health Services Fund (Prop 63) to reverse the delay of Behavioral Health Bridge Housing proposed in the January budget and offset existing General Fund expenditures for the program.
- The May Revision includes \$141.3 million from the Opioid Settlements Fund (OSF) for four years to support the Naloxone Distribution Program. Also, \$30 million from the OSF is provided to support state contracting for generic naloxone through CalRx.

Human Services

- The May Revision moves the timeline for expanding the California Food Assistance Program to adults age 55 and over regardless of immigration status to October 2025, representing a shortened timeline compared to the January 1, 2027 implementation delay proposed in the Governor's January budget.
- The May Revision includes \$47 million (\$23.5 million General Fund) for outreach and automation costs to phase in a new federal Summer Electronic Benefit Transfer (EBT) program for children who qualify for free or reduced-price school meals beginning summer 2024.
- 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.
- The May Revision includes a six-month extension until September 30, 2024 for specified Home and Community-Based Services programs such as the IHSS Career

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Pathways Program and the Senior Nutrition Infrastructure Program to fully spend allocated funding.

Resources and Environmental Protection

- The May Revision proposes an additional \$1.1 billion in General Fund shifts across several climate resilience programs as part of a future climate bond proposal.
- The May Revision proposes \$290 million one-time General Fund for statewide flood response and support.
- The May Revision includes \$67.4 million 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.
- The May Revision includes a budgetary loan of \$100 million from the Beverage Container Recycling Fund (BCRF) to the General Fund to assist in closing the projected budget shortfall.
- The May Revision proposes \$117.3 million General Fund and 503.5 positions one-term and reimbursements be increased by \$1.3 million one-time, among other increases, to support augmented fire protection resources during 2023-24. This funding is intended to provide a flexible resource pool of 432 additional seasonal fire fighters, six additional fire fighter hand crews, support for Military Department hand crews, and contract county proportional funding.

Energy

- The May Revision maintains \$8.9 billion of last year's ZEV package, which is the same level of funding that was proposed in January. The May Revision shifts an additional \$635 million General Fund (\$500 million in 2023-24) over three years to the Greenhouse Gas Reduction Fund.
- The May Revision maintains \$7 billion of last year's energy package, which is similar to the funding that was proposed in January, but includes an additional \$149.4 million reduction to the California Arrearage Payment Program.

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- The May Revision includes the Clean Energy Reliability Investment Plan (CERIP), which consists of \$1 billion over multiple years, pursuant to SB 846 (Dodd), Chapter 239, Statutes of 2022.
- The May Revision includes funding and positions at CEC, CARB, and DIR to implement SB 2 First Extraordinary Session, (Skinner), Chapter 1, Statutes of 2023-24, which authorizes the California Energy Commission (CEC) to establish a maximum gross refining margin of profit that refiners can make above the cost of doing business; require increased reporting; and establish a new division within CEC for oversight.
- The May Revision proposes to raise the statutory cap on the Energy Resources Program Account (ERPA) surcharge, tie the statutory cap to the Consumer Price Index, and extend the surcharge to apply to behind-the-meter electricity ratepayers.

Transportation

- The May Revision maintains \$11.6 billion for the Transportation Infrastructure Package, which is the same level of funding that was proposed in January.
- The May Revision maintains \$1.2 billion for projects that improve goods movement on rail and roadways at port terminals, but shifts \$150 million from General Fund to the State Highway Account.
- 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.

Housing

- The May Revision proposes to defer \$345 million of the \$500 million one-time allocation to the Foreclosure Invention Housing Preservation Program (FIHPP). Instead of being allocated this year, the \$345 million deferral will be allocated to the program in specified increments over the next four fiscal years.
- The May Revision proposes to recapture \$17.5 million in unspent Downtown Rebound Program funds (\$25 million was allocated to this program in 2000) and redirect it to the General Fund.

General Government

- The May Revision estimates \$567.4 million will be available for Allocation 3 purposes in 2023-24, which includes \$150 million General Fund to backfill the estimated declines in Cannabis Tax revenues. These figures reflect a total decrease of \$102.2 million compared to the Governor's budget estimate. AB 195 (Committee on Budget) Chapter 56, Statutes of 2022, requires that Allocation 3 programs are funded at a baseline of approximately \$670 million, and included a \$150 million General Fund appropriation to backfill revenues to help meet that baseline.
- The May Revision proposes to allocate \$23.5 million in federal funds to the Office of the Small Business Advocate to provide technical assistance to small business applying for State Small Business Credit Initiative capital programs.
- The May Revision proposes an additional \$50 million in reductions to the California Small Business COVID-19 Relief Grant Program. The Office of the Small Business Advocate (CalOSBA) administers the program. At the time of the Governor's January Budget proposal, CalOSBA estimated that there would be \$92 million in unspent funding after all grants had been awarded. After further awards, CalOSBA now believes there will be an additional unspent amount remaining.
- The Governor's January budget proposed a \$300 million allocation over three years for the Local Government Budget Sustainability Fund. The May Revision reallocates \$250 million of this amount, directing it instead to the City of Fresno's Public Infrastructure Plan for investment in parking, green space, walkability, and water projects in the downtown area.

Workforce and Labor

- The May Revision proposes to restore \$15 million in 2023-24 and \$15 million in 2024-25 for the Department of Industrial Relations 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.
- 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

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the 2023 calendar year. The loan provision will include language to prevent the State Disability Insurance contribution rate from increasing because of the loan.

Public Safety

- The May Revision includes \$360.6 million Public Buildings Construction Fund for the demolition of an existing building and the construction of a new Educational and Vocational Center at San Quentin State Prison, and maintains \$20 million General Fund proposed in the Governor's budget and \$500,000 included in the 2022 Budget Act for various improvement projects.
- The May Revision includes a \$400 million loan from the Litigation Deposit Fund to the General Fund in 2023-24 to assist in closing the budget shortfall, and statutory language to authorize the loan.
- The May Revision restores \$20 million in 2023-24 and 2024-25 for the Court Appointed Special Advocate program, which was proposed for reductions in the Governor's budget.

K-12 EDUCATION

The May Revision includes \$127.2 billion total funds (\$79.1 billion General Fund and \$48.1 billion other funds) for all K-12 education programs. K-12 per-pupil funding is \$17,460 in Proposition 98 funds.

PROPOSITION 98 – K-14 EDUCATION

- **Changes to the Minimum Guarantee.** The May Revision reflects a decrease in Proposition 98 funding of \$2 billion from the Governor's budget for the three-year period of 2021-22 to 2023-24. More specifically, the May Revision funds the Proposition 98 guarantee for the 2021-22 through 2023-24 fiscal years at \$110.6 billion, \$106.8 billion, and \$106.8 billion, respectively. Compared to January, this reflects the following yearly changes:
 - An increase of approximately \$139 million in 2021-22.
 - A decrease of approximately \$220 million in 2022-23.
 - A decrease of approximately \$2 billion in 2023-24.

These levels reflect the estimated decrease in General Fund revenues over the three-year period in comparison with the Governor's budget proposal. The Proposition 98 Guarantee continues to be calculated under Test 1 for all three years (equal to approximately 38.6 percent of General Fund revenues, accommodating the rebench of the Proposition 98 Guarantee related to the expansion of transitional kindergarten, plus local property taxes).

- **Public School System Stabilization Account.** The May Revision increases the total payments to the Public School System Stabilization Account from the Governor's budget by \$1.1 billion, \$699 million, and \$382 million for total deposits of \$4.8 billion, \$1.8 billion, and \$748 million in 2021-22, 2022-23, and 2023-24, respectively. This brings the total account balance from \$8.5 billion to \$10.7 billion, as a result of the increase in the share of total funds from capital gains revenue. This balance reflects this account reaching its constitutional cap in the 2023-24 fiscal year. Funds from this reserve account may be expended in years when the Proposition 98 Guarantee does not increase enough to cover year-over-year growth and inflation. Under current law, there is a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance

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in the Account is equal to or greater than three percent of the total K-12 share of the Guarantee. The balance of \$9.9 billion in 2022-23 continues to trigger school district reserve caps in 2023-24.

K-12 EDUCATION – MAJOR CHANGES

- **Local Control Funding Formula (LCFF).** The bulk of funding for school districts and county offices of education for general operations is provided through the LCFF and is distributed based on the number of students served and certain student characteristics. Typically, the state annually adjusts the grant amounts by a cost-of-living adjustment (COLA). The 2023-24 Governor's budget included an LCFF COLA of 8.14 percent, and the May Revision updates this adjustment to 8.22 percent. In addition to the updated COLA, the May Revision also includes \$2.7 billion one-time Proposition 98 General Fund to support ongoing LCFF costs, bringing total LCFF funding to \$79.1 billion.
- **County Offices of Education.** The May Revision provides \$80 million ongoing Proposition 98 General Fund to support county offices of education serving students in juvenile court and other alternative school settings, and includes statutory changes to the funding model for county offices of education as follows:
 - An increase for the Local Control Funding Formula base rate for county offices of education's average daily attendance.
 - An altered average daily attendance calculation for county offices of education to be based on the greater of the current, prior or average of the three most recent prior fiscal years.
 - An allocation of \$300,000 per county office of education operating one or more juvenile court schools, and an allocation of \$300,000 per county office of education operating one or more community schools.
 - A block grant equivalent to \$5,000 per juvenile court or community school average daily attendance, adjusted annually by a cost-of-living adjustment, for a broad range of allowable expenditures, including but not limited to expanding access to A-G courses, vocational and career technical education, and postsecondary preparation and application assistance.

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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.

- **Accountability and Equity Leads.** The May Revision proposes statutory changes to accountability package that was included at the Governor's budget, as follows:
 - Clarifies that all local educational agencies with low student performance address disparities in the preparation of their educators.
 - Defines the new Long-term English Learner student group in the context of school accountability.
 - Makes technical amendments related to free meal data source specification, define key terminology, clarify eligibility for Equity Multiplier allocation, and specify the sourcing of California Longitudinal Pupil Achievement Data System data to a particular point in the school year.

Additionally, the May Revision includes \$2 million ongoing Proposition 98 General Fund to support the proposed equity leads in the Statewide System of Support.

- **Local Control and Accountability Plan Query Tool and eTemplate.** The May Revision includes an increase of \$148,000 ongoing Proposition 98 General Fund to support refinements to the Local Control and Accountability Plan Query Tool and eTemplate.
- **Arts, Music, and Instructional Materials Discretionary Block Grant.** The Governor's budget proposed to reduce this block grant from \$3.4 billion to \$2.3 billion. The May Revision proposes to further reduce this block grant by an additional \$607 million.
- **Learning Recovery Emergency Block Grant.** The May Revision proposes to reduce the Learning Recovery Emergency Block Grant by \$2.5 billion, bringing the total appropriation down from \$7.9 billion to \$5.4 billion one-time Proposition 98 General Fund.
- **School Nutrition.** 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.

Overview of the Governor's 2023-24 May Revision

- **Expanded Learning Opportunities Program (ELOP).** The May Revision includes statutory changes that extend the encumbrance deadline for ELOP funds received in 2021-22 and 2022-23 from June 30, 2023 to June 30, 2024.
- **After School Education and Safety Programs.** The May Revision includes 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.
- **Teacher Training, Recruitment, and Retention.** The May Revision proposes statutory changes to the following programs:
 - *Teacher and School Counselor Residency Grant Program.* The May Revision proposes to increase the per-candidate allocation to grantee local educational agencies. These changes also require a minimum stipend or salary be provided to residents, and allow residency candidates to complete their service requirements in eight years instead of five years.
 - *Teacher Performance Assessments.* The May Revision allows 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 evaluation.
 - *Military Spouse Authorization.* Authorizes the Commission on Teacher Credentialing to issue a comparable California credential to any US Military servicemember or their spouse who possesses a valid out-of-state teaching or services credential.
 - *Subject Matter Competence.* Requires 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.
- **Literacy Screening.** The May Revision proposes to require local educational agencies to begin screening students 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

Overview of the Governor's 2023-24 May Revision

convening of an independent panel of experts to approve a list of screening instruments for these assessments.

- **Stronger Connections Program.** The May Revision includes 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.
- **Bilingual Teacher Professional Development Program.** The May Revision includes 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.** The May Revision proposes an increase of \$7 million one-time Proposition 98 General Fund to provide support for participating local educational agencies to implement Restorative Justice best practices that will be posted on the Department of Education's website by June 1, 2024, pursuant to SB 2598 (Akilah Weber), Chapter 914, Statutes of 2022.
- **Proposition 28 Funding.** The May Revision reflects a decrease of \$8 million to support the implementation of Proposition 28, from \$941 million to \$933 million in 2023-24. Additionally, the Administration proposes the following statutory changes:
 - To allow for Proposition 28 Arts and Music Funding Guarantee entitlement payments to be issued through the Department Principal Apportionment program.
 - To provide a feasible way to calculate funds for and issue funds to preschool programs.
 - To clarify: (1) terms defined for the purpose of the three-year time limit on use of funds; (2) the Department's authority to collect data on unexpended funds from local educational agencies; and (3) the Department's authority to recover unexpended funds back to the state.
 - To reflect technical corrections for references to annual certification and the good cause waiver.

Overview of the Governor's 2023-24 May Revision

- **California School Information Services.** The May Revision includes an increase of \$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.** The May Revision proposes 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 AB 104 (Committee on Budget), Chapter 13, Statutes of 2015.
- **Basic Aid Wildfire Property Tax Backfill.** The May Revision proposes an increase of \$632,000 one-time Proposition 98 General to backfill reduced property tax revenues for certain school districts that were impacted by the Kincade Fire.
- **Local Property Tax Adjustments.** The May Revision includes a decrease of \$2 billion Proposition 98 General Fund for school districts, charter schools, and county offices of education in 2021-22, 2022-23, and 2023-24, with an increase in offsetting property tax revenues. Specifically, this includes property tax increases of \$15 million in 2021-22, \$767 million in 2022-23, and \$201 million in 2023-24.
- **Cost-of-Living Adjustments.** The May Revision includes a decrease of \$1.7 million ongoing Proposition 98 General Fund to reflect an 8.22 percent COLA and a decrease in enrollment for categorical programs that remain outside of the LCFF and Special Education, including Child Nutrition, State Preschool, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.

EARLY CHILDHOOD EDUCATION

- **Universal Transitional Kindergarten (TK).** The May Revision includes adjustments to the first-year costs to expand transitional kindergarten, 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, from \$604 million at the Governor's budget to \$357 million General Fund. 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 \$283 million Proposition

Overview of the Governor's 2023-24 May Revision

98 General Fund. The second-year costs to expand access to children turning five years old between September 2 and April 2 are revised from \$690 million to \$597 million. The second-year costs to support the addition of one additional staff in TK classrooms remains unchanged.

- **California State Preschool Program (CSPP).** 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. The May Revision includes a COLA of 8.22 percent – however, the cost of providing this COLA 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.

HIGHER EDUCATION

CROSS-SEGMENT PROPOSALS

- **Higher Education Student Housing Grant Program Changes.** 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.

CALIFORNIA COMMUNITY COLLEGES (CCC)

- **Categorical Program Statutory Changes to Meet CCC Roadmap Goals.** The May revision includes trailer bill language that allows all CCC districts to spend flexibly amongst the following categorical programs beginning in 2023-24: Student Equity and Achievement Program, Student Financial Aid, and Student Mental Health Resources. The proposed language would direct the CCC Chancellor's Office to assess district-level progress towards the roadmap goals. CCC districts that do not hit their goals will have their flexible spending authority revoked and would be offered technical assistance.
- **Apportionments Cost-of-Living Adjustment and Growth.** The May Revision includes 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 to 8.22 percent, and a decrease of \$2.4 million ongoing Proposition 98 General Fund to sustain 0.5-percent enrollment growth. This amount is in addition to an increase of \$652.6 million ongoing Proposition 98 General Fund included in the Governor's budget.
- **CCC Categorical Program COLA.** The May Revision includes an additional ongoing \$3 million Proposition 98 General Fund increase for select categorical programs and the Adult Education program to provide an 8.22 percent COLA. The January Governor's budget included an increase of \$92.5 million Proposition 98 General Fund ongoing to provide an 8.13-percent COLA for the Adult Education Program, apprenticeship programs, CalWORKs student services, campus child care support, Disabled Students Programs and Services, Extended Opportunity Programs and Services, and mandates block grant.
- **Funding Budget Year Apportionments with One-Time Resources.** The May Revision provides an increase of \$503 million one-time Proposition 98 General Fund to support Student-Centered Funding Formula costs for 2023-24.
- **LGBTQ+ Pilot Project.** The May Revision includes \$10 million Proposition 98 General Fund a year for three years to support the Los Angeles Community College District LGBTQ+ Pilot Project.
- **Los Angeles Community College District Small Business Entrepreneurship and Innovation Center at East Los Angeles College.** The May Revision includes one-time \$2.5 million Proposition 98 General Fund to support this center.

Overview of the Governor's 2023-24 May Revision

- **Student Enrollment and Retention Revised Proposal.** The Governor's budget includes an increase of \$200 million Proposition 98 General Fund one-time to continue to support community college efforts and focused strategies to increase student retention rates and enrollment. The May Revision decreases the January Governor's budget proposal by \$100 million one-time Proposition 98 General Fund. The cumulative total proposed due to this revision is \$100 million one-time Proposition 98 General Fund.
- **Student Success and Completion Grant Program Adjustment.** The May Revision includes a decrease of \$50 million one-time Proposition 98 General Fund to reflect revised program participation. This brings the total support for the program to \$362.6 million General Fund in 2023-24.
- **California Community College COVID-19 Recovery Block Grant Decrease.** The May Revision includes 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.** The May Revision includes an additional 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.
- **CCC Facilities.** The May Revision includes General Obligation bond funding of \$403 million one-time for the construction phase of 19 projects anticipated to complete design by Spring 2023, the design phases of two projects, and both the working drawings and construction for one project. This allocation represents the next installment of the \$2 billion available to the CCCs under Proposition 51.
- **Local Property Tax Adjustment.** The May Revision includes a decrease of \$19.6 million ongoing Proposition 98 General Fund as a result of decreased offsetting local property tax revenues.

UNIVERSITY OF CALIFORNIA (UC)

- **Base Increase Maintained.** The May Revision maintains the Governor's proposed five percent base increase for UC (\$217 million General Fund in 2023-24 and ongoing)
- **Shift in Finance Support for UC Berkeley Clean Energy Campus Project, UC Merced, and UC Riverside Campus Expansion Projects.** The May Revision shifts \$498 million in current and planned General Fund support for these aforementioned projects to UC-issued bonds. To support the underlying debt service on those bonds, the May Revision includes an increase of \$33.3 million ongoing General Fund.
- **Shift in Finance Support for UC Affordable Student Housing Grants.** The May Revision shifts \$437 million in current and planned General Fund support for these UC affordable housing student grants to UC-issued bonds. To support the underlying debt service on those bonds, the May Revision includes an increase of \$30 million ongoing General Fund.
- **Support for UC Division of Agriculture and Natural Resources (UC ANR).** The May Revision includes a shift of \$4.8 million from UC's main appropriation to provide continued support for UC ANR.
- **Ralph J. Bunche Center.** The May Revision includes a one-time \$5 million General Fund increase for the Ralph J. Bunche Center for African-American Studies at the University of California, Los Angeles.
- **UC Riverside School of Medicine Support.** The May Revision includes an ongoing \$2 million General Fund increase to support UC Riverside School of Medicine.
- **UC Global Entrepreneurs.** The May Revision increase a one-time \$2 million General Fund increase 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.

Overview of the Governor's 2023-24 May Revision

- **Graduate Medical Education Backfill.** The May Revision includes an ongoing increase of \$1.2 million 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 (CSU)

- **Base Increase Maintained.** The May Revision maintains the Governor's proposed five percent base increase for CSU (\$227 million General Fund in 2023-24 and ongoing)
- **Shift in Finance Support for CSU Affordable Student Housing Grants.** The May Revision shifts \$655 million in current and planned General Fund support for these CSU affordable housing student grants to CSU-issued bonds. To support the underlying debt service on those bonds, the May Revision includes an increase of \$45 million ongoing General Fund.
- **Shift in Finance Support for Cal Poly Humboldt.** The May Revision shifts \$201 million General Fund support included in the 2021 Budget Act to support Cal Poly Humboldt Infrastructure projects to CSU-issued bonds. To support the underlying debt service on those bonds, the May Revision includes an increase of \$16 million ongoing General Fund.
- **Restoration of General Fund Support for University Farms.** The May Revision restores \$75 million General Fund support for these projects included in the 2022 Budget Act. The January Governor's budget previously shifted fund support from General Fund to CSU-issued bonds but some expenditures for this purpose were determined to be ineligible for CSU-issued bonds.
- **CSU Chico Human Identification Laboratory.** The May Revision includes an increase of \$3.1 million General Fund in 2023-24 and ongoing to support the construction of the Human Identification Laboratory at CSU Chico's campus through the issuance of CSU bonds.

CALIFORNIA STUDENT AID COMMISSION (CSAC)

- **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.** The May Revision includes 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.** The May Revision includes an increase of \$397,000 General Fund in 2023-24 and ongoing 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.** The May Revision includes an increase of \$103,000 General Fund in 2023-24 and ongoing 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.

RESOURCES

VARIOUS DEPARTMENTS

- **Shift to Future Climate Bond.** The May Revision includes an additional \$1.1 billion in General Fund reductions across several climate resilience programs. The May Revision proposes to backfill these reductions with funding in a future climate bond proposal, including the following:
 - \$270 million Water Recycling
 - \$169 million Salton Sea Restoration
 - \$160 million Community Resilience Centers
 - \$100 million Transformative Climate Communities
 - \$100 million Regional Resilience Program
 - \$100 million Urban Greening
 - \$86.6 million Statewide Parks Program
 - \$60 million Sustainable Groundwater Management Act Implementation
 - \$50 million Dam Safety and Flood Management
 - \$20 million Multi-Benefit Land Repurposing

- **Climate Resilience Investments Maintained.** The May Revision maintains climate resilience investments over multiple years, as follows:
 - \$2.7 billion (98 percent) for wildfire and forest resilience.
 - \$1.4 billion (89 percent) for nature-based solutions.
 - \$444 million (68 percent) for extreme heat.
 - \$1.6 billion (85 percent) for community resilience.

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- \$734 million (57 percent) for coastal resilience.
 - \$1 billion (89 percent) for climate smart agriculture.
 - \$443 million (93 percent) for a circular economy.
 - \$8.5 billion (97 percent) to address drought and flood.
- **Flood-Related Increases.** The May Revision proposes \$290 million one-time General Fund for statewide flood response and support as follows:
 - \$125 million 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 flood risks.
 - \$75 million to support local flood control projects such as the Pajaro River Flood Risk Management Project.
 - \$25 million to expand the scope of the California Small Agricultural Business Drought Relief Grant Program.
 - \$25 million set-aside in the current year in anticipation of potential disaster relief and response costs associated with recent storms and future flooding.
 - \$40 million for San Joaquin Floodplain Restoration, which restores the current year General Fund reduction proposed in the Governor's budget.
 - **Flood Trailer Bill Language.** The Administration proposes legislation to codify 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. The proposal would set conditions for diverting floodwaters without permits or affecting water rights. The proposed legislation would also extend specified streamlining efforts related to water conservation to the Colorado River basin.

DEPARTMENT OF WATER RESOURCES

- **Water-Related Reductions.** The May Revision proposes the following one-time General Fund water-related reductions due to the significant improvement in statewide water conditions based on recent winter storms:
 - \$125 million that was proposed as a 2023 drought contingency set-aside in the Governor's budget.
 - \$24.5 million for Delta salinity barriers because the department no longer anticipates needing to install salinity barriers.
 - \$25 million for the Agriculture and Delta Drought Response Program (LandFlex). The 2022 Budget Act included \$50 million for the program and DWR awarded \$25 million in the first round of grants.

CALIFORNIA NATURAL RESOURCES AGENCY (CNRA)

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

DEPARTMENT OF FORESTRY AND FIRE PROTECTION (CalFire)

- **Wildfire Suppression.** The May Revision proposes \$117.3 million General Fund and 503.5 positions one-term and reimbursements be increased by \$1.3 million one-time, among other increases, to support augmented fire protection resources during 2023-24. This funding is intended to provide a flexible resource pool of 432 additional seasonal fire fighters, six additional fire fighter hand crews, support for Military Department hand crews, and contract county proportional funding.

ENVIRONMENTAL PROTECTION

STATE WATER RESOURCES CONTROL BOARD (SWRCB)

- **Sustainable Groundwater Management Act (SGMA).** The May Revision includes \$4.8 million General Fund and 19 positions in 2023-24 and 2024-25 to support the next phase of SWRCB's implementation of SGMA. These resources will support SWRCB's intervention efforts in six groundwater basins where DWR determined local groundwater sustainability plans are inadequate.

DEPARTMENT OF PESTICIDE REGULATION (DPR)

- **Improve and Streamline Processes.** The May Revision includes \$1.9 million DPR Fund and \$1.4 million ongoing to improve and streamline DPR's registration and reevaluation processes, identify alternatives to high-risk fumigants, and lead collaborations with stakeholders and agency partners to support implementation of sustainable pest management in agricultural, urban, and wildland settings.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)

- **Exide.** The May Revision includes \$67.3 million Lead-Acid Battery Cleanup Fund over two years (\$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.
- **Generation and Handling Fee.** The May Revision includes \$1.2 million and five new permanent positions to support workload and contract costs to support an in-depth analysis of the current shortfall in Generation and Handling Fee revenues, as well as to increase various fee administration activities to better ensure that generators are paying the amounts owed. The May Revision also includes a loan from the Beverage Container Recycling Fund to address a shortfall in revenue deposited into the Hazardous Waste Control Account, as noted below.

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY (CalRecycle)

- **Beverage Container Recycling Fund (BCRF) Loans.** The May Revision includes two budgetary loans from BCRF, as follows:
 - \$100 million to the General Fund to assist in closing the projected budget shortfall.
 - \$40 million to the Hazardous Control Waste Account (HWCA) to address a shortfall of fee revenue deposited in HWCA. DTSC 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.

AGRICULTURE

- **Sustainable Agriculture Package.** The May Revision proposes to maintain \$1 billion for the sustainable agriculture package, which is the same level of funding that was proposed in January.

ENERGY

- **Zero Emission Vehicles Package.** The May Revision maintains \$8.9 billion of last year's ZEV package, which is the same level of funding that was proposed in January. The May Revision shifts an additional \$635 million General Fund (\$500 million in 2023-24) over three years to the Greenhouse Gas Reduction Fund.
- **Energy Package.** The May Revision maintains \$7 billion of last year's energy package, which is similar to the funding that was proposed in January, but includes an additional reduction to the California Arrearage Payment Program.
 - **California Arrearage Payment Program.** The May Revision reverts an additional \$149.4 million in California Emergency Relief Funds to the General Fund in 2022-23, based on updated savings figures 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.

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- **CERIP.** The May Revision includes the Clean Energy Reliability Investment Plan (CERIP), which consists of \$1 billion over multiple years, pursuant to SB 846 (Dodd), Chapter 239, Statutes of 2022.
- **SB 2 First Extraordinary Session Implementation.** The May Revision includes funding and positions to implement SB 2 First Extraordinary Session, (Skinner), Chapter 1, Statutes of 2023-24, which authorizes the California Energy Commission (CEC) to establish a maximum gross refining margin of profit that refiners can make above the cost of doing business; require increased reporting; and establish a new division within CEC for oversight. Specifically:
 - \$5.9 million from the 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. Additionally, the CEC will redirect 10 existing positions internally to support the new Division of Petroleum Market Oversight.
 - \$1 million one-time from the Cost of Implementation Account for the California Air Resources Board to support the development of the Transportation Fuels Transition Plan.
 - \$286,000 from the Occupational Safety and Health Fund and one position for the Department of Industrial Relations to support analysis on managing refinery turnaround and maintenance schedules.
- **ERPA.** The May Revision proposes to raise the statutory cap on the Energy Resources Program Account (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.

HEALTH AND HUMAN SERVICES

The May Revision includes a total of \$245.7 billion (\$73.3 billion General Fund and \$172.4 billion other funds) for health and human services programs that serve low-income, vulnerable individuals and families.

VARIOUS DEPARTMENTS

- **Safety Net Reserve Drawdown.** The May Revision includes a drawdown of \$450 million of the total \$900 million available in the Safety Net Reserve to support increased costs in the Medi-Cal program and address the state's General Fund shortfall.
- **Community Assistance, Recovery, and Empowerment (CARE) Act.** The May Revision includes additional investments in multiple departments to support the Community, Assistance, Recovery, and Empowerment (CARE) Act, including:
 - *County Behavioral Health.* The May Revision includes General Fund expenditure authority of \$67.3 million in 2023-24, \$121 million in 2024-25, and \$151.5 million annually thereafter to support estimated county behavioral health costs for individuals referred to CARE Court under the CARE Act.
 - *Judicial Branch.* The May Revision includes General Fund expenditure authority of \$32.7 million in 2023-24, \$29.8 million in 2024-25, and \$32.9 million annually thereafter for the Judicial Branch to double the number of hours per CARE Act participant for legal services from 20 hours to 40 hours, and to support public defender and legal services organizations to provide legal counsel to CARE Act participants.

HEALTH AND HUMAN SERVICES AGENCY (CalHHS)

- **Health and Human Services Innovation Accelerator Initiative.** The May Revision includes additional General Fund expenditure authority of \$9 million to establish a new public-private partnership for research and development for solutions to health challenges facing Californians, including diabetes, disparities in maternal and infant mortality, and preventing and mitigating infectious disease.

HEALTH

DEPARTMENT OF HEALTH CARE SERVICES (DHCS)

- **Medi-Cal Local Assistance Expenditures.** The May Revision estimates local assistance expenditures for Medi-Cal of \$135.4 billion (\$30.9 billion General Fund, \$91.2 billion federal funds, and \$13.3 billion special funds and reimbursements) in 2022-23 and \$151.2 billion (\$37.6 billion General Fund, \$90.5 billion federal funds, and \$23.1 billion special funds and reimbursements) in 2023-24. These figures represent a decrease of General Fund expenditures of \$1.4 billion in 2022-23 and \$1.1 billion in 2023-24 compared to estimates included in the Governor's January budget. According to the Administration, the reduction in General Fund expenditures in 2022-23, compared to the January budget, are primarily attributable to:
 - Shift in timing for previously estimated expenditures (\$3 billion savings), including:
 - Approximately \$1 billion for the Behavioral Health Continuum Infrastructure Program (BHCIP) would shift from the 2022-23 fiscal year, with \$262.5 million shifting to 2023-24 and the remaining funds shifting to later years.
 - \$817 million for Behavioral Health Bridge Housing would shift from the 2022-23 fiscal year, with \$484 million shifting to 2023-24 and the remaining funds shifting to later years.
 - \$405 million for the School Behavioral Health Partnerships and Capacity component of the Children and Youth Behavioral Health Initiative would shift from the 2022-23 fiscal year, with \$291.3 million shifting to 2023-24 and the remaining funds shifting to later years.
 - \$388.5 million for the Evidence-Based Behavioral Health Practices component of the Children and Youth Behavioral Health Initiative would shift from the 2022-23 fiscal year, with \$287.5 million shifting to 2023-24 and the remaining funds shifting to later years.
 - \$170 million for the Behavioral Health Services and Supports component of the Children and Youth Behavioral Health Initiative would shift from the 2022-23 fiscal year, with all funds shifting to 2023-24.

Overview of the Governor's 2023-24 May Revision

- \$130 million for the Providing Access and Transforming Health (PATH) component of the California Advancing and Innovating Medi-Cal initiative would shift from the 2022-23 fiscal year, with \$30.4 million shifting to 2023-24 and the remaining funds shifting to later years.
- \$70 million for Equity and Practice Transformation Payments would shift from the 2022-23 fiscal year, with \$30.4 million shifting to 2023-24 and the remaining funds shifting to later years.
- \$58.5 million for the Urgent Needs and Emerging Issues component of the Children and Youth Behavioral Health Initiative would shift from the 2022-23 fiscal year, with all funds shifting to 2023-24.
- Changes to General Fund impacts for repayment of federal funds for state-only populations (\$68.3 million savings)
- Medi-Cal Drug Rebate Fund transfers to the General Fund (\$91.1 million savings)

These savings are offset by increased costs attributable to:

- Updated COVID-19 impacts (\$704.1 million costs)
- Non-emergency funding adjustment for state-only populations (\$347.9 million costs)
- Revised reconciliation estimate for In-Home Supportive Services in the Coordinated Care Initiative (\$277.1 million costs)
- Changes in the impact of federal deferrals (\$151.7 million costs)
- Legislative priorities adopted in the 2022 Budget Act (\$89.3 million costs)
- Updates to Proposition 56 supplemental provider payments (\$44.1 million costs)
- Federal repayment of disallowed nursing facility claims under the Preadmission Screening and Resident Review (\$41.8 million costs)
- Various other changes (\$98.6 million costs)

Overview of the Governor's 2023-24 May Revision

The Administration indicates the \$1.1 billion General Fund savings for 2023-24, compared to the January budget, are primarily attributable to:

- Revision and expansion of the tax on managed care organizations (\$3.2 billion savings)
- Medi-Cal Drug Rebate Fund transfers to the General Fund (\$707.7 million savings)
- Shift of Behavioral Health Bridge Housing and CalHOPE from the General Fund to the Mental Health Services Fund (\$550.5 million savings)
- Changes in the impact of federal deferrals (\$338.4 million savings)
- Drawdown of reserve in the Medi-Cal Drug Rebate Fund (\$222 million savings)
- Changes in transfers from the Hospital Quality Assurance Fee to the General Fund (\$152.5 million savings)
- Revised reconciliation estimate for In-Home Supportive Services in the Coordinated Care Initiative (\$31 million savings)
- Various other changes (\$60.8 million savings)

These costs are offset by increased costs attributable to:

- Shift in timing for previously estimated expenditures (\$1.5 billion costs)
- Changes to General Fund impacts for repayment of federal funds for state-only populations (\$982 million costs)
- Updated costs for expansion of Medi-Cal regardless of immigration status (\$578.3 million costs)
- Non-emergency funding adjustment for state-only populations (\$347.9 million costs)
- Reversal of the delay of the Behavioral Health Bridge Housing program (\$250 million costs)
- Updates to Proposition 56 supplemental provider payments (\$165.8 million costs)

Overview of the Governor's 2023-24 May Revision

- Updated COVID-19 impacts (\$128 million costs)
- Medi-Cal provider rate increases (\$89.6 million costs)
- Updated CARE Court County Behavioral Health Department funding and Los Angeles County start-up funding (\$50.8 million costs)
- Costs for a third party administrator for the fee schedule for youth behavioral health services implemented as part of the Children and Youth Behavioral Health Initiative (\$10 million costs)
- Federal repayment of disallowed nursing facility claims under the Preadmission Screening and Resident Review (\$5 million costs)

The May Revision estimates Medi-Cal caseload will be 15,272,800 in 2022-23, a 0.3 percent increase compared to estimates in the January budget, and 14,180,900 in 2023-24, a 1.8 percent decrease compared to estimates in the January budget, and a decrease of 7.2 percent compared to the revised 2022-23 estimate.

- **Family Health Local Assistance Expenditures.** The May Revision estimates total expenditures for Family Health Programs of \$238 million (\$197.1 million General Fund, \$5 million federal funds, and \$35.9 million special funds and reimbursements) in 2022-23 and \$253.1 million (\$220 million General Fund, \$5.5 million federal funds, and \$27.7 million special funds and reimbursements) in 2023-24. Expenditures for each of these programs are as follows:
 - *California Children's Services (CCS).* The May Revision estimates total expenditures for CCS of \$85.9 million (\$78.2 million General Fund and \$7.7 million special funds and reimbursements) in 2022-23 and \$90.8 million (\$83.1 million General Fund and \$7.7 million special funds and reimbursements) in 2023-24. In addition, counties are estimated to contribute \$86.4 million in 2022-23 and \$82.6 million in 2023-24 to State-Only CCS expenditures. The CCS Medi-Cal caseload is estimated to be 198,920 in 2022-23 and 188,521 in 2023-24, and the CCS State-Only caseload is estimated to be 9,682 in 2022-23 and 12,134 in 2023-24.
 - *Genetically Handicapped Persons Program (GHPP).* The May Revision estimates total expenditures for GHPP of \$120.5 million (\$112.2 million General Fund, \$8.3 million special funds and reimbursements) in 2022-23 and \$129.1 million (\$128.7 million General Fund, \$392,900 special funds and reimbursements) in 2023-24. The GHPP Medi-Cal caseload is estimated to be 944 in 2022-23 and 936 in 2023-

Overview of the Governor's 2023-24 May Revision

24, and the GHPP State-Only caseload is estimated to be 668 in 2022-23 and 674 in 2023-24.

- *Every Woman Counts (EWC)*. The May Revision estimates total expenditures for EWC of \$31.6 million (\$6.7 million General Fund, \$5.4 million federal funds, and \$19.9 million special funds and reimbursements) in 2022-23 and \$33.2 million (\$8.1 million General Fund, \$5.5 million federal funds, and \$19.6 million special funds and reimbursements) in 2023-24. The EWC caseload is estimated to be 19,835 in 2022-23 and 20,561 in 2023-24.
- **Managed Care Organization (MCO) Tax.** The May Revision includes an expansion of the January budget proposal to renew the tax on managed care organizations (MCOs) to support the Medi-Cal program. The new tax, which would be effective April 1, 2023, through December 31, 2026, would result in a total of \$19.4 billion of funding over the tax period. The Administration proposes to use these resources as follows:
 - \$3.4 billion in 2023-24 to offset General Fund expenditures in the Medi-Cal program to address the General Fund shortfall. A total of \$8.3 billion would offset General Fund expenditures over the tax period.
 - \$11.1 billion would support investments to improve access, quality, and equity in Medi-Cal over an eight to ten year period. In 2023-24, these investments would include \$237 million (\$98 million General Fund) and \$580 million (\$240 million General Fund) annually thereafter to increase reimbursement rates for primary care, obstetric care, and non-specialty mental health care to 87.5 percent of the rates paid in the Medicare program. The remaining \$10.3 billion would be deposited in a special fund for future consideration of investments in the 2024-25 budget process.
- **Behavioral Health Bridge Housing.** The May Revision includes expenditure authority from the Mental Health Services Fund of \$500 million to reverse the delay of the Behavioral Health Bridge Housing program proposed in the January budget. \$250 million would offset General Fund expenditures for the program originally included in the January budget for 2023-24.
- **CalHOPE Program.** The May Revision includes expenditure authority from the Mental Health Services Fund of \$50.5 million to extend support for the CalHOPE program.

Overview of the Governor's 2023-24 May Revision

- **988 Suicide and Crisis Lifeline.** The May Revision includes additional expenditure authority from the 988 State Suicide and Behavioral Health Crisis Services Fund of \$15 million in 2023-24 to support 988 call center behavioral health crisis services.
- **Naloxone Distribution Project.** The May Revision includes additional expenditure authority from the Opioid Settlements Fund of \$141.3 million over four years to support expansion of the Naloxone Distribution Project.
- **Home- and Community-Based Services Spending Plan Extension.** The May Revision includes proposed extension of the state's Home- and Community-Based Services Spending Plan for six months until September 30, 2024, to support the IHSS Career Pathways Program and the Senior Nutrition Infrastructure Program.

DEPARTMENT OF PUBLIC HEALTH (DPH)

- **Public Health Workforce Restoration.** The May Revision includes General Fund expenditure authority of \$49.8 million over four years to restore the public health workforce programs adopted in the 2022 Budget Act and proposed for elimination in the January budget.
- **COVID-19 Response.** The May Revision includes a reduction in General Fund expenditures to support the state's COVID-19 response, primarily attributed to a ramp-down of emergency response activities consistent with the end of the state and federal public health emergency declarations.
- **AIDS Drug Assistance Program (ADAP) Estimate.** The May Revision includes estimated savings of \$68.2 million (\$582,000 federal funds, and \$67.7 million ADAP Rebate Fund) in 2022-23 and \$42.1 million (an increase of \$583,000 federal funds and a decrease of \$42.7 million ADAP Rebate Fund) in 2023-24 due to lower medication expenditures and premiums than previously estimated, partially offset by increase in Pre-Exposure Prophylaxis Assistance Program Costs.
- **ADAP Rebate Fund Loan.** The May Revision includes a loan of \$400 million from the ADAP Rebate Fund to support the General Fund.
- **Genetic Disease Screening Program (GDSP) Estimate.** The May Revision includes estimated savings in the Genetic Disease Testing Fund of \$7.9 million in 2022-23 and \$234,000 in 2023-24 for the Genetic Disease Screening Program, primarily due to updated caseload projections for the Prenatal Screening Program.

Overview of the Governor's 2023-24 May Revision

- **Women, Infants, and Children (WIC) Program Estimate.** The May Revision includes an increase of \$16.2 million (an increase of \$36.6 million federal funds and a decrease of \$20.4 million WIC Manufacturer Rebate Fund) in 2022-23 and an increase of \$59.7 million (an increase of \$64.3 federal funds and a decrease of \$4.6 million WIC Manufacturer Rebate Fund) in 2023-24 for the WIC Program, primarily due to increased costs for a fruits and vegetables benefit increase, increase in participation, increases in food inflation, and lower rebate revenues due to transition to a new infant formula contractor.

DEPARTMENT OF HEALTH CARE ACCESS AND INFORMATION (HCAI)

- **Distressed Hospital Loan Program.** The May Revision includes General Fund expenditure authority of up to \$150 million to provide interest-free cashflow loans to not-for-profit and public hospitals in significant financial distress or governmental entities representing closed hospitals, to prevent the closure of, or facilitate the reopening of, hospitals in California. This program was adopted by the Legislature in AB 112 (Committee on Budget), on May 4th, 2023.
- **CalRx Generic Naloxone.** The May Revision includes expenditure authority from the Opioid Settlements Fund of \$30 million in 2023-24 to support development of a lower cost, generic version of a naloxone nasal spray product through CalRx to make naloxone more available statewide.
- **CalRx Reproductive Health Care Drug Procurement.** The May Revision includes reappropriation of General Fund expenditure authority of \$2 million, originally approved in the 2022 Budget Act for reproductive health capital security needs, and proposes trailer bill language to instead procure mifepristone or misoprostol if necessary due to federal court decisions impacting the availability of these drugs.
- **Special Fund Loan Authority.** The May Revision includes authority to borrow \$150 million from the Hospital Building Fund and \$15 million from the California Health Data Planning Fund to support the General Fund. These loans would be repaid in 2026-27.

HUMAN SERVICES

DEPARTMENT OF SOCIAL SERVICES (CDSS)

California Food Assistance Program Expansion. The May Revision moves the timeline for expanding the California Food Assistance Program to adults age 55 and over regardless of immigration status to October 2025, representing a shortened timeline compared to the January 1, 2027 implementation date proposed in the Governor's January budget.

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.

CalWORKs Grant Increases. The May Revision proposes a 3.6 percent increase to CalWORKs Maximum Aid Payment levels, 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.

County CalFresh Administration Rebase. The May Revision includes \$406.5 million (\$159 million General Fund) to reflect a revised budget methodology for county CalFresh administration activities, pursuant to the 2022 Budget Act.

Federal Reimbursement of Food Benefit Theft. The May Revision includes \$42.9 million in federal financial participation for administration and automation activities associated with federal reimbursement of CalFresh benefit theft.

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 (IHSS) Minor Recipient Provider Eligibility. The May Revision includes \$60.7 million (\$27.9 million General Fund) ongoing to increase access to IHSS for minor recipients and their families.

Overview of the Governor's 2023-24 May Revision

Supplemental Security Income/State Supplementary Payment (SSI/SSP). The May Revision maintains \$146 million General Fund in 2023-24 and \$292 million ongoing for an SSP increase of approximately 8.6 percent, effective January 1, 2024.

Child Care. The May Revision proposes the following investments relating to child care programs within CDSS:

- **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 Fund 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.
- **Child Care Family Fee Waivers and 2022-23 Stipends.** The May Revision reflects budget early action that allows CDSS 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 CDSS to use approximately \$169.2 million in available federal funds to provide temporary stipends to state-subsidized child care providers.

Southern Border Humanitarian Support. The May Revision includes \$150 million General Fund one-time for the Rapid Response program, which funds sheltering for migrants and supports their safe passage through border regions in partnership with local providers.

Child Welfare Services – California Automated Response and Engagement (CWS-CARES) Project. The May Revision includes \$163.7 million (\$83.4 million General Fund) to support ongoing project development costs to continue the replacement of the case management system used by the state and local and tribal child welfare agencies to align with state and federal requirements. The May Revision also includes \$25 million General Fund, available over two years, to develop a bi-directional interface between CWS-CARES and the California Automated Welfare System (CalSAWS) to allow for data exchange necessary for federal foster care eligibility determinations.

Overview of the Governor's 2023-24 May Revision

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, in consultation with the Commission on Asian and Pacific Islander American Affairs.

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.

DEPARTMENT OF DEVELOPMENTAL SERVICES

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. Both programs had been suspended during the COVID-19 pandemic through department directive.

DEPARTMENT OF CHILD SUPPORT SERVICES (DCSS)

Child Support Pass-Through to Formerly Assisted Families Update. The May Revision includes a revised implementation date of April 2024 for the child support pass-through to formerly assisted families, due to a greater degree of system change complexity than previously anticipated in the Child Support Enforcement System. The revised implementation date results in approximately \$70 million General Fund revenue.

DEPARTMENT OF AGING (CDA)

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 to continue 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.

GENERAL GOVERNMENT AND LOCAL GOVERNMENT

ECONOMIC DEVELOPMENT

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

- **Partial Reallocation to City of Fresno Public Infrastructure Plan.** The Governor's January budget proposed a \$300 million allocation over three years for the Local Government Budget Sustainability Fund. The purpose of the Fund was to help counties with high levels of poverty and unemployment to maintain budget stability. The May Revision reallocates \$250 million from this Fund, directing it instead to the City of Fresno's Public Infrastructure Plan for investment in transportation, parking, green space, walkability, and water projects in the downtown area.
- **Increase in Technical Assistance to Small Businesses.** The May Revision proposes to allocate \$23.5 million in federal funds to the Office of the Small Business Advocate to provide technical assistance to small business applying for State Small Business Credit Initiative capital programs.
- **Decrease in California Small Business COVID-19 Relief Grant Program.** The May Revision proposes an additional \$50 million in reductions to the California Small Business COVID-19 Relief Grant Program. The Office of the Small Business Advocate (CalOSBA) administers the program. At the time of the Governor's January budget proposal, CalOSBA estimated that there would be \$92 million in unspent funding after all grants had been awarded. After further awards, CalOSBA now believes there will be an additional unspent amount remaining.

Overview of the Governor's 2023-24 May Revision

- **Extension of Deadlines for Office of the Small Business Advocate (Cal-OSBA) programs.** The May Revision proposes statutory changes to extend deadlines for several programs run by Cal-OSBA to allow additional time for awarding grants and for program closeout activities.

OFFICE OF PLANNING AND RESEARCH

- **Staffing Reconfigurations at the Office of Planning and Research (OPR).** The Governor's January budget proposed staffing increases at OPR in response to program growth. In light of declining state revenue, the May Revision proposes to reduce this staffing expansion by \$2 million and 10 positions. Of the remaining 16 new positions, 13 will be established as civil service positions as an initial step toward the use of state civil service classifications across OPR. At the same time, the May Revision proposes the establishment of a new Information Technology Unit within OPR with 15 positions at a cost of \$5.3 million per year.

HOUSING

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

- **Partial deferment of Foreclosure Invention Housing Preservation Program (FIHPP).** FIHPP is designed to preserve affordable housing and promote resident or nonprofit organization ownership of residential real property. The Budget Act of 2021 appropriated \$500 million through June 30, 2027 for the program. Funds are to be made available as loans or grants to eligible borrowers to acquire and rehabilitate properties at risk of foreclosure or in the foreclosure process. The May Revision proposes to defer \$345 million of that allocation. Instead of being allocated this year, the \$345 million deferral will be allocated to the program over the next four fiscal years.
- **Reversion of \$17.5 million from the Downtown Rebound Program.** The 2000 Budget Act allocated \$25 million to the Department of Housing and Community Development for the establishment of a Downtown Rebound Program. The program was intended to provide funding for the conversion of commercial and industrial structures into residential housing. Over two decades later, \$17.5 million of the original allocation remains unspent. The May Revision proposes to recapture this unspent amount and redirect it to the General Fund.

HOMELESSNESS

- The May Revision does not propose any major changes to the Governor's January budget proposals for addressing homelessness.

CANNABIS

- **Updated Allocation of the Cannabis Tax Fund.** The May Revision estimates \$567.4 million will be available for Allocation 3 purposes in 2023-24, which includes \$150 million General Fund to backfill the estimated declines in revenues. These figures reflect a total decrease of \$102.2 million compared to the Governor's budget estimate. AB 195 (Committee on Budget), Chapter 56, Statutes of 2022, requires that Allocation 3 programs are funded at a baseline of approximately \$670 million, and included a \$150 million General Fund appropriation to backfill revenues to help meet that baseline.
- Educations, 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)

DEPARTMENT OF GENERAL SERVICES

- **State Office Building Program.** The May Revision proposes a budgetary loan of \$500 million from the State Project Infrastructure Fund (SPIF) to the General Fund. The funds, earmarked for the Capitol Annex projects, are proposed to be returned to the fund as needed in 2024-25 and 2025-26.
- **Sacramento Region: New Richards Boulevard Office Complex Project.** The May Revision maintains the proposed \$402 million General Fund to pay for a portion of the construction loan for the design-build phase of the project.

SCHOLARSHARE INVESTMENT BOARD

- **California Kids Investment and Development Savings Program (CalKIDS) Workload.** The May Revision proposes a reduction of \$30 million one-time General Fund in 2022-23 to reflect revised estimates of the number of eligible students.
- **CalKids Implementation.** The May Revision proposes an increase of \$158,000 ongoing General Fund in 2023-24 to support the recent expansion of the CalKIDS program and financial literacy initiatives.

CORRECTIONS, PUBLIC SAFETY, and the JUDICIARY

CALIFORNIA DEPARTMENT OF CORRECTIONS & REHABILITATION

The May Revision includes total funding of \$14.4 billion (\$14 billion General Fund and \$374.6 million other funds) for the California Department of Corrections and Rehabilitation (CDCR) in 2023-24.

Adult Institution Population. The average daily adult incarcerated population for 2022-23 is projected to be 95,560, a decrease of 0.6 percent since the fall projections. The population is projected to continue to decline, reaching 92,882 in 2023-24 and 89,946 in 2025-26. This results in a net reduction of \$20 million (\$19.9 million General Fund and \$123,000 Inmate Welfare Fund) and 191.9 positions one-time and \$30.9 million (\$30.8 million General Fund and \$123,000 Inmate Welfare Fund) and 257.8 positions ongoing.

Parolee Population. The May Revision projects an overall parolee average daily population of 39,646 in 2022-23; 37,222 in 2023-24; and 36,061 by June 30, 2027.

Prison Closure. The May Revision includes refined estimates for the savings from closing prisons and facilities, including:

- \$150.3 million annually from the closure of Deuel Vocational Institution in September 2021.
- \$144.1 million annually from the upcoming closure of the California Correctional Center.

Overview of the Governor's 2023-24 May Revision

- \$155.7 million annually from the planned closure of California City Correctional Facility by March 2024.
- \$170 million annually from various facility deactivations at six institutions by the end of 2023.
- Unspecified future savings from the planned closure of Chuckawalla Valley State Prison by March 2025.

San Quentin Rehabilitation Center. The May Revision includes \$360.6 million Public Buildings Construction Fund for the demolition of an existing building and the construction of a new Educational and Vocational Center at San Quentin State Prison, and maintains the \$20 million General Fund that was included in the Governor's budget and \$500,000 that was included in the 2022 Budget Act for various improvement projects. The proposed budget also includes statutory changes to rename the facility to the San Quentin Rehabilitation Center, and trailer bill and budget bill language to provide design-build authority and other exemptions for the project.

Board of Parole Hearings. The May Revision includes \$4.2 million General Fund in 2023-24 and \$2.6 million ongoing to support the Board of Parole Hearings, including state-appointed attorney fees and support for the Board's information technology (IT) system, among other uses.

COVID-19 Direct Response. The May Revision reduces the amount of funding for CDCR's COVID-19 response by \$45 million, to a total of \$96.9 million one-time General Fund in 2023-24.

Other Reductions. The May Revision maintains reductions from the Governor's budget including \$30 million in deferred maintenance funding and \$30.9 million in staff vacancy savings.

Tele-Mental Health. The May Revision includes \$11 million General Fund and 85 positions in 2023-24 and \$17.3 million and 144 positions in 2024-25 to expand the use of tele-mental health to psychology and social work, in addition to its current use in psychiatry which began in 2014-15.

Contract Medical Adjustments. The May Revision includes an additional \$39.7 million ongoing General Fund to address a projected deficit in the budget for Contract Medical services, which supports the provision of specialty medical care services for the incarcerated population.

Overview of the Governor's 2023-24 May Revision

CalAIM Justice-Involved Initiative Adjustments. The May Revision includes \$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 the IT system needed to support the Medi-Cal billing process, in preparation for the implementation of the CalAIM Justice-Involved Initiative.

Division of Juvenile Justice Population. The May Revision maintains the reductions associated with the closure of the Division of Juvenile Justice (DJJ) on June 30, 2023.

Adjustments to Governor's Budget Proposals. The May Revision includes other minor adjustments to proposals included in the Governor's budget:

- **Comprehensive Employee Health Program.** The May Revision reduces the proposed Comprehensive Employee Health Program by \$7.7 million and 70 positions ongoing to right-size the program proposed in the Governor's budget.
- **SB 1008 Free Calling.** The May Revision reduces the funding available for SB 1008 (Becker), Chapter 827, Statutes of 2022 implementation, requiring CDCR to provide free voice calling to incarcerated individuals, by \$1.9 million ongoing to reflect actual free voice calling data since the beginning of the year and adjusted contract rates.

BOARD OF STATE AND COMMUNITY CORRECTIONS

Missing and Murdered Indigenous Persons Grants. The May Revision includes \$12 million General Fund (in addition to \$12 million provided in the 2022 Budget Act) to support a grant program to help California tribes locate and identify missing Indigenous persons.

Proposition 47. The Department of Finance estimates net General Fund savings of \$112.9 million in the 2023-24 May Revision. This is an increase of \$11.9 million over the Governor's budget projection. These funds will be allocated according to the formula outlined in the initiative, which requires 65 percent be allocated for grants to public agencies to support various recidivism reduction programs (such as mental health and substance use services), 25 percent for grants to support truancy and dropout prevention programs, and 10 percent for grants for victims' services.

Overview of the Governor's 2023-24 May Revision

Post Release Community Supervision. The May Revision includes \$9.3 million one-time General Fund in 2023-24 for county probation departments to supervise the temporary increase in the average daily population of individuals on Post Release Community Supervision as a result of the implementation of Proposition 57. This is an increase of \$1.1 million over the Governor's budget.

COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING

SB 2 Department of Justice Costs. The May Revision includes an additional \$6 million one-time in fiscal year 2023-24 and \$5.3 million ongoing to fund Department of Justice legal costs that will be incurred by the Commission on Peace Officer Standards and Training for the peace officer decertification proceedings that will be heard before an administrative law judge pursuant to Chapter 409, Statutes of 2021 (SB 2, Bradford).

OFFICE OF EMERGENCY SERVICES (CAL OES)

Flood Impacts. The May Revision includes resources for emergency response related to flooding, including a \$25 million Disaster Response Emergency Operations Account set aside and \$125 million contingency funding for activities related to the 2023 storms. See the Resources Section for additional information.

Nonprofit Security Grant Program. The May Revision includes \$10 million General Fund one-time to provide security assistance to nonprofit organizations at risk of hate-motivated violence, which includes members of the Asian American Pacific Islander, LGBTQ+, Black, 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 May Revision moves \$25 million in General Fund provided in the 2022 Budget Act for the Local Law Enforcement Gun Buyback Grant Program from the Board of State and Community Corrections to Cal OES, which will disburse the grants by January 1, 2024.

Statewide Disaster Warehousing Operations. The May Revision includes \$43 million and 15 positions for ongoing resources to support northern and southern California emergency response warehousing operation, including funding for long-term leasing and operation of the Dixon warehouse and managing personal protective equipment consistent with the SMARTER Plan.

Overview of the Governor's 2023-24 May Revision

Southern Region: Emergency Operations Center. The May Revision includes \$174.7 million one-time for the design-build phase of the Southern Region: Emergency Operations Center project.

DEPARTMENT OF JUSTICE

The May Revision includes total funding of approximately \$1.3 billion, including \$491.6 million General Fund, to support the Department of Justice (DOJ).

Litigation Deposit Loan Fund. The May Revision includes a \$400 million loan from the Litigation Deposit Fund to the General Fund in 2023-24 to assist in closing the budget shortfall, and statutory language to authorize this loan.

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.

April Adjustments. The May Revision reflects the following adjustments to the DOJ budget that were included in April Finance Letters:

- **Concealed Carry Weapon Permit.** The May Revision includes \$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 concealed carry weapon permits anticipated as a result of the federal court ruling.
- **Ammunition Authorization Program Fee Increase.** The May Revision includes statutory authority for the DOJ to adjust the ammunition purchase fee, and a loan of \$4.3 million from the General Fund in 2023-24 and 2024-25 to temporarily support the program.
- **Firearm Information Technology System Modernization Project (FITSM).** The May Revision includes \$7.5 million Dealer Record of Sale (DROS) Account in 2023-24 and \$2.6 million ongoing to continue the FITSM project, an increase of \$1.1 million in budget year and ongoing as compared to the April proposal.
- **Office of the General Counsel.** The May Revision reflects an April Proposal with net-zero cost to create the Office of the General Counsel, to provide general legal

Overview of the Governor's 2023-24 May Revision

advice within the DOJ, including related to conflicts of interest, legal ethics, document retention and data confidentiality, and other areas.

- **Criminal Records Relief (SB 731).** The May Revision reflects an April Proposal for \$1.8 million Special Fund in 2023-24 and \$1.5 million in 2024-25 to implement SB 731 (Durazo), Chapter 814, Statutes of 2022, and statutory changes for a delayed implementation date.
- **Sex Offender Registration.** The May Revision reflects an April Proposal for \$1.7 million ongoing General Fund for workload related to the tiered system for sexual offenders.

THE JUDICIAL BRANCH

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.

Appellate Court Support. The May Revision reflects an April Proposal to provide \$2.7 million Appellate Court Trust Fund in 2023-24 and \$2.3 million in 2024-25 and 2025-26 to address increases in the appellate court workload.

Community Assistance, Recovery, and Empowerment (CARE) Act. The May Revision includes the following resources for implementation for the CARE Act:

- **Judicial Branch.** An additional \$8.9 million 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, this provides \$32.7 million in 2023-24, \$55.3 million in 2024-25, and \$68.5 million ongoing to the Judicial Branch for CARE Act implementation.
- **Legal Services.** An additional \$16.8 million in 2023-24, \$29.8 million in 2024-25, and \$32.9 million ongoing to increase the number of hours per participant for legal services from 20 hours to 40 hours. This brings the total available for public defenders and legal services organizations to provide legal counsel to CARE participants to \$22.9 million in 2023-24, \$51.6 million in 2024-25, and \$64.4 million ongoing.

See Health and Human Services for more information.

Overview of the Governor's 2023-24 May Revision

Court Appointed Special Advocate Program. The May Revision restores \$20 million in 2023-24 and 2024-25 for the Court Appointed Special Advocate program, which was proposed for reductions in the Governor's budget.

Trial Court Trust Fund Backfill. The May Revision includes \$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. The May Revision reduces the funding available by \$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 AB 199 (Committee on Budget), Chapter 57, Statutes of 2021. 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. The May Revision includes reimbursement authority totaling \$5.9 million in 2023-24 and \$5.7 million in 2024-25 and 2025-26 for Judicial Council to improve the execution of firearm relinquishment orders and to expand collaborative courts. The program will be supported by federal funding through the Byrne State Crisis Intervention Program, passed from the Board of State and Community Corrections to the Judicial Branch.

Trial Court Employee Benefit Adjustment. The May Revision includes a reduction of \$21.4 ongoing to reflect the updated health benefit and retirement rate changes for trial court employees.

LABOR, PUBLIC EMPLOYMENT AND RETIREMENT

CALIFORNIA WORKFORCE DEVELOPMENT BOARD (CWDB)

- **Federal First Step Act Grant.** The May Revision includes \$5.33 million one-time federal funds to allow the California Workforce Development Board to implement a federal grant that expands the Prison 2 Employment program into federal prisons. It is also requested that provisional language be added to provide an extended encumbrance period for this funding to March 30, 2026.

DEPARTMENT OF INDUSTRIAL RELATIONS (DIR)

- **Women in Construction Priority Unit Restoration.** 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.
- **Resources to Implement Chapter 1, Statutes of 2023 First Extraordinary Session (SB 2 X1).** The May Revision requests that Item 7350-001-3121 be increased by \$286,000 and one position in 2023-24, and \$272,000 and one position in 2024-25 and ongoing, to provide resources for the Department of Industrial Relations to consult with the California Energy Commission to consider ways to manage oil refinery turnaround and maintenance schedules in a manner that considers workers' health and safety.
- **Extended Encumbrance for Resources to Implement Heat Advisory Study.** The May Revision requests budget bill language be added to item 7350-001-3121 to extend the encumbrance period from June 30, 2024 to June 30, 2025 for the implementation of AB 1643 (Robert Rivas), Chapter 263, Statutes of 2022 to align with the DIR's implementation proposed in the Governor's budget.

CALIFORNIA DEPARTMENT OF HUMAN RESOURCES (CALHR)

- **California State Payroll System (CSPS) Project.** The May Revision includes an increase by nine positions and \$2.9 million General Fund in fiscal year 2023-24, \$1.8 million General Fund in 2024-25, and \$2.0 million General Fund in 2025-26 and ongoing, to support the California State Payroll System project as it transitions from planning to implementation, maintenance, and operation. Resources in the

Overview of the Governor's 2023-24 May Revision

California Department of Human Resources (CalHR) support labor relations, data management and conversion, human resources training, classification and pay, marketing and outreach, and web development.

- **Legal Accounting and Work Management System (LAWS) Project Reappropriation.** The May Revision requests reappropriation language be added to extend the encumbrance or expenditure availability of \$1.7 million General Fund in 2023-24. This reappropriation allows CalHR to complete the Legal Accounting and Work Management System project approved in the 2022 Budget Act.

EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD)

- **Unemployment Insurance (UI) Loan Interest Payment and Unemployment Compensation Disability Fund Loan.** The Governor's budget included \$279 million one-time General Fund to pay the annual interest payment on the state's UI loan balance. The May Revision increases the January proposal by \$26.6 million one-time to align with the updated UI loan interest payment estimate of \$306 million. The May Revision also proposes a one-time loan of \$306 million from the Unemployment Compensation Disability Fund to the General Fund to support the state's payment of the UI loan interest payment. 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. The loan provision will include language to prevent the State Disability Insurance contribution rate from increasing because of the loan.
- **Unemployment Insurance Program Benefit.** The May Revision requests that Items 7100-101-0871 and 7100-111-0890 be increased by \$1.75 billion ongoing to align with updated forecast benefit payments. Additionally, Item 7100-101-0871, Budget Act of 2022, pursuant to Provision 3, is increased by \$889.6 million in 2022-23 to align with an estimated increase in claims.
- **Disability Insurance Program Benefits.** The May Revision requests that Item 7100-101-0588 be increased by \$661 million ongoing to align with updated State Disability Insurance (SDI) program benefit payment estimates. Additionally, Item 7100-101-0588, Budget Act of 2022, pursuant to Provision 2, is increased by \$444 million in 2022-23 to align with estimated SDI benefit claims.

Overview of the Governor's 2023-24 May Revision

- **Workforce Innovation and Opportunity Act (WIOA) Allocations.** The May Revision requests that Items 7100-001-0869 and 7100-021-0890 be increased by \$5 million one-time in 2023-24, and Items 7120-101-0869 and 7100-101-0890 be increased by \$49 million one-time in 2023-24, to align WIOA authority with estimated federal allocations. Additionally, Item 7100-101-0869, Budget Act of 2022, pursuant to Provision 1, is increased by \$7.2 million in 2022-23, to align with anticipated federal allotments of nondiscretionary WIOA funds for local workforce development areas.
- **Direct Deposit Implementation.** The May Revision requests that Item 7100-001-0001 be increased by \$6.34 million in 2023-24 and \$1.68 million in 2024-25; Item 7100-001-0185 be increased by \$878,000 in 2023-24, \$5.84 million in 2024-25, and \$4.6 million ongoing; Item 7100-001-0588 be increased by \$7.6 million in 2023-24, \$6.47 million in 2024-25, and \$3.59 million ongoing; and Items 7100-001-0870 and 7100-011-0890 be increased by \$597,000 in 2023-24 and \$425,000 ongoing; for the EDD implementation of a direct deposit option for claimants applying for its benefit programs.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

- **CalPERS State Contributions.** 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 January budget. The Governor's budget previously proposed \$8.5 billion (\$4.7 billion General Fund) for the statutorily required annual state contribution to CalPERS for state pension costs based on the CalPERS actuarial valuation projected contribution rates as of June 30, 2021. 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.
- **CalPERS Unfunded Liability.** The January budget included \$1.2 billion one-time Proposition 2 debt repayment funding as a supplemental payment toward the state plans' unfunded liabilities. 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.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (CALSTRS)

- **State contributions.** State contributions to the California State Teachers' Retirement System (CalSTRS) increased by \$8.8 million General Fund in 2023-24, relative to the Governor's January budget, due to a revision in reported compensation for K-12 and community college teachers. The Governor's 2023-24 budget proposal included \$3.9 billion General Fund in required contributions to CalSTRS. No supplemental payment to CalSTRS is proposed in 2023-24, in contrast to past few years.

CALIFORNIA PUBLIC EMPLOYMENT RELATIONS BOARD

- **California Public Employment Relations Board.** The May Revision includes a \$22,000 General Fund increase in fiscal year 2023-24, and ongoing, to provide a necessary position upgrade within the California Public Employment Relations Board's Division of Administrative Law (Division). This request realigns the Division's structure to provide better mentorship and supervision.

EMPLOYEE COMPENSATION

- **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.

TRANSPORTATION

- **Transportation Infrastructure Package.** The May Revision maintains \$11.6 billion, which is the same level of funding that was proposed in January. Specifically, this includes:
 - \$5.65 billion for transit and rail infrastructure.
 - \$4.2 billion for the High-Speed Rail Authority to continue building the 119-mile Central Valley Segment.
 - \$1.4 billion for Active Transportation Program projects, the Highways to Boulevards Pilot, and bicycle and pedestrian safety projects.
 - \$350 million for grade separation projects.
- **Supply Chain and Goods Movement Package.** The May Revision maintains \$1.2 billion for projects that improve goods movement on rail and roadways at port terminals, but shift \$150 million from General Fund to the State Highway Account.
- **Motor Vehicle Account.** The May Revision projects that the Motor Vehicle Account (MVA) will be insolvent at the end of 2024-25. The Administration is exploring potential revenue and expenditure solutions for the fund. 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, given the shift of the federal REAL ID enforcement date from May 2023 to May 2025.
- **Department of Transportation.** The May Revision includes \$39 million and 143 positions for the Capital Outlay Support Program project delivery workload.