



Step 2:
Senate Democrats' Plan
to
Protect Our Progress
April 26, 2023



PROTECT
OUR

Progress



Senator Toni G. Atkins

President pro Tempore

Senator Nancy Skinner

Chair, Committee on Budget and Fiscal Review

Senator John Laird

Chair, Subcommittee 1

Senator Josh Becker

Chair, Subcommittee 2

Senator Caroline Menjivar

Chair, Subcommittee 3

Senator Stephen C. Padilla

Chair, Subcommittee 4

Senator Maria Elena Durazo

Chair, Subcommittee 5

Evolution of Budget Development

- **Step #1: Senate Key Values**.....Released in March
- **Step #2: Detailed Senate Budget Plan**.....*Included*
- **Step #3: Senate/Legislature Version**.....Late May
- **Step #4: Final Version**.....Mid June



Introduction

California's economy remains sound, and is expected to soon be the fourth largest economy in the world.

But economic challenges – from high inflation, to the slumping stock market, to tech sector layoffs – have resulted in lower revenue forecasts than projected in the Budget Act of 2022.

Thankfully, the Democrats' ***Decade of Responsible Budgeting*** has prepared California to withstand these economic challenges.

Therefore, the Senate's "***Protect Our Progress***" budget avoids ongoing cuts to core programs and middle class tax increases – things that actually cause more harm to the economy and make the budget condition worse.

In early March, the Senate Democrats released the "Key Values" document as the first step in developing the Protect Our Progress budget plan. The Key Values are:

- **Key Value #1:** Protect Our Progress of recent budget achievements from significant cuts.
- **Key Value #2:** Protect Our Progress through strong oversight to ensure effective and accountable implementation of recent commitments.
- **Key Value #3:** Protect Our Progress by maintaining commitment to Responsible Budgeting and Resiliency, even in tough times.
- **Key Value #4:** Protect Our Progress while developing options for making even more progress once economy rebounds.

With these Key Values as the foundation, this document serves as the second step in developing the final State Budget. The comprehensive details of this document will serve as the starting point for negotiations with the Assembly and the Administration in crafting the final budget.



Three important points about this document:

- First, as with any preliminary budget plan, this document is a starting point for negotiations with the Assembly and the Administration. As with any negotiation, not every aspect of this plan will be in the final agreement.
- Second, this plan is based on the Governor's January 10 revenue forecast, the most current comprehensive forecast available. It is well within possibilities that the budget condition worsens with the upcoming updated forecasts in May. Should that be the case, then some of the solutions included in this plan may need to be expanded, some of the one-time solutions that the Governor has proposed that this plan avoids may need to be reconsidered, and perhaps reserves may need to be used. But, under no potential forecast is it envisioned that ongoing cuts to core programs or middle class tax increases would need to be included in the 2023-24 budget.
- Third, while at this time this is a Senate document, some proposals and approaches are a product of the unprecedented cooperation and collaboration in recent years between the budget staffs of the Senate and the Assembly – both at the committee and leadership level. That collaboration has improved this proposal and should assist in the reaching of an agreement on a combined Legislative Budget Plan.

The Protect Our Progress budget accomplishes all of the following:

- Includes \$26 billion in solutions to close the \$16.6 billion budget gap identified in the Governor's proposed budget, fund targeted new discretionary proposals from the Governor and the Legislature, and provide a prudent Regular Reserve (SFEU) of \$5.1 billion and total reserves of \$38.1 billion.
- Follows the Governor's lead of containing no ongoing cuts, but also avoids many of the spending reductions to temporary allocations that the Governor proposed.
- Continues commitment to Responsible Budgeting by:
 - Balancing each year's budget and building bigger total reserves than proposed by the Governor throughout the forecast period;
 - Avoiding withdrawals from the Rainy Day Fund in 2023-24 so that it is available to protect programs in future years' budgets; and



PROTECT
OUR

Progress



- Incorporating a new budget resiliency tool to smooth out the budget impacts on NOL tax benefits.
- Cuts taxes by over \$4 billion with:
 - \$25% cut to small business taxes.
 - Improving the Renters Tax Credit and CalEITC.
 - Implementing the Workers Tax Fairness Credit.
- Partially reverses the federal Trump Tax cuts for Big Corporations at the state level by increases taxes on the top 0.2% of corporations, with revenue generated being dedicated to:
 - Tax cuts for small businesses, renters, lower income Californians, and union workers.
 - Targeted ongoing spending increases of about \$1 billion each for schools, child care, and homelessness reductions.
- Creates a \$10 billion Housing and Infrastructure Fund to fund one-time projects and programs that the Governor proposes to cut or delay. This includes funding affordable housing, transit infrastructure, broadband, clean energy, student housing, school facilities, and more.
- Ends the rip-off of CoveredCA penalty funds and puts those funds to work to further lower the costs of health coverage for lower and middle income Californians.
- Provides roughly \$3 billion in additional Proposition 98 funding.
- Makes additional targeted new non-Prop 98 General Fund investments – at a level roughly equal to that which the Governor proposed – responsibly within the confines of the state’s budget condition.
- Continues efforts to strengthen Legislative oversight to ensure effective and accountable implementation of budget investments.

Dollar figures in this document are based on preliminary scoring and are subject to refinement, revision and updates.



PROTECT
OUR

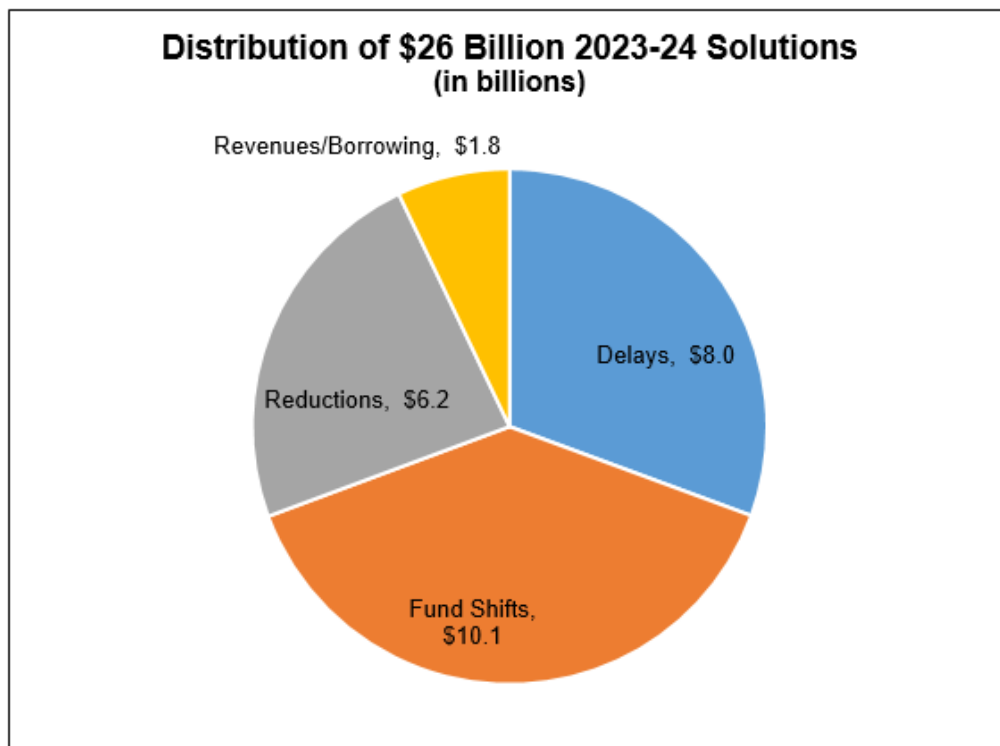
Progress



Summary

The “Protect Our Progress” Budget Plan:

- ✓ ***Starts with Responsible Budgeting;***
- ✓ ***Provides Major Tax Cuts for small businesses, renters, low-income workers, and union members;***
- ✓ ***Rejects Cuts and Delays that the Governor has proposed to key infrastructure & housing investments;***
- ✓ ***Makes Targeted New Ongoing Investments for schools, homelessness, and child care; and***
- ✓ ***Leads the nation, once again, with California beginning to have Big Corporations pay a portion of their fair share.***





PROTECT
OUR

Progress



Summary

How the Protect Our Progress Plan is Ballanced

(in billions)

(positive numbers help bottom line, negative numbers hurt bottom line)

	Thru			
	2023-24	2024-25	2025-26	2026-27
Starting Problem (Governor's Jan 10)	-16.7	-35.5	-51.5	-57.2
Actions:				
Reductions	6.2	6.6	9.0	0.8
Delays	8.0	1.8	2.9	1.6
Fund Shifts	10.1	1.4	-0.6	-0.6
Revenues/Borrowing	1.8	2.1	2.2	2.0
Approve Gov Discretionary Proposals	-1.6	-0.5	-0.5	-0.4
Approve Leg Discretionary Proposals	-2.7	-1.2	-1.2	-1.4
Rainy Day Fund Transfer	0.0	5.0	4.5	3.5
Impact of Prior Years' Actions		21.8	36.8	53.2
<i>Subtotal</i>	<i>21.8</i>	<i>36.8</i>	<i>53.2</i>	<i>58.6</i>
Final Regular Reserve (SFEU)	5.1	1.3	1.7	1.5
Total Reserves:				
SFEU	5.1	1.3	1.7	1.5
Safety Net Reserve	1.9	1.9	1.9	1.9
Prop 98 Rainy Day Fund (PSSSA)	8.2	8.2	8.2	8.3
Rainy Day Fund (BSA)	23.0	18.4	14.5	11.3
Total Reserves	38.1	29.8	26.2	22.9



PROTECT
OUR

Progress



Responsible Budgeting

The Protect Our Progress budget plan continues the Legislature's efforts to make Responsible Budgeting a top priority.

The primary Responsible Budget elements of the Protect Our Progress budget plan are: avoid use of the Rainy Day Fund in 2023-24 and building larger total reserves over the forecast period; developing a new budget resiliency tool to mitigate the need to use reserves or cut programs in down turns; and beginning the conversation to make the necessary Constitutional changes to avoid a threat to California's fiscal health due to conflicting Constitutional requirements.

Stronger Reserves

- **Protect the Rainy Day Fund.** Like the Governor's proposal, the Protect Our Progress budget plan does not dip into the Rainy Day Fund to balance the 2023-24 budget.

The Rainy Day Fund was created to protect core programs, such as K-12, Childcare and Higher Ed Funding, CalWORKs, Medi-Cal, IHSS, SSI/SSP, CalFresh, and public safety from being slashed – as they had so many times before – during temporary economic downturns.

Under the current forecast core programs are not threatened in 2023-24, but budget challenges remain beyond 2023-24. Therefore, the responsible action is to avoid withdrawals from the Rainy Day Fund this year, to ensure there is maximum protection for core programs in the coming years.

- **Multi-Year Balanced Budget.** Through a combination of stronger solutions and out year allocation of a portion of the Rainy Day Fund, the Protect Our Progress budget plan is balanced throughout the forecast period, with no cuts to core programs.

Under the Governor's proposal, the budget is out of balance by over \$5.2 billion as soon as 2024-25. While not explicit, presumably the Governor's long term plan is to close the out year budget gap with additional solutions and through the use of reserves.

The Protect Our Progress budget plan accomplishes that now to help provide more budget certainty. Remarkably, even after balancing the budget through 2026-27, the state will still have historically high total reserves of \$23.3 billion, including \$11.4 billion in the Rainy Day Fund.

- **Stronger Safety Net Reserve.** The Safety Net Reserve was developed to address the challenge the safety net programs – like CalWORKs and Medi-Cal –



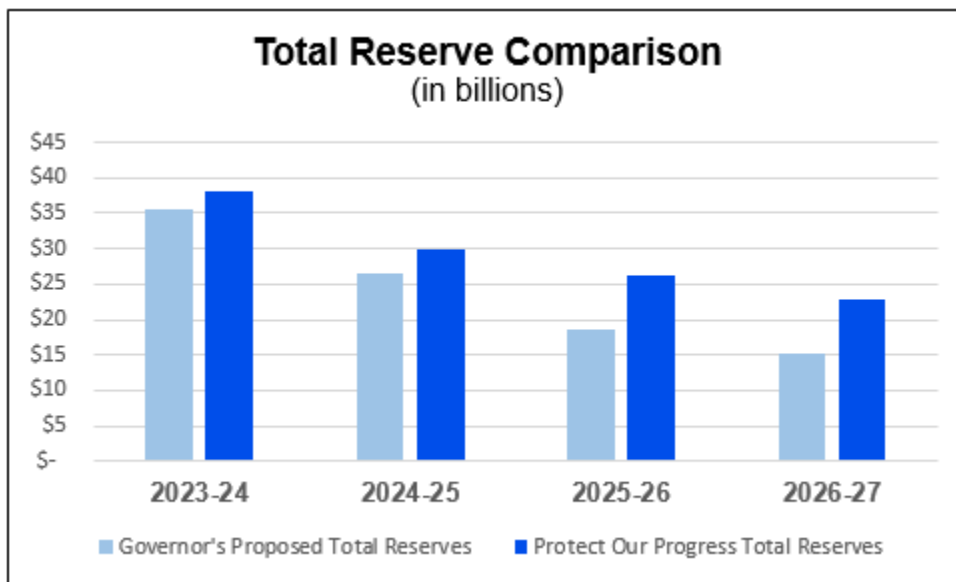
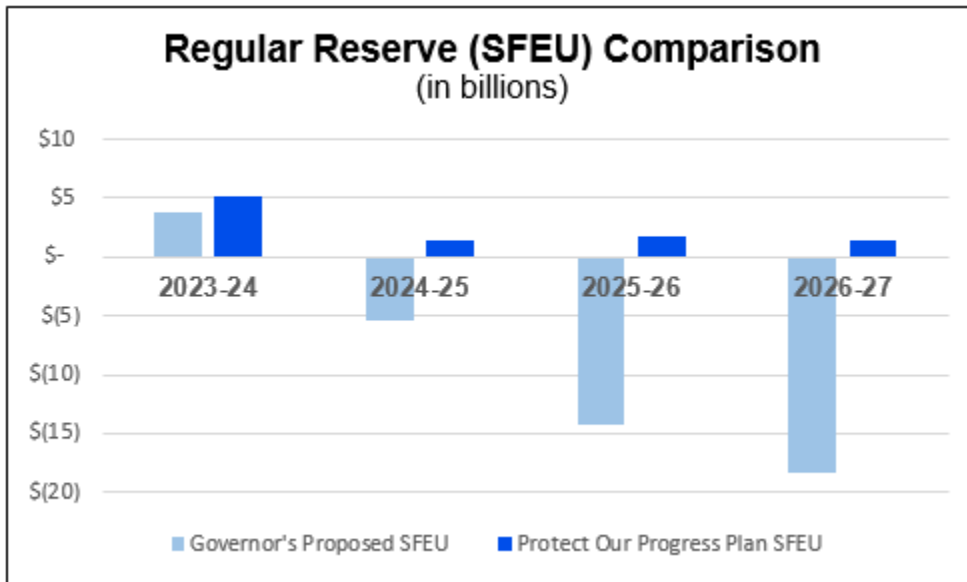
PROTECT
OUR

Progress



typically have growing costs during economic downturns when job losses occur. This is also the times when the budget can least afford the increased costs. So, the Safety Net Reserve is intended to help buffer the growing costs and help avoid program costs.

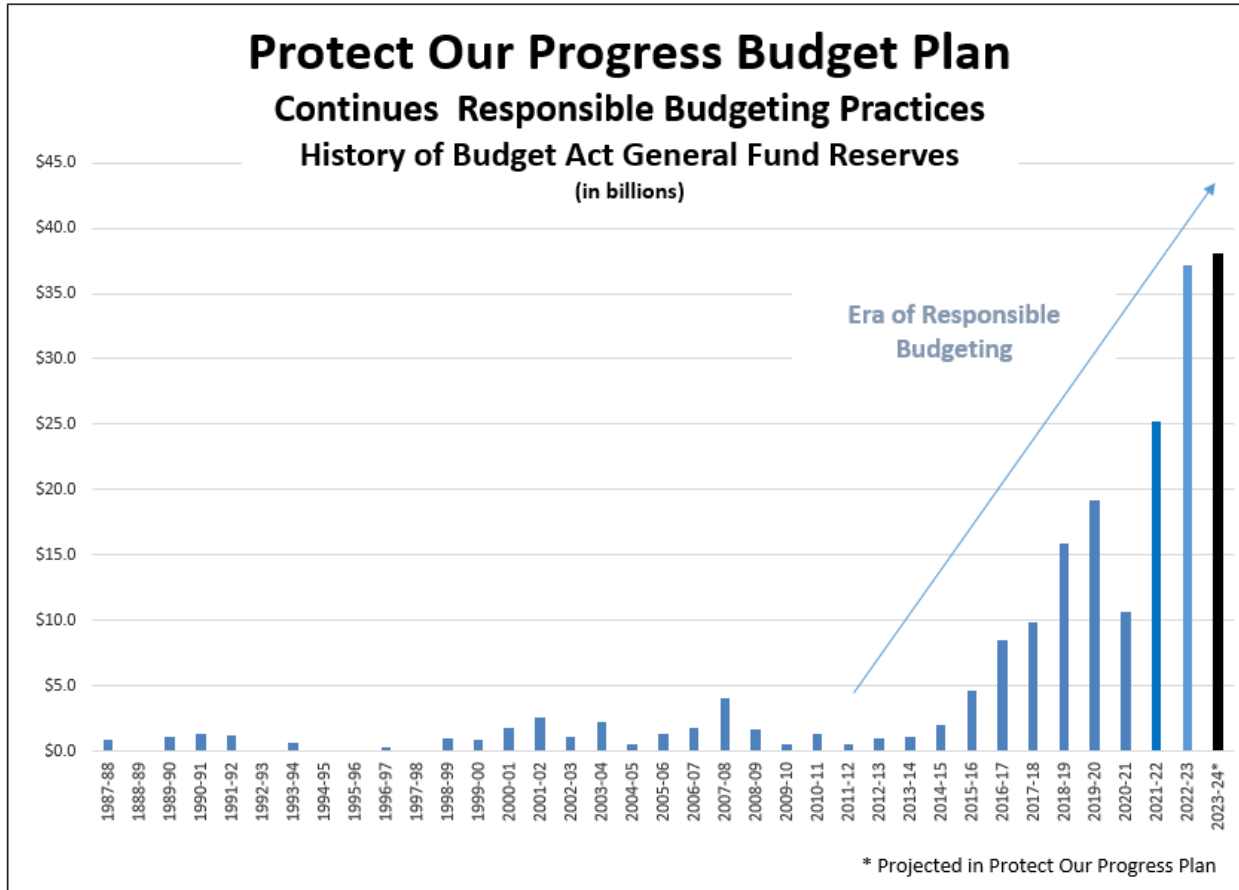
Unfortunately, the Safety Net Reserve has not grown beyond the fairly modest level of \$900 million. While this amount is helpful, a larger Safety Net Reserve will be more effective. Therefore, the Protect Our Progress budget plan more than doubles the size of the Safety Net Reserve to over \$2 billion in 2023-24.





PROTECT OUR

Progress



New Budget Resiliency Tool

- **Background.** California has made great strides in recent years in develop budget resiliency tools to help the state weather economic downturns without economically harmful cuts to programs or middle class tax increases.

These tools have included building historic budget reserves, allocating temporary funds for temporary purposes, and effective use of deferrals for schools and other programs. These tools generally limit the expenditure side of the budget, not the revenue side.

Expanding budget resiliency tools with a more balanced approach ensures the budget does not need to immediately dip into reserves when challenging times arrive and better protects core programs should challenging times linger.

Therefore, the Protect Our Progress budget plan includes the following resiliency tool.



PROTECT
OUR

Progress



- **Not Your Parents' NOL Suspension.** Under current law, businesses are allowed to deduct net losses from prior years to offset gains in profitable years to lower their tax burden in those years.

During past economic downturns, including in 2020, the state has “suspended” the use of Net Operating Losses (NOLs) from prior years during a specified time period. Businesses have been able to carry forward those NOLs to use once the suspension period ended. So, in some ways the suspensions have been considered a deferral of a tax benefit.

However, it has turned out that only 20 percent of past NOLs have been able to be used in future years, meaning businesses lost 80 percent of the tax benefit of the NOLs. This means the suspensions resulted in tax increase, not just a delay in the tax benefit.

The Protect Our Progress budget plan outlines a new approach that ensures the tax benefit will truly only be deferred and not actually lost to businesses. This new approach that is much fairer to businesses and results in no long term tax liability increase, with the following NOL Deferral resiliency tool:

- In any year in which a “budget emergency” can be declared (as defined in the Constitution for the purpose of the Rainy Day Fund), the NOL Deferral Program takes effect. The Legislature can take action to block the deferral program from taking effect.
 - When in effect, businesses calculate their taxes as if they can use their available NOLs. But, instead of getting the tax benefit that year, they are provided a dollar-for-dollar tax benefit to be used in the future.
 - The future tax benefits would be eligible to be used over a five year period (20 percent per year) beginning four years after the year the deferral occurred. And the benefits can be used even if the entity has no tax liability in those future years. And the benefits will be transferable, in the event a business wanted to sell the benefit to receive an immediate fiscal benefit.
 - So, unlike past NOL suspensions, where businesses lost 80 percent of the tax relief of NOLs, the Protect Our Progress NOL Deferral Program will protect 100 percent of the tax benefit for businesses, only deferred to a later date.
- **Impact on the Protect Our Progress Budget Plan.** Under the Protect Our Progress budget plan, the NOL Deferral Program, along with suspension of other associated credits, provides roughly \$5 billion in budget resiliency each year of the forecast period, providing about \$2 billion to protect schools and community college funding and \$3 billion to protect the rest of the General Fund.



Highlights of “Protect Our Progress” Proposals

This section highlights significant proposals of the Protect Our Progress budget plan, including approval of the Governor’s solutions and other proposals, changes to the Governor’s solutions and other proposals, and new Senate solutions and proposals.

This section begins with four crosscutting issues, the final three of which are related, followed by proposals divided by subject matter.

Crosscutting Proposals

New \$10 billion Housing and Infrastructure Fund:

- The Protect Our Progress creates a new \$10 billion Housing and Infrastructure Fund (HIF) for the primary purpose of funding programs and projects approved in last year’s budget that the Governor has proposed to cut or delayed.
- The HIF will fund critical investments that are either not funded or are delayed under the Governor’s proposed budget:
 - \$1.7 billion for Affordable Housing, including:
 - \$800 million for additional support for the California Dream For All program, which when added to the \$200 million appropriated but not allocated in the current year, will provide a total to \$1 billion above what has already been allocated.
 - \$500 million for additional state Low-Income Housing Tax Credits (LIHTC) to catalyze the construction of shovel-ready affordable housing projects.
 - \$300 million for expanded affordable housing development investment, with program allocation flexibility to match demand.
 - \$100 million for CalHome that the Governor proposes to cut.
 - \$50 million for Accessory Dwelling Unit construction that the Governor proposes to cut.
 - \$2.25 billion for Transportation Infrastructure projects, including:
 - \$400 million of Ports and Goods Movement that the Governor proposes to be delayed.



PROTECT
OUR

Progress



- \$350 million for Grade Separations the Governor proposes to be delayed.
- \$1.0 billion for Transit and Intercity Rail Capital Outlay that the Governor proposes to be cut.
- \$500 million for the active Transportation Program that the Governor proposes to be cut.
- \$650 million for Schools Infrastructure projects, including \$100 million for the Schools Facility Program the Governor proposes to cut and \$550 million for Full-Day Kindergarten the Governor proposes to delay.
- \$1.5 billion for Higher Education Infrastructure projects, including:
 - \$900 million for the Student Housing Revolving Loan Fund that the Governor proposes to delay.
 - \$250 million for the Student Housing Grant Program that the Governor's proposes to delay.
 - \$366 million for specific projects at UC Berkeley, UC Riverside/Merced, and UCLA Institute for Immunology and Immunotherapy that the Governor proposes to delay.
- \$481 million for Behavior Health Continuum that the Governor proposes to delay.
- \$100 million for Library Infrastructure Projects that the Governor proposes to be delayed.
- \$2.1 billion for Clean Energy Projects that the Governor proposes to delay, shift to Greenhouse Gas Reduction Fund, or be cut, including:
 - \$125 million for Clean Cars 4 All and other equity programs that the Governor proposes to shift to the GGRF.
 - \$210 million for ZEV Infrastructure grants that the Governor proposes to be cut.
 - \$160 million for Equitable At-Home Charging that the Governor proposes to shift to the GGRF.
 - \$165 million for Drayage Trucks and Infrastructure that the Governor proposes to shift to the GGRF.
 - \$242 million for Transit Buses and Infrastructure that the Governor proposes to cut.
 - \$150 million for School Buses and Infrastructure that the Governor proposes to cut.



PROTECT
OUR

Progress



- \$98 million for Clean Trucks, Busses and Off-Road Equipment that the Governor proposes to shift to the GGRF.
 - \$100 million for Ports that the Governor proposes to shift to the GGRF.
 - \$140 million for Community-Based Plans, Projects, and Supports of Sustainable Community Strategies that the Governor proposes to cut.
 - \$70 million for Emerging Opportunities investments the Governor proposes to be cut.
 - \$40 million for Charter Boats compliance that the Governor proposes to shift to the GGRF.
 - \$370 million for Equitable Building Decarbonization that the Governor proposes to be delayed.
 - \$270 million for Residential Solar and Storage projects that the Governor proposes to be cut.

 - \$1.125 billion for Broadband investments, including \$550 million for “Last Mile” and \$575 million for loan Loss Reserve, both of which the Governor proposed to be delayed.

 - \$402 million for the Richards Boulevard state building project that the Governor proposes to be spent with the General Fund.
- Revenue for the Housing and Infrastructure Fund will come from the historic cash balances that have accumulated during the decade of responsible budgeting. These funds are otherwise invested by the Treasury in usually low yield investments.

Therefore, this program can be looked at as the state investing in the Housing and Infrastructure Fund, and the funds will be repaid to the cash accounts at the same rate of return that otherwise would have been earned. The state has borrowed from our cash balances before, including X and X.

All of the programs and projects funded are one-time in nature and infrastructure related, and therefore are appropriate to be funded with internal borrowing. In fact, state buildings and other infrastructure projects are commonly funded with borrowed funds and the Governor has made numerous new proposals to shift costs to bond funds.

The advantages of using internal borrowed funds for the projects funded by the Housing and Infrastructure Fund is that the debt service costs will be cheaper than outside bond borrowing and there is broader eligibility for internally borrowed funds than the narrow eligibility of bond funds.



PROTECT
OUR

Progress



- In summary, the ability to create the Housing and Infrastructure Fund is another great example of how important the decade of responsible budgeting has been. Because of the smart decisions and budget restraint, targeted new affordable housing investments can be made and other critical infrastructure investments throughout the budget can be saved from being delayed or cut.

25% Small Business Tax Cut & Targeted Tax Relief Program.

- ***\$2.2 billion (\$1.7 billion ongoing) Small Business Tax Cut for over 99.7 Percent of Businesses.*** Cuts tax rate for C Corporations from 8.84% to 6.63% on the first \$1.5 million of corporate taxable earnings beginning with the 2023 tax year. (This includes corresponding reductions for S Corps and reduction in the minimum tax from \$800 to \$600 for all business entities.)
 - Lowers taxes for 99.7 percent of all corporate tax filers.
 - Examples of tax savings for C Corporations:
 - Very Small Business with \$100,000 in taxable income: Cuts tax from \$8,840 to \$6,630.
 - Successful Small Business with \$500,000 in taxable income: Cuts tax from \$44,200 to \$33,150.
 - Thriving Small Business with \$1.5 million in taxable income: Cuts tax from \$132,600 to \$99,450.
- ***\$1.9 Billion (\$1.5 billion ongoing) Targeted Tax Relief.*** Reforms and increases the Renters Tax Credit, expands the CalEITC, and implements the Workers Tax Fairness Tax Credit.
 - ***Renters Tax Credit.*** Provides \$700 million to increase the Renters Tax Credit and to reform the program to benefit taxpayers with children and to make the credit refundable beginning with the 2023 tax year. The improvements will cut taxes for 3,250,000 taxpayers, with the following details:
 - For Joint Filers and Heads of Households *with no* dependents, increases the credit from \$120 to \$250, a 108% increase.



PROTECT
OUR

Progress



- For Joint Filers and Heads of Households *with* dependents, increases the credit from \$120 to \$500, a 316% increase.
 - For Single Filers *with no* dependents, increases the credit from \$60 to \$250, a 316% increase.
 - For Single Filers *with* dependents, increases the credit from \$60 to \$500, a 733% increase.
 - Makes the Renters Tax Credit refundable, recognizing that lower income Californians often do not have an income tax liability, but still certainly pay other state and local taxes and should benefit from the credit.
- California Earned Income Tax Credit. Provides \$600 million (\$400 million ongoing) to set a minimum CalEITC amount at \$275 million beginning with the 2023 tax year. While the CalEITC has been transformative to those that qualify for larger amounts, roughly 88 percent of CalEITC recipients receive less than \$275, and providing a meaningful minimum will encourage more to file taxes and receive their CalEITC benefit.

Over 3,100,000 California households will benefit by setting the minimum CalEITC at \$275.

- Workers Tax Fairness Tax Credit. Provides \$400 million ongoing to activate the Workers Tax Fairness Tax Credit. The Budget Act of 2022 established the Workers Tax Fairness Tax Credit in statute to set the stage for union workers to get a similar tax benefit to what typically higher paid professions enjoy. However, the future Legislative action is needed to activate the tax credit.

This package activates the Workers Tax Fairness Tax Credit starting in the 2024 tax year to change union dues from being a tax deduction to be a tax credit, so that as many as 2,500,000 workers can get the tax benefit.

New \$3.1 Billion for Critical Needs

- **\$3.1 billion (about \$2.8 billion ongoing) for Critical Needs.** While the economy remains sound, budget challenges and risks to programs remain.

The funds will address these challenges in the targeted ways:



PROTECT
OUR

Progress



- Homeless Housing, Assistance, and Prevention Program (HHAP). Provides \$1 billion in *ongoing funds* to support the HHAPP program to provide local governments the certainty that funds will continue so they can take long-term actions needed to make a difference in addressing homelessness and to meet strong new accountability measures.
- Child Care Rates. Provides \$800 million in new funds, which, along with other diverted funds and federal funds, will provide over \$1 billion to increase Child Care rates.
- Safety Net Reserve. Provides \$1.0 billion additional deposits into the Safety Net Reserve in 2023-24 to more than double the size of the reserve to \$2.0 billion. The Safety Net Reserve was established to assist critical “countercyclical” safety net programs, such as CalWORKs and Medi-Cal, that usually see caseloads and costs grow during economic downturns – when the state is least equipped to cover the increased costs.
- Pre-K – 12 Schools / Community Colleges. Provides roughly \$1.3 billion (roughly \$1 billion ongoing) in Proposition 98 funds to support local schools and community colleges meet critical needs, including Community Colleges working to address the nursing shortage. These funds, along with \$2 billion identified elsewhere in this plan, provide more than \$3 billion in additional annual funding above the Governor’s proposed budget.

Partial Reversal of Trump Tax Cuts for Big Corporations.

- ***Partial Reversal of Trump Tax Cuts.*** Under President Trump, the federal Corporate Tax Rate was cut from 35% to 21%, a reduction of 14 percentage points. Since then, national Democrats have been working to reverse the Trump corporate tax cuts, with President Biden’s latest budget proposal calling to partially restore the rates to 28%. Given partisan divide in Congress, it is unlikely that that President Biden proposal will succeed in the near future.

California’s Corporate Tax Rate has not changed since it was lowered to 8.84% in 1997, after having been as high as 9.6% previously. The combined current federal and state rates are 29.84%, well below pre-Trump tax cut level of 43.84%.

With President Biden’s effort unlikely to succeed at the federal level, the Protect Our Progress budget plan partially restores the Trump tax cuts at the state level for the biggest corporations by creating an upper bracket at 10.99% for C



Corporations with taxable corporate income over \$1.5 million. This impacts just 0.2% of all corporate tax filers.

Therefore, together with the 25% tax cut for small businesses, the Protect Our Progress budget plan changes the current flat tax rate for C Corporations of 8.84% into two rates:

- 6.63% for the first \$1.5 million in taxable income.
- 10.99% for taxable income over \$1.5 million.

The new 10.99% will sunset if the Trump Tax Cuts for big corporations are fully restored so that the combined rates will never exceed the combined rates that were in effect prior to the Trump Tax Cuts for big corporations.

While S Corporations will receive a 25% tax reduction on their first \$1.5 million of taxable income, they will not be subject to an increase above current tax rates on income over \$1.5 million.

All told, over 1.6 million business filers will receive a tax cut, while only about 2,500 of the biggest tax filers will have a tax increase. And California will become the 14th state to have multiple Corporate Tax Brackets. The primary 6.63% bracket will be a lower tax rate than 19 other states and the District of Columbia.

With this action, about \$7.2 billion in 2023-24 (\$6 billion ongoing) is generated to cover the costs of:

- \$4.1 billion (\$3.2 billion ongoing) for tax cuts:
 - \$2.2 billion (\$1.7 billion ongoing) for 25% Tax Cut for Small Businesses.
 - \$1.9 billion (\$1.5 billion ongoing) for targeted tax relief for the Renters Tax Credit, CalEITC, and Workers Tax Fairness Credit.
- \$3.1 billion (\$2.8 billion ongoing) for critical needs:
 - \$1.0 billion to address Homelessness through HHAPP program.
 - \$1.2 billion (\$1.0 billion ongoing) in Proposition 98 funds for schools and Community Colleges.
 - \$0.8 billion ongoing for Child Care Rate enhancements, beginning in 2024-25.
 - \$1.0 million for the Safety Net Reserve in 2023-24.

Some important points:



PROTECT
OUR

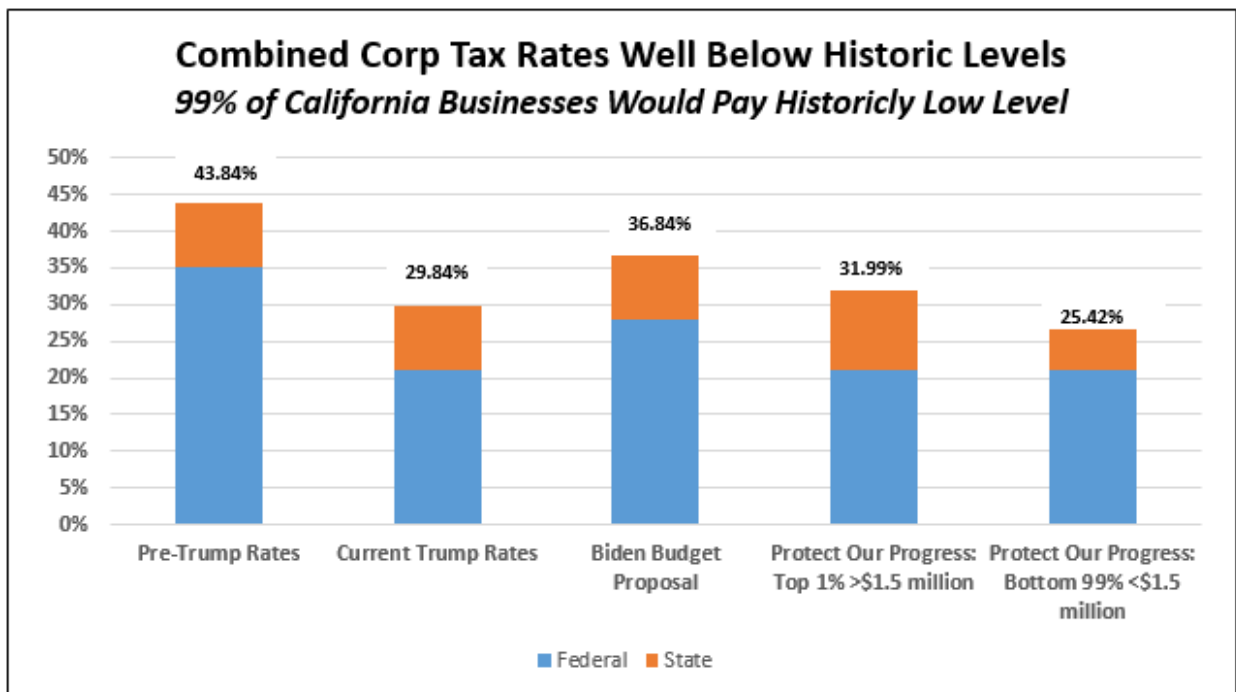
Progress



- Corporate taxes are based on the level of business a corporation does in California, not whether the business is headquartered in the state.

California is soon to be the fourth largest economy in the world. California has undoubtedly played a key role in these big corporations being so successful.

- Unlike Personal Income Taxes, there is not cap of federal deductibility of state corporate taxes. Therefore, corporations will not absorb the full impact of the \$6 billion increase, roughly \$1.3 billion will be offset by lowering their federal tax liability.
- Big corporations will continue to benefit from the massive Trump era federal tax cut, which cut corporate tax rates from 35 percent to 21 percent. Combined with the new California rates, the vast majority of California corporate tax filers will pay lower tax rates than any time in recent history, while the relatively few that will pay an increased California rate will still pay well below the pre-Trump tax cut era.





PROTECT
OUR

Progress



Summary (dollars in billions)			
Item	2023-24	Ongoing	# of Tax Filers
Tax Cuts:			
25% Tax Cut for Small Businesses	-\$2.2	-\$1.7	1,600,000
Renters Tax Credit Expansion	-\$1.1	-\$0.7	3,250,000
CalEITC Expansion	-\$0.6	-\$0.4	3,100,000
Workers Tax Fairness Tax Credit	-\$0.2	-\$0.4	2,500,000
total	-\$4.1	-\$3.2	10,450,000
Critical Needs Allocations:			
Ongoing Local HHAP Funding	-\$1.0	-\$1.0	
Schools and Community Colleges	-\$1.2	-\$1.0	
Ongoing Child Care Rates		-\$0.8	
Safety Net Reserve	-\$1.0		
total	-\$3.1	-\$2.8	
Partial Reversal of Trump Tax Cut:			
Big Corporations	\$7.2	\$6.0	2,579



Earlycare – K-12 Education

Approval of Key Governor's Proposals:

- Approves the increases to the Local Control Funding Formula that were included in the 2022-23 Budget.
- Approves the 8.13 percent cost-of-living adjustment for the Local Control Funding Formula and affected categorical programs.

Changes to Key Governor's Proposals:

- Rejects the \$1.2 billion Proposition 98 General Fund reduction to the Arts, Music, and Instructional Materials Discretionary Block Grant, and augments this block grant by \$232 million.
- Rejects the \$100 million General Fund reduction to the School Facility Program, and rejects the delay of \$550 million General Fund for the Preschool, Transitional Kindergarten, and Full Day Kindergarten Facility Grant Program.
- Funds the current year shortfall of \$99 million Proposition 98 General Fund in the universal school meals reimbursement program.

Key New Senate Proposals:

- Addresses staffing challenges experienced by local educational agencies by:
 - Providing \$1.1 billion one-time Proposition 98 General Fund in a non-competitive block grant to address local certificated and classified staff recruitment needs, such as: workforce development, staff training, education costs or incentives so that teachers may earn units at institutions of higher education, developing district-level micro-credential programs for transitional kindergarten or other areas that may be satisfied with micro-credentials, additional stipends for residents or interns, or signing bonuses.
 - Adding \$1.1 billion ongoing Proposition 98 General Fund into the Local Control Funding Formula, on top of the 2022-23 increases and the 8.13 percent cost-of-living-adjustment, for local discretionary purposes



PROTECT
OUR

Progress



including, but not limited to, staff retention or supporting students whose learning may have been disrupted by the pandemic.

- Increases funding for the Teacher Residency Grant Program by \$150 million Proposition 98 General Fund, for a program total of \$500 million, to increase stipends for residency participants.
- Augments the Kitchen Infrastructure and Training (KIT) Funds by \$100 million Proposition 98 General Fund.
- Moves toward child care rate reform by increasing rates to support and stabilize child care providers, including providers of State Preschool programs.
- Overhauls the current child care family fee structure, including for State Preschool programs, to prevent low-income families from losing access to child care because they cannot afford fees.



Higher Education

Approval of Key Governor's Proposals:

- Approves proposed base increases for UC, CSU, and CCC systems.
- Approves CSU-issued bonds for various capital projects on CSU campuses through CSU-issued bonds.
- Approves continued implementation of 2021 Budget Act agreement to fund nonresident enrollment reduction plan at UC Berkeley, UCLA, and UC San Diego campuses.
- Approves recruitment and retention funding for community colleges.

Changes to Key Governor's Proposals:

- Rejects funding delays to both Student Housing Revolving Loan Program and Higher Education Student Housing Grant Program and instead shift to Housing and Infrastructure Fund.
- Rejects funding delays for campus projects at UCLA, UC Berkeley, UC Riverside and UC Merced and instead shift to Housing and Infrastructure Fund.
- Rejects funding delay to Library Infrastructure Grant Program and instead shift to Housing and Infrastructure Fund.
- Rejects proposed cut to community college facilities maintenance and instructional equipment.

Key New Senate Proposals:

- Maintains proposed 2023-24 funding for the Middle Class Scholarship for the 2024-25 school year to maintain efforts to reach goal of Debt Free College.
- Makes former Foster Youth the first population to achieve "Debt Free College" by expanding the Student Success Completion Grant for CCC former foster youth students and the Middle Class Scholarship for CSU and UC former foster youth.



PROTECT
OUR

Progress



- Increases funding for basic needs, rapid rehousing, disabled students support, and mental health supportive services for CCC, CSU, and UC students.
- Provides community colleges a total of \$100 million in new ongoing funds for local discretionary purposes on activities that directly support students, mitigate learning loss related to COVID-19 impacts, and promote targeted recruitment and retention efforts across the state.
- Provides \$90 million per year for at least five years to grow, educate, and maintain the next generation of registered nurses, through the Community College system starting in 2024-25.
- Provides a COLA for UC Division of Agriculture and Natural Resources, and categorical programs at community colleges such as Puente, Mathematics, Engineering, Umoja, Science Achievement (MESA), Student Equity and Achievement Program, Part-time faculty office hours and Part-time faculty compensation.
- Includes funding to bolster safe spaces, learning communities, and other support services for LGBTQ+ students in community colleges across the state.



PROTECT
OUR

Progress



Resources and Environmental Protection

Approval of Key Governor's Proposals:

- Approves proposal for an additional \$159 million for flood protection.
- Approves proposal to continue implementation of water rights modernization.
- Approves trailer bill language proposal that would align the state's EV supply equipment payment standards with federal standards.

Changes to Key Governor's Proposals:

- Rejects proposed reductions of approximately \$550 million for coastal resilience and adaptation funding.
- Rejects proposed reductions to key programs in the energy and ZEV packages through the new Housing and Infrastructure Fund, including:
 - Equitable Building Decarbonization
 - Residential Solar and Storage
 - ZEV Fueling Infrastructure Grants
 - Transit Buses & Infrastructure
- Rejects proposed delays of the broadband infrastructure funding.
- Rejects proposed reductions for the sustainable agriculture package, including the Farm to Community Hubs Program, Urban Agriculture Program, and Pollinator Habitat Program.
- Restores \$200 million to State Conservancies for nature-based activities to improve climate resiliency.

Key New Senate Proposals:

- Provides \$3.6 billion in Greenhouse Gas Reduction Fund allocations, in accordance with the following:



PROTECT
OUR

Progress



Senate GGRF Plan				
(in millions)				
Program	Department	Senate	Governor	
Continuous Appropriations				
High Speed Rail Project	HSRA	941	526	
Affordable Housing and Sustainable Communities Pro	HCD	753	421	
Transit and Intercity Rail Capital Program	CalSTA	376	210	
Healthy and Resilient Forests	CalFire	200	200	
Low Carbon Transit Operations Program	Caltrans	188	105	
Safe and Affordable Drinking Water Program	SWRCB	130	105	
Other Existing Commitments				
Baseline Operations	CARB	150	150	
Manufacturing Tax Credit	CDTFA	97	97	
State Responsibility Area Fee Backfill	CalFire	79	79	
Safe and Affordable Drinking Water Program Backfill	SWRCB	0	25	
Discretionary				
Zero Emission Vehicles				
General Fund Backfill—Zero Emission Vehicle Packag	CEC	0	368	
General Fund Backfill—Zero Emission Vehicle Packag	CARB	0	243	
Heavy Duty Vehicles & Off Road Equipment Incentive:	CARB	400	0	
Clean Cars 4 All & Other Equity Programs	CARB	275	0	
ZEV Transit Buses & Infrastructure	CARB & CEC	100	0	
ZEV Fueling Infrastructure Grants	CEC	100	0	
Equitable At-Home Charging	CEC	100	0	
Agriculture				
FARMER	CARB	150	0	
Agriculture Related Methane Reduction Programs	CDFA	35	0	
Research in GHG Reductions	CDFA	5	0	
Energy				
Equitable Building Decarbonization	CARB & CEC	100	0	
Residential Solar and Storage	CPUC	80	0	
Building Energy Benchmarking Program	CEC	15	0	
Coastal Resilience				
Protecting the Coast from Climate Change	SCC	60	0	
Implementing SB 1 (Atkins)	OPC	40	0	
Intertidal Biodiversity DNA Barcode Library (a)	OPC	10	0	
Other				
Low-Income Weatherization Program	CSD	60	0	
AB 617	CARB	50	250	
Farmworker Housing Energy Efficiency & Solar	CARB	40	0	
Carbon Removal Program (b)	CARB	25	0	
Technical Assistance for Federal Tax Credits (c)	CEC	10	0	
Wood Stoves	CARB	5	0	
	Total	4,574	2,779	
(a) = Create a program that establishes a baseline by identifying and determining thousands of organisms at a site, which is necessary to do before coastal adaptation construction begins.				
(b) = Direct CARB to establish a long-term plan for carbon dioxide removal according to California's emission reduction targets.				
(c) = Establish a technical assistance and outreach program for Californians to apply for federal tax credits (i.e. the used EV credit, the Residential Clean Energy Credit, Energy Efficient Home Improvement Credit, Clean Vehicle Credit).				



Human Services

Approval of Key Governor's Proposals:

- Approves improvement to EBT card security to protect CalFresh and CalWORKs families from theft.
- Approves modernization of data and case management systems for Department of Aging, Department of Developmental Services, and In-Home Supportive Services.
- Approves proposed improvements to state oversight of local housing and homelessness programs.
- Approves proposals to adjust developmental services rates to reflect minimum wage increases, reduce caseload ratios for young children with developmental disabilities, and expand trauma-informed care for foster youth in the developmental services system.
- Approves proposals to improve health care and provide activity stipends for children in the child welfare system.
- Approves increases to CalWORKs grants to continue efforts for No Child in Deep Poverty and increases SSP grants. Increases for both programs are in accordance with Budget Act of 2022 agreement.

Changes to Key Governor's Proposals:

- Extends the In-Home Supportive Services Career Pathways program through December 2024.
- Rejects proposed shortened timeline for the Senior Nutrition infrastructure program.
- Lengthens funding period for Older Californians Resiliency and Recovery initiatives.



PROTECT
OUR

Progress



Key New Senate Proposals:

- Increases the CalFresh minimum benefit from \$23 to \$50 to mitigate the hunger cliff caused by the end of federal SNAP allotments.
- Moves toward child care rate reform by increasing rates to support and stabilize child care providers
- Overhauls the current child care family fee structure to prevent low-income families from losing access to child care because they cannot afford fees.
- Expands the planned eligibility increase for the California Food Assistance Program from age 55 and over to include all ages, regardless of immigration status, to achieve Food for All.
- Eliminates the out of date county Work Participation Rate penalty, which will remove a disincentive for counties to best support families in poverty, and begins work toward reforming CalWORKs sanctions policies.
- Provides a \$20 payment for CalWORKs recipients to cover costs of menstrual products.
- Addresses inequities in the developmental services system.
- Increases Supplemental Nutrition Benefits and Transitional Nutrition Benefits to have parity with CalFresh benefits.
- Removes the CalFresh 3-month time limit for people who are out of work.
- Funds the implementation of the new Summer EBT program.



Health

Approval of Key Governor's Proposals:

- Approves continued implementation of key Senate and Administration priorities, including expansion of Medi-Cal to all adults regardless of immigration status, the Children and Youth Behavioral Health Initiative, and the Community Assistance, Recovery, and Empowerment (CARE) Act.
- Approves implementation of Behavioral Health Payment Reform to reduce administrative burdens and improve care quality in the county behavioral health system.
- Approves expansion of CalAIM to support temporary housing assistance for those whom housing is necessary in order to provide health care services.

Changes to Key Governor's Proposals:

- Rejects delays to critical behavioral health care workforce programs, such as addiction medicine and social work, to improve access to behavioral health.
- Rejects cuts to public health workforce programs to recruit and retain staff in our local public health departments.
- Anticipates negotiating and approving the Governor's updated Managed Care Organization (MCO) Tax proposal to draw down more federal funds to support the Medi-Cal program, including increasing reimbursement rates. As of this writing, details of the Governor's updated proposal are just emerging.

Key New Senate Proposals:

- Ends diversion of CoveredCA penalties funds intended to be used to lower costs of CoveredCA plans. Subsidies will be increased on January 1, 2024, to eliminate health care deductibles and reduce copays for 900,000 Californians.
- Provides \$400 million annually for four years to support struggling California hospitals. These funds would be in addition to funds being proposed by the Administration to enactment through early actions, and will come with important conditions and requirements.



- Restores health benefits eliminated from Medi-Cal Eligibility in the Great recession that have not yet been restored.



PROTECT
OUR

Progress



Transportation

Approval of Key Governor's Proposals:

- Approves proposal to continue funding for homeless encampment clean up on state highways.
- Approves proposal to equip all uniformed California Highway Patrol employees with body worn cameras.

Changes to Key Governor's Proposals:

- Rejects proposed delays in the Ports and Goods Movement Package.
- Rejects the \$2.5 billion proposed reductions of the Transportation Infrastructure Package, including \$1 billion in 2023-24 and \$1.5 billion in 2024-25.

Key New Senate Proposals:

- Sets expectation of working with stakeholders, Assembly, and the Administration in establishing local flexibility opportunities with various transportation funding streams to assist transit agencies with operations expenses. This will be paired with reform and accountability measures and will serve as a bridge until additional long-term operations funding can be established. Critical infrastructure projects will be identified and protected in these discussions.



Housing and Homelessness

Approval of Key Governor's Proposals:

- Approves greater accountability for the effective use of Homeless Housing, Assistance, and Prevention (HHAP) resources to reduce homelessness with rewards for success and consequences for failure tied to measurable outcomes.

Changes to Key Governor's Proposals:

- Changes the \$1 billion in one-time HHAP funds included in the Governor's proposed budget to permanent, ongoing funding to better enable local efforts to build sustainable efforts to address the homelessness crisis.
- Rejects the proposed \$200 million reduction to the California Dream for All down payment assistance program to help first-time homebuyers afford to purchase a home and build generational wealth.
- Rejects the proposed \$100 million reduction to the CalHome program to continue to enable low- and very low-income households to become or remain homeowners.
- Rejects the proposed \$50 million reduction to the Accessory Dwelling Unit assistance program to facilitate the continued production of these "missing middle" housing options.

Key New Senate Proposals:

- Provides \$1 billion *ongoing* funding to the Homeless Housing, Assistance, & Prevention (HHAP) program, enabling local initiatives to invest in sustained, long-term solutions to homelessness.
- Provides an additional \$800 million for the California Dream for All down payment assistance program to widen access to even more first-time homebuyers looking to purchase a home and build generational wealth. Along with the remaining \$200 million from the Budget Act of 2022 appropriation, a total of \$1 billion will be available for the 2023-24 budget year. In addition, due to the significant demand for the first \$300 million for the program, options will be consider to update the



PROTECT
OUR

Progress



program, including expand the program by through charitable foundations and others in the private sector that will comply with the rules of the program.

- Increases and reforms the Renters Tax Credit as part of the overall effort to address rental housing affordability and prevent homelessness. Too many California households are rent-burdened, meaning they pay over a third of their income for rent, yet renters don't receive the tax benefits of home ownership. This proposal provides \$700 million to increase the Renters Tax Credit and to reform the program to better support renters, benefit taxpayers, especially those with children, and to make the credit refundable to ensure low income taxpayers receive actual benefits.
- Catalyzes production of shovel-ready affordable housing projects through \$500 million in additional investments in Low-Income Housing Tax Credit (LIHTC) subsidies and \$300 million in affordable housing development grants, with program flexibility to match demand.
- Provides \$2 million over two years to assist border communities with temporary shelter for recently arrived asylum seekers.



General Government

Approval of Key Governor's Proposals:

- Approves \$120 million for a third year of funding for the California Competes Grant program to continue attracting job-generating companies to relocate or retain activities in California, with an emphasis on leveraging federal investments in domestic semiconductor manufacturing.
- Approves Film Tax Credit extension and refundability proposal, with final language to be negotiated.
- Approves proposal to subject Incomplete Non-Grantor Trusts to the California Income Tax.

Changes to Key Governor's Proposals:

- Approves the Governor's proposed changes to the New Employment Credit with updates to support more businesses statewide, including additional support for hiring for lithium extraction or electric battery manufacturing industries.

Key New Senate Proposals:

- Cuts taxes for Small Businesses by 25 percent and implements other corporate tax reforms that result in 99.7 percent of all corporate tax filers to receive a tax cut, as described earlier in the plan.
- Implements a new better for business NOL deferral program to further stabilize the state's fiscal health, as described earlier in the plan.
- Provides targeted tax relief to support Californians:
 - Increases and expands the renter's tax credit to better support households who rent, increase affordability, and prevent homelessness.
 - Increases the CalEITC minimum to \$275 per individual, ensuring recipients with the lowest incomes receive a minimum credit.
 - Funds the Workers Tax Fairness Credit, included in statute in the 2022 Budget, that will turn union dues from being tax deduction into a tax credit, ensuring lower paid workers who don't itemize deductions receive a tax benefit.



Labor and Workforce Development

Approval of Key Governor's Proposals:

- Approves proposed second round of funding for EDDNext modernization project
- Approves proposed solutions for Emergency Medical Technician Training and Apprenticeship Innovation Fund

Changes to Key Governor's Proposals:

- Rejects trigger cut to programs that support women and nonbinary individuals in the construction workforce
- Rejects proposed cut to COVID-19 Worker Outreach Project and rebrand program as California Workplace Outreach Program to continue worker rights education post-pandemic.
- Rejects proposed cut to California Youth Leadership Program to continue support of community change learn-and-earn career pathway programs
- Rejects proposed \$750 million cut to the supplemental Unemployment Insurance Debt Payment, and instead delays the payment until 2027-28, resulting in the same impact on businesses as the original proposal.
- Rejects proposed \$500 million cut to Unemployment Insurance small business relief allocation.
- Strengthens proposal for funding for Department of Industrial Relations to help address wage claim processing times.

Key New Senate Proposals:

- Expands unemployment insurance coverage for excluded workers.
- Funds initiatives that protect the health and safety of household domestic service employees.



PROTECT
OUR

Progress



- Updates California's existing high road statute by: 1) adding definitions for "quality job" and "economic equity and 2) clarifying the CA Workforce Development Board's role in high road procurement and high road contracting, and 3) High Road Employment Plan.



Justice and Public Safety

Approval of Key Governor's Proposals:

- Approves funding to implement free phone calling at state prisons, as required by SB 1008 (Becker), Chapter 827, Statutes of 2022.
- Approves continued efforts to close prisons to reflect the declining incarcerated population.
- Embraces rehabilitative and programming reforms at San Quentin State Prison, pending receipt and review of proposal details, including detailed ongoing costs forecast to be evaluated with other Legislative priorities.
- Approves expanded funding for the court system, including resources for ongoing courthouse construction, facility maintenance, and trial court operations.

Changes to Key Governor's Proposals:

- Rejects proposed cuts to the Public Defense Pilot Program and the Court Appointed Special Advocate Program.

Key New Senate Proposals:

- Expands funding for in-prison programming provided by community-based organizations.
- Provides support for the Prison to Employment Initiative.
- Ensures access to legal information and services by supporting legal aid recruitment and retention programs.
- Funds a statewide UC based depository & public database for police records.
- Builds on debt-free justice victories in recent year budgets.



Conclusion

Step 2 of developing the “Protect Our Progress” Budget Plan provides a detailed budget proposal from the Senate Democrats.

While Washington D.C Republicans are holding the economy hostage during debt ceiling negotiations with demands to rip away recently approved jobs and infrastructure funds included in President Biden’s Inflation Reduction Act and blocking President Biden from reversing the Trump tax cuts for big corporations, the “Protect Our Progress” Budget Plan does the opposite by protecting infrastructure funds and the jobs that go with them, cutting taxes from millions of Californians and small businesses, and finally having big corporations beginning to pay their fair share.

In summary, the “Protect Our Progress” Budget Plan:

- ✓ Starts with Responsible Budgeting;
- ✓ Provides Major Tax Cuts for small businesses, renters, low-income workers, and union members;
- ✓ Rejects Cuts and Delays that the Governor has proposed to key infrastructure & housing investments;
- ✓ Makes Targeted New Ongoing Investments for schools, homelessness, and child care; and
- ✓ Leads the nation, once again, with California beginning to have Big Corporations pay a portion of their fair share.

This plan will serve as a starting point for budget negotiations, first with the Assembly and then, together with the Assembly, with the Administration. As with any budget process and negotiation, circumstances will change somewhat with updated economic forecasts and changes will be needed in order to reach final agreement.