THE 2023-24 BUDGET: ISSUES AND OVERSIGHT

Senate Committee on Budget and Fiscal Review

Senator Nancy Skinner, Chair

March 2023

CALIFORNIA STATE SENATE

COMMITTEE ON BUDGET AND FISCAL REVIEW

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Dear Colleagues:

I am pleased to provide you with a copy of *The 2023-24 Budget: Issues and Oversight*, which has been prepared by the staff of the Senate Committee on Budget and Fiscal Review. The document is intended to provide highlights of the Governor's proposed budget, followed with a more in-depth discussion on select topics that have received support in past budgets, focusing on current implementation. These snapshot reports provide a framework to support oversight of program implementation and consideration of related budget proposals. This document, together with other materials, will provide the basis for budget hearings throughout the spring.

The first section presents an overview of the state's fiscal condition and the Governor's fiscal proposals. The next section is organized by budget subcommittee and provides snapshots of major issues. For each major issue, this report provides relevant background material, an update on implementation, a summary of related budget proposals, and a discussion of important matters to consider.

In the Appendix, we include a working timeline for completing the 2023-24 budget, a historical listing of adopted state budgets, and a schedule of budget committee consultants and their respective areas of responsibility.

If you have questions, please do not hesitate to contact me or the committee staff.

Sincerely,

Nancy Skinner

Nancy Skinner
Chair, Senate Budget & Fiscal Review Committee

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Budget Overview

INTRODUCTION

The Governor has proposed a budget for the 2023-24 fiscal year that includes General Fund resources—carry-forward balance, revenues and transfers—of $231.7 billion and expenditures of $223.6 billion (total expenditures from all funds is proposed to be $297 billion). Based on the budget proposal, the General Fund would end the 2023-24 fiscal year with a Special Fund for Economic Uncertainties (SFEU) balance of $3.8 billion and include a deposit of approximately $911 million to the Budget Stabilization Account (BSA), resulting in an expected balance in this account of $22.4 billion at the end of the budget year.

The proposed budget includes a General Fund revenue estimate that is $29.5 billion lower than assumed in the 2022 Budget Act, and over a three-year budget window, the Governor's budget projects a budget gap of $22.5 billion in the 2023-24 fiscal year. The Governor's proposal notes that the state's ability to withstand an economic slowdown is stronger than ever: the result of building reserves, eliminating budgetary debt, reducing retirement liabilities, and focusing on one-time spending over ongoing investments to maintain structurally balanced budgets over the long-term. As a result, the proposed budget does not call for deep reductions to critical programs, but uses a variety of tools to balance the budget moving forward. The proposed 2023-24 budget's adjusted base, incorporates a general reserve (SFEU), Safety Net Reserve, Public School System Stabilization Account (PSSSA) and BSA of approximately a combined $35.6 billion (with another $4.3 billion reserved for encumbrances).

The Governor's proposal of a budget for the 2023-24 fiscal year begins the annual budget process, during which the Legislature will review and analyze the Governor's proposals, engage with the Administration and the public regarding the state's resources and priorities, and then negotiate a final budget with the Governor that reflects our shared values across the branches of state government.

This report provides brief highlights of the Governor's proposed budget and provides a more in-depth discussion on select topics that have received investments and interest in past budgets. These snapshot reports provide additional information and framework to support oversight of program implementation and consideration of related budget proposals.

OVERVIEW OF GOVERNOR'S BUDGET PROPOSAL

Overall Structure. The Governor's budget includes $231.7 billion in General Fund revenues and other resources and $223.6 billion in total General Fund expenditures ($143.1 billion in non-Proposition 98 and $80.6 billion in Proposition 98 funds), providing for a $3.8 billion unencumbered reserve balance in the SFEU, a $900 million Safety Net Reserve, a $8.5 billion PSSSA balance, and reflecting $22.4 billion in the BSA. The BSA is at its constitutional maximum (10 percent of General Fund revenues) requiring $951 million to be dedicated for infrastructure investments in 2023-24. The Governor's proposed 2023-24 budget maintains vital investments made in past years, in areas of health and human services, education, climate, and infrastructure, among others. As detailed later, the proposed budget closes the budget gap with solutions that include delayed funding, targeted reductions, fund source shifts, and a combination of borrowing and revenue generation. The proposed budget does not draw down reserves to address the budget gap.

The Governor's budget General Fund details are summarized below.

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

	Revised 2022-23	**Proposed 2023-24**
PRIOR YEAR BALANCE	$52,713	$21,521
Revenues and transfers	$208,884	$210,174
TOTAL RESOURCES AVAILABLE	**$261,597**	**$231,695**
Non-Proposition 98 Expenditures	$160,973	$143,060
Proposition 98 Expenditures	$79,103	$80,554
TOTAL EXPENDITURES	**$240,076**	**$223,614**
FUND BALANCE		
Encumbrances	$4,276	$4,276
Special Fund for Economic Uncertainties	$17,245	$3,805
Public School System Stabilization Account	**$8,108**	**$8,473**
Safety Net Reserve	**$900**	**$900**
Budget Stabilization Account	**$21,487**	**$22,398**

Paying Down Retirement Liabilities. The Governor's proposed 2023-24 budget allocates approximately $1.9 billion in Proposition 2 debt payments in the budget year toward further reducing retirement liabilities (including State Retiree Health and State Employee Pensions). The budget projects approximately $5.3 billion in Proposition 2 debt payments over the next three years. Proposition 2, passed by the voters in 2014, requires minimum annual payments toward eligible debts until 2029-30 and annual deposits into the BSA.

Reserves. The Governor assumes approximately $1.3 billion less will be transferred to the BSA (commonly referred to as the Rainy Day Fund) as a true up in the current fiscal year and $911 million will be transferred in 2023-24. The BSA balance is projected to be $22.4 billion in 2023-24. Overall, transfers are anticipated to be around $2 billion lower than anticipated in the 2022 Budget Act.

The Governor's budget does not include an additional deposit, which is discretionary, to the Safety Net Reserve, maintaining a balance of $900 million. In addition, the mandatory set aside for the PSSSA is reduced reflecting lower Proposition 98 estimates, bringing its total to $8.5 billion in the budget year.

Finally, the budget reserves $3.8 billion in the SFEU to address emergencies and unforeseen events. Overall, the budget has $35.6 billion set aside in reserves.

Closing the Budget Gap. Overall, the proposed budget closes the $22.5 billion budget gap as follows:

- **Funding Delays**—$7.4 billion. The budget delays funding for multiple items 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**—$5.7 billion. The budget reduces spending for various items across the 2021-22 through 2023-24 fiscal years, and pulls back certain items that were included in the 2022 Budget Act to provide additional budget resilience.

- **Fund Shifts**—$4.3 billion. The budget shifts certain expenditures in the 2022-23 and 2023-24 fiscal years from the General Fund to other funds.

- **Trigger Reductions**—$3.9 billion. The budget reduces funding for certain items in the 2020-21 through 2023-24 fiscal years and places them in a "trigger" that would restore the reductions in the 2024 Governor's budget if it is determined that sufficient funds will be available to cover certain commitments.

- **Limited Revenue Generation and Borrowing**—$1.2 billion.

Additional changes are proposed to the 2022 Budget Act multi-year plan to balance the budget in future years, including:

- Future Inflationary Adjustments Withdrawn—$7 billion in funding to address inflationary adjustments, which were scheduled over 2024-25 and 2025-26, are now withdrawn.

- General Obligation Bond Liability—$1.7 billion in General Fund, which had been scheduled in 2024-25 to reduce General Obligation bond liability through the redemption of callable bonds, is now withdrawn.

- Lease Revenue Bonds Liability—$2.1 billion in General Fund had been scheduled to reduce lease revenue bond liability in 2022-23 through 2025-26. This amount is reverted back to lease revenue bond funds to pay for capital projects.

- Supplemental Deposits to BSA—$4 billion in supplemental deposits to this reserve account had been scheduled over 2024-25 and 2025-26. These are now withdrawn.

- Additional Safety Net Reserve Deposits—$4 billion in additional deposits to the Safety Net Reserve had been scheduled in 2024-25 and 2025-26. These are now withdrawn.

BUDGET YEAR PROPOSED EXPENDITURES

The proposed budget includes additional required programmatic increases and new spending. The table below summarizes the Governor's proposed expenditures by program area. The largest expenditures by program are in K-12 education and health and human services.

2023-24 Proposed Budget Expenditures and Revenues

The proposed budget includes additional required programmatic increases and new spending. The table below summarizes the Governor's proposed expenditures by program area.

General Fund Expenditures
Current and Budget Year
(Dollars in Millions)

Program Area	Revised 2022-23	Proposed 2023-24	Change
K-12 Education	$78,505	$81,176	$2,671
Higher Education	23,043	22,518	-525
Health and Human Services	64,790	71,447	6,657
Corrections and Rehabilitation	15,822	14,775	-1,047
Business, Consumer Services, Housing	4,062	1,472	-2,590
Transportation	1,725	2,191	466
Natural Resources	15,437	9,723	-5,714
Environmental Protection	2,133	1,989	-144
Labor and Workforce Development	1,234	1,638	404
Government Operations	6,795	3,847	-2,948
General Government:			
Non-Agency Departments	2,791	3,562	771
Tax Relief / Local Government	678	558	-120
Statewide Expenditures	3,425	-3,134	-6,559
Legislative, Judicial and Executive	19,636	11,852	-7,784
Total	**$240,076**	**$223,614**	-$16,462

The Governor's budget proposes some specific policy and budgetary changes. Some of the more important aspects of the budget proposal are outlined below:

Education and Higher Education

K-12 Education. In addition to Proposition 98 (General Fund and property taxes), K-12 education is funded through a variety of other fund sources, including federal funds, state lottery funds, local fund sources, and other funds. Total funding for K-12 education from all sources is approximately $128.5 billion in 2023-24.

Local Control Funding Formula (LCFF). The budget proposes an LCFF cost-of-living-adjustment of 8.13 percent, and when combined with growth adjustments, results in $4.2 billion in additional discretionary funds for local educational agencies. The budget proposes $613 million in one-time resources to support the ongoing cost of LCFF in 2022-23 and $1.4 billion in one-time resources to support the ongoing cost of LCFF in 2023-24. The budget also proposes an "equity multiplier" as an add-on to LCFF, and will be allocated based on school-site eligibility.

Arts and Music in Schools-Funding Guarantee and Accountability Act (Proposition 28). The budget includes $941 million to fund Proposition 28 outside of Proposition 98 funding levels. To accommodate this cost pressure, as well as one-time costs related to LCFF, the budget proposes to reduce the Arts, Music, and Instructional Materials Discretionary Bock Grant – for which the 2022 budget included $3.5 billion Proposition 98 General Fund – by $1.2 billion, for a revised level of $2.3 billion Proposition 98 General Fund.

Higher Education

Multi-Year Compacts and Roadmap Retained. The Governor's budget maintains the multi-year compacts with the University of California (UC) and California State University (CSU) and the roadmap with the California Community Colleges (CCC). This includes five percent base funding increases for UC and CSU in exchange for clear commitments to expand student access, equity, and affordability, and to create pathways to high-demand career opportunities, as well as a cost-of-living adjustment for apportionments at CCC.

Delayed Timing in Student Housing Funding. As part of a previously adopted multi-year agreement, the state planned to provide $750 million in 2023-24 for the third year of the Higher Education Student Housing Grant Program. The Governor now proposes to reduce this funding to $500 million by delaying $250 million until 2024-25.

As part of the Budget Act of 2022, the state planned to provide a total of $1.8 billion one-time General Fund for a new revolving loan program focused on housing. Of this amount, the state planned to provide $900 million in 2023-24 and $900 million in 2024-25. The Governor's budget now proposes delaying this funding, with $650 million proposed for 2024-25 and $1.15 billion proposed for 2025-26.

Shifts in Capital Support Funding at UC and CSU. The Governor's budget shifts capital outlay support for projects at UCLA, UC Berkeley, UC Riverside, and UC Merced from 2023-24 to 2024-25. The Governor's budget also proposes shifting $404.8 million appropriated for the upfront support of various capital projects on CSU campuses to CSU-issued bonds and includes $27 million General Fund ongoing to support the underlying debt service on those bonds.

Health and Human Services

Medi-Cal Coverage for All, Regardless of Immigration Status. The budget maintains the state's historic investment in expanding full-scope Medi-Cal coverage to all Californians, regardless of immigration status. The budget includes expenditure authority of $844.5 million ($635.3 million General Fund) in 2023-24, $2.1 billion ($1.6 billion General Fund) in 2024-25, and $2.5 billion ($2 billion General Fund) annually thereafter for the expansion.

MCO Tax Reauthorization. The budget includes General Fund savings of $316.5 million in 2023-24 and approximately $2 billion in 2024-25 and 2025-26 from renewal of the enrollment tax on managed care organizations (MCO Tax), beginning January 1, 2024.

CARE Act Implementation. The budget maintains and continues investments in county implementation of behavioral health services to support the Community Assistance, Recovery, and Empowerment (CARE) Act, including General Fund expenditure authority of $57 million in 2022-23, $16.5 million in 2023-24, $66.5 million in 2024-25, and $108.5 million annually thereafter.

CalBH-CBC Demonstration. The budget includes expenditure authority of $6.1 billion ($314 million General Fund, $175 million Mental Health Services Fund, $2.1 billion County Behavioral Health Fund, and $3.5 billion federal funds) over five years to support the California Behavioral Health Community-Based Continuum (CalBH-CBC) Demonstration, effective January 1, 2024. The demonstration, part of the California Advancing and Innovating Medi-Cal (CalAIM) initiative, is intended to expand access and strengthen the continuum of mental health services for Medi-Cal beneficiaries living with serious mental illness or serious emotional disturbance.

Behavioral Health Bridge Housing Delay. The budget delays a portion of the $1.5 billion General Fund commitment to Behavioral Health Bridge Housing adopted in the 2022 Budget Act. After the delay, the budget includes General Fund expenditure authority of $1 billion in 2022-23, $250 million in 2023-24 and $250 million in 2024-25 for clinically enriched temporary housing for unhoused individuals with serious behavioral health conditions.

Behavioral Health Continuum Infrastructure Program Delay. The budget delays the final round of funding for the Behavioral Health Continuum Infrastructure Program, moving $480.7 million General Fund expenditures scheduled to be awarded in 2022-23 to future years. According to the Department of Health Care Services (DHCS), $1.2 billion has been awarded to date, with an additional $480.7 million scheduled to be awarded in 2022-23. The program will now award the final $480.7 million that was scheduled to be awarded in 2022-23 as follows: 1) $240.4 million in 2024-25 and 2) $240.3 million in 2025-26.

Child Care. The Governor's budget maintains past ongoing rate increases for child care providers, but makes no new investments in rate increases. The Administration expresses intent to develop a single rate structure and work with the Child Care Providers Union (CCPU) to negotiate a new agreement. The budget also delays the implementation of 20,000 child care slots, slowing California's progress towards the goal of 200,000 new subsidized child care slots.

State Supplemental Payment (SSP). The Governor's budget includes an SSP increase of approximately 8.6 percent, sustaining progress to restore SSP grants to pre-Great Recession levels.

CalWORKs. The Governor's budget projects a 2.9 percent increase to the CalWORKs maximum aid payment.

Developmental Services. The budget sustains the historic investments in services for Californians with intellectual and developmental disabilities with a focus on improving outcomes and reducing disparities.

Delays Expansion of the California Food Assistance Program (CFAP). The Governor's budget proposes delaying the expansion of CFAP to all Californians age 55 and older regardless of immigration status from 2025 to 2027.

Resources and the Environment

Climate Investment Reductions. The 2021 and 2022 Budget Acts allocated approximately $54 billion over five years to advance the state's climate agenda. The proposed budget maintains 89 percent of these investments (approximately $48 billion), reducing these investments by 11 percent (approximately $6 billion). The proposed budget includes reductions across several climate programs, which are partially offset by shifts to other fund sources. Additionally, the state will pursue additional federal funding through the Inflation Reduction Act and the Infrastructure Investment and Jobs Act. Most of the climate reductions are included in the trigger, so if there is sufficient General Fund in January 2024, these reductions will be restored.

Coastal Protection and Adaptation. The proposed budget includes a reduction of $175 million in 2022-23, $297 million in 2023-24, and $9 million in 2024-25 across various coastal protection and adaptation programs administered by the State Coastal Conservancy. This maintains approximately $582 million (55 percent) for this purpose.

Urban Flood Risk Reduction. The proposed budget includes an increase of $135 million General Fund over two years to support local agencies for the purpose of reducing urban flood risk.

Zero-Emission Vehicles (ZEVs). The proposed budget maintains $8.9 billion (or 89 percent of $10 billion provided in the 2021 and 2022 Budget Acts) over five years for ZEV investments. The proposed budget includes $2.5 billion of General Fund reductions across various ZEV programs, which are partially offset by approximately $1.4 billion in fund shifts to Cap and Trade funds.

Energy. The proposed budget maintains $7 billion (or 89 percent of $7.9 billion provided in the 2022 Budget Act) in clean, reliable, and affordable energy investments, and proposes an initial allocation of $100 million in 2023-24 from SB 846 Clean Energy Reliability Investment Plan funds for reliability and enabling investments that will accelerate the clean energy transition. The proposed budget includes $897 million in General Fund reductions and $370 million in General Fund delays to future years. If there is sufficient General Fund in January 2024, up to $410 million of these reductions will be restored.

Agriculture. The proposed budget maintains $1 billion (or 89 percent of $1.1 billion provided in the 2021 and 2022 Budget Acts) over multiple years for sustainable agriculture investments. The proposed budget includes $128 million in General Fund reductions across various programs. If there is sufficient General Fund in January 2024, reductions will be restored.

Transportation, Housing, and Homelessness

Transportation Infrastructure. The proposed budget maintains $11.6 billion (or 84 percent of $13.8 billion provided in the 2022 Budget Act) over multiple years for transportation programs. The proposed budget includes $2.7 billion in General Fund reductions, partially mitigated by an additional $500 million from state transportation funds. If there is sufficient General Fund in January 2024, $2 billion of these reductions will be restored.

Homelessness. The proposed budget includes $3.4 billion General Fund in 2023-24 to maintain the state's efforts to address homelessness, maintaining commitments made in prior budgets.

Housing. The proposed budget also includes $2.85 billion for housing resources. This represents a $350 million reduction in previously-budgeted funds for housing. These reductions include:

- A reversion of $200 million in General Fund resources previously budgeted for the California Dream for All Program at the California Housing Finance Agency (CalHFA).

- A reduction of $100 million in General Fund resources previously budgeted for the CalHome program and the Department of Housing and Community Development.

- A reduction of $50 million in General Fund resources previously budgeted for the Auxiliary Dwelling Unit program at CalHFA.

Labor, Employment, and Workforce Development

Several Workforce Investments Subject To Reduction and Shifts. The Governor's budget proposes a reduction of $55 million in workforce investments included in the 2022 Budget Act. However, these reductions are included in a trigger mechanism and will be restored if there is sufficient General Fund in January 2024. Moreover, the 2022 Budget Act previously planned $65.6 million over four years for various public health workforce development programs. The Governor's budget now proposes to reduce this investment to $15.8 million to help address the projected revenue shortfall. As well, the Governor's budget defers funding for various workforce initiatives at the Department of Health Care Access and Information.

Unemployment Insurance (UI) Withdrawals. The Governor's budget proposes to withdraw the $750 million General Fund one-time UI Debt Payment in 2023-24 and also remove a $500 million one-time General Fund commitment in 2024-25 to offset the anticipated rising federal unemployment insurance tax rates resulting from the UI Trust Fund insolvency.

General Government and Public Safety

California Competes (CalCompetes) Grant Program. The proposed budget includes an investment of $120 million for a third round of the CalCompetes Grant Program. This investment would continue to be subject to changes made to the program in the 2022 Budget Act, including priority treatment of funding for semiconductor manufacturing, research and development.

Film and Television Tax Credit. The proposed budget extends the Film and Television Tax Credit for an additional five years, starting in 2025-26, maintains the credit total of $330 million per year, and makes the credit refundable.

Cannabis Tax Fund. The proposed budget includes $95.4 million General Fund to backfill an estimated decline in revenues for "Allocation 3" programs, which fund youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities.

Cannabis Enforcement. The proposed budget includes approximately $113.5 million for cannabis enforcement purposes.

Seismic Retrofitting Program for Soft Story Multifamily Housing. In 2022, SB 189 (Committee on Budget and Fiscal Review), Chapter 48, Statutes of 2022, established the Seismic Retrofitting Program for Soft Story Multifamily Housing and included legislative intent language to appropriate $250 million in the 2023-24 budget. The proposed budget does not include the intended appropriation, citing the state's fiscal outlook and projected decline in General Fund revenues.

Corrections Population Declines and Facility Closures. The adult incarcerated and parolee populations supervised by the California Department of Corrections and Rehabilitation (CDCR) are continuing to decline. The adult incarcerated population is projected at 96,157 in 2022-23 and reaching 87,295 in 2025-26, and the parolee population at 43,668 in 2022-23 and declining to 36,473 by 2027. The proposed budget reflects savings from closing two prisons, $150.3 million annually from the closure of the Deuel Vocational Institution in 2021 and $142.8 million annually from the upcoming closure of the California Correctional Center. The proposed budget also includes the anticipated closures of two additional prisons and six yards by March 2025, projected to collectively save about $150 million annually. The proposed budget also reflects $95.8 million ongoing savings from the closure of CDCR's Division of Juvenile Justice in June 2023.

Trial Court Funding. The proposed budget includes a total of $2.9 billion for trial court operations, including an increase of $74.1 million ongoing General Fund for general operations. This is in addition to an $84.2 million increase last year and a $72.2 million increase in the 2021 budget. The proposed budget also includes $109.4 million ongoing General Fund to backfill the Trial Court Trust Fund, $19.6 million ongoing General Fund for trial court employee benefits, and $89.5 million in 2023-24 increasing to $174.5 million ongoing to backfill the State Court Facilities Construction Fund.

Reductions to Previously Approved Programs. The Governor's budget proposes reduced funding for the following programs:

- **Court Appointed Special Advocates**. The 2022 budget included $20 million per year for three years. The proposed budget would eliminate the second and third years of funding.

- **Public Defender Pilot Program**. The proposed budget eliminates the third year of funding for the Public Defender Pilot Program administered by the Board of State and Community Corrections, a reduction of $50 million General Fund in 2023-24.

- **Deferred Maintenance**. The proposed budget reduces the funding available for deferred maintenance by $30 million for CDCR and $49.5 million for the Judicial Branch.

SUBCOMMITTEE NO. 1

EDUCATION

K-14 and Higher Education

Expanded Learning Opportunities Program (ELOP)

BACKGROUND

Expanded Learning Opportunities Program. Established in the 2021-22 Budget Act, the Expanded Learning Opportunities Program (ELOP) provides students access to after school and intersessional expanded learning opportunities for nine hours of developmentally appropriate academics and enrichment activities per instructional day and for six weeks each summer. Classroom-based local educational agencies are allocated funds based on their enrollment of unduplicated pupils (low-income, foster youth, and English learners) in grades TK through sixth grade.

IMPLEMENTATION TO DATE

2021-22 Fiscal Year. Local educational agencies with unduplicated enrollment at 80 percent or more of total enrollment receive a higher rate. The budget provided $754 million in one-time Proposition 98 funding and, combined with funds allocated in the budget act, a total of $1.75 billion was provided for this program in the 2021-22 fiscal year. In the 2021-22 school year, local educational agencies must offer specified expanded learning to all pupils in grades TK through sixth on school days and for at least 30 non-school days during intersessional periods, and provide access to these services to at least 50 percent of unduplicated enrollment in the specified grade span.

2022-23 Fiscal Year. The 2022-23 Budget Act delayed implementation of ELOP until the 2023-24 fiscal year and decreased the threshold for local educational agencies required to offer services. The change now requires local educational agencies with an unduplicated pupil percentage of 75 percent or above to offer expanded learning opportunity program services to all enrolled students and provide access to services to any student in kindergarten through sixth grade whose parent or guardian requests it. The budget provides these local educational agencies $2,750 per unduplicated pupil. In addition, local educational agencies with an unduplicated pupil percentage below 75 percent are required to offer ELOP to K-6 unduplicated students and provide program access to at least 50 percent of its unduplicated population. The 2022-23 budget provides these local educational agencies $2,053 per unduplicated pupil. In total, the 2022-23 budget provided an ongoing $3 billion Proposition 98 General Fund for ELOP, for a program total of $4 billion Proposition 98 General Fund.

GOVERNOR'S PROPOSAL

The January budget does not include significant proposals for Expanded Learning.

ISSUES FOR CONSIDERATION

Maintaining flexibility for programs. 2023-24 will be the first year in which fiscal penalties will be imposed on local educational agencies whose programs are misaligned with the law. While local educational agencies have expressed challenges with staffing, some local educational agencies have expressed that they were able to be creative with the flexibility that the last two years allowed. The Legislature may want to consider maintaining flexibility for expanded learning programs while still meeting the requirements of the program.

Higher Education Compacts and Roadmap

BACKGROUND

The 2022 Budget Act included funding associated with multi-year compacts with the University of California (UC) and California State University (CSU) and a multi-year roadmap with the California Community Colleges (CCCs) that focus on shared priorities benefitting students.

Under these compacts, starting in 2022-23, CSU and UC will receive five percent annual base increases over each of the next five fiscal years. Whereas the 2022 Budget Act includes enrollment growth funding on top of the base increases in 2022-23, the universities are expected to accommodate one percent annual resident undergraduate enrollment growth within their base increases over the remainder of the compact period (2023-24 through 2026-27).

The roadmap for CCC is somewhat different than the compacts for CSU and UC. The Governor announced his interest in establishing a multiyear "roadmap," but this roadmap does not commit to future base increases for the colleges as he does for the CSU and UC. Instead, base increases are determined upon available Proposition 98 funds in future years.

Governor Sets Many Expectations for the Segments. The Governor's 2022-23 Budget Summary and subsequent public documents detailing the compacts and roadmap specified 55 expectations for the segments (15 for CCC, 22 for CSU, and 18 for UC). As part of his multiyear CCC roadmap and university compacts, the segments would have up to five years to meet most of the expectations. As Figure 1 shows, these expectations focus on student access, student success and equity, college affordability, intersegmental collaboration, workforce alignment, and online education. Some of the expectations build off existing initiatives developed by the segments. For example, all the segments have initiatives with graduation and equity goals that are the same or similar to those in the Governor's compact. Other expectations, however, are driven primarily by the administration. For example, the Governor would like the universities to use a common integrated admissions platform, a common learning management system, and a common tool for measuring equity gaps. These expectations are not in statute. Moreover, to date, the Administration has set forth no specific repercussions were a segment to miss one or more of the expectations. The Department of Finance (DOF) indicates that the Administration reserves discretion to propose smaller future base increases were a segment not to demonstrate progress in meeting its expectations.

Figure 1: Expectations Specified in Governor's 2022-23 Budget Summary

	CCC	CSU	UC
Access			
Increase resident undergraduate enrollment annually		X	X
Maintain minimum proportion of new transfer students		X	X
Increase graduate enrollment			X
Student Success and Equity			
Increase student completions rates by specified amounts	X	X	X
Decrease average units to completion and time to completion	X		
Increase number of students transferring to CSU and UC	X		
Annually publish specified student completion rates	X		

Advance re-enrollment campaigns and establish retention goals		**X**	
Expand credit opportunities in intersessions and summer sessions		**X**	
Provide every student access to digital degree planner		**X**	
Close specified achievement gaps for underrepresented and Pell Grant students	**X**	**X**	**X**
Close equity gaps in dual enrollment programs	**X**		
Affordability			
Create debt-free pathway for every undergraduate student			**X**
Reduce textbook and instructional material costs		**X**	**X**
Increase proportion of new tuition revenue set aside for financial aid			**X**
Include student housing projects in capital campaigns		**X**	**X**
Intersegmental Collaboration			
Fully participate in implementation of the Cradle-to-Career data system	**X**	**X**	**X**
Support campuses in adopting a common learning management system	**X**	**X**	**X**
Develop common tool to identify trends to address equity gaps	**X**	**X**	**X**
Support efforts to establish common integrated admissions platform	**X**	**X**	**X**
Workforce Alignment			
Increase percentage of high school students completing a semester of college credit through dual admission	**X**		
Establish baseline for prior-learning credit and launch new direct-assessment competency-based education programs	**X**		
Increase percentage of completing students earning a living wage	**X**		
Establish/expand programs in early education, education, health care, and climate action fields	**X**		
Establish coordinated educational pathways for high school students in education, health care, technology, and climate action fields	**X**	**X**	**X**
Develop new transfer pathways in education, health care, technology, and climate action fields		**X**	**X**
Increase number of early education degree pathways available to students		**X**	
Increase number of students enrolling in early education, education, STEM, and social work fields		**X**	
Increase number of students graduating with early education, education, STEM, and academic doctoral degrees			**X**
Establish goal to enable all students to participate in at least one semester of undergraduate research, internships, or service learning		**X**	**X**
Double opportunities for students who want research assistantships or internships		**X**	
Online Education			
Increase online course offerings above pre-pandemic levels		**X**	**X**
Increase concurrent online enrollment		**X**	
Expand digital tools for students to access online learning materials		**X**	
STEM = science, technology, engineering, and mathematics.			

PREVIOUS BUDGET ACTIONS

The primary investments in 2022-23 associated with the multi-year compacts and roadmap are as follows:

UC Base Increase. The budget provides $200.5 million ongoing General Fund for a five percent base increase to support UC operations.

CSU Base Increase. The budget provides $211.1 million General Fund in 2022-23 and ongoing for a five percent base increase to support CSU operations.

CCC Cost of Living Adjustment for Apportionments and Base Increase above COLA. The budget includes $493 million ongoing Proposition 98 General Fund to colleges for a 6.56 percent COLA for apportionments. The budget also includes a $600 million ongoing Proposition 98 General Fund base increase above the COLA.

Implementation to Date:

The UC and CSU recently submitted their required annual report describing each segment's plan to advance the goals of the compacts.

GOVERNOR'S PROPOSAL

Multi-Year Compacts and Roadmap Retained for 2023-24. The Governor's budget maintains the multi-year compacts, including increased base funding, with the University of California (UC) and California State University (CSU) and roadmap with the California Community Colleges (CCC) that includes substantial and sustained funding increases for UC and CSU in exchange for clear commitments to expand student access, equity, and affordability, and to create pathways to high-demand career opportunities.

The Administration intends to introduce a mechanism as part of the May Revision to provide community college districts that are making progress toward the CCC roadmap goals with additional categorical program spending flexibilities and the ability to consolidate reporting requirements across specified and to be determined categorical programs, provided the goals of the categorical programs and overall progress toward the roadmap goals continue to be met. Under the proposal, districts making progress would have the opportunity to submit a streamlined report for the specified programs, as well as spend funds more flexibly across the programs.

ISSUES FOR CONSIDERATION

Compact Continues to Lack Sufficient Statutory Structure And Targeted Investments. The Governor's approach of working directly with each of the segments to build multiyear budget agreements and establishing performance expectations was not inclusive of Legislative input, lacking statutory structure as a result. The Legislature is responsible both for enacting annual state budgets and crafting policy aligned with those budgets and therefore used the deliberation process to strengthen the first year of the compacts and roadmap by set ting the segments' funding levels and deciding the conditions to attach to that funding. The Legislature also identified areas of common interest with the Governor and committed to robust, targeted investments on top of the Governor's proposals, to make the compacts and roadmap effective. Similar to his January 2022-23 proposed budget, the Governor does not formalize many of the expectations that he has for the segments in trailer bill legislation or budget bill language for 2023-24. For example, enrollment target goals for UC and CSU are not proposed as budget bill language for 2023-24 and the out years. As result, it is unclear how the state intend to hold segments accountable if they did not reach this target. This circumstance exists for many other expectations for the segments. As budget deliberations that affect the second year of the compact unfold, the Legislature may wish to continue prioritizing new investments and statutory changes that are consistent with legislative intent and enhance the goals outlined in the compacts and roadmap. The compacts, for example, lack increased funding for student mental health resources, basic needs, and support for disabled students.

The Segments Have New Core Operating Costs That Require Higher Base Increases Than Governor's Proposals. Generally, the three segments spend their state supported base increases primarily on core operating costs such as employee compensation, including salaries, employee health benefits, retiree health benefits, and pensions.

Adding onto these costs are additional factors. As the Legislative Analyst's Office (LAO) highlights, each year, campuses typically face pressure to increase employee salaries at least at the pace of inflation, with certain other operating costs (such as health care, pension, and utility costs) also tending to rise over time. The Governor's proposed base increases as part of the compacts do not account for inflationary impacts for the UC or CSU. Over the last two years, UC and CSU have labor agreements that increase their core operating costs.

In December 2022, the UC announced a tentative agreement with United Auto Workers (UAW), which represents academic student employees such as Teaching Assistants and Graduate Students Researchers, to provide minimum salary scales, multi-year pay increases, paid dependent access to University health care, and enhanced paid family leave. If approved, the contracts will be effective through May 31, 2025. Though the Governor's 2023 January budget proposes a five percent base increase for UC, this figure does not account for updated cost pressures stemming from the new UC-UAW agreement.

On December 20, 2021, CSU and the California Faculty Association (CFA) reached a tentative agreement on a successor contract. The agreement covers the 29,000 instructional faculty, coaches, librarians and counselors across the 23 CSU campuses and, upon ratification by the CSU Board of Trustees and CFA membership, will run through June 30, 2024. The agreement calls for faculty to receive the following:

1) A one-time payment of $3,500, prorated by each faculty member's 2020-21 time-base,
2) a four percent general salary increase (GSI), retroactive to July 1, 2021,
3) up to a four percent GSI, effective July 1, 2022, dependent on the state budget allocation to the CSU, 4) a 2.65 percent service salary increase (SSI) during fiscal years 2021-22 and 2023-24 for all eligible faculty, including coaches, counselors and librarians and,
4) a 2.65 percent post-promotion increase (PPI) during fiscal year 2022-23 for eligible faculty, including coaches, counselors and librarians.

Neither the 2022 Budget Act nor the Governor's proposed 2023-24 budget includes additional funding for larger GSI for CFA-covered staff.

The 2021 Budget Act provided $2 million one-time General Fund to the CSU Chancellor's Office, in consultation with the Department of Finance's Office of State Audits and Evaluations, to support a study on CSU non-faculty salary structure, salary inversion and to provide any recommendations for alternative salary models. The CSU was directed report to the Department of Finance and the Legislature by April 30, 2022 on the findings and recommendations. Moreover, budget bill language stated the intent of the Legislature that the recommendations and transitional and ongoing cost information from the evaluation will be incorporated into the CSU annual budget request. In July and August of 2021, CSUEU and the Teamsters served on the CSU Request for Proposal Committee to select an independent research firm to perform the Salary Study, ultimately selecting Mercer due to their experience, capacity, and ability to work on labor-management partnerships. Mercer began work in November 2021. In December 2021, Mercer conducted extensive focus groups to develop their recommendations, receiving input from over 5,000 employees in the staff bargaining units. The study is now complete, and Mercer has determined that the CSU's wage structure issues can be addressed through a $288 million budget augmentation. But, similar to the case for faculty staff, neither the 2022 Budget Act nor the Governor's proposed 2023-24 budget includes additional funding for salary increases for non-faculty staff at CSU.

The Legislature may wish to prioritize larger base increases for the UC and CSU to cover the cost increases for employee compensation and inflationary impacts. As the Legislature decides on whether to prioritize a higher base increase than the Governor's proposal, the Legislature shall wish to consider the state's fiscal position. According to the LAO in November 2022, the Legislature would face a budget problem of $24 billion in 2023-24. The budget problem is mainly attributable to lower revenue estimates compared to budget act projections between 2021-22 through 2023-24. Revenue losses are typically offset by lower spending in certain areas, which could be aided by pauses or delays in recent appropriations that have not yet been distributed. As a result, the Legislature may wish to consider whether there is available funding to support any funding above the five percent base increases.

Higher Education Student Housing

BACKGROUND

California's housing crisis threatens the state's higher education goals of increasing access and improving affordability. For most students, housing costs are higher than tuition. Despite a significant recent student housing building boom at both the University of California (UC) and the California State University (CSU), many campuses report waiting lists for on-campus housing, and students struggle to find affordable and safe off-campus options. Campus housing programs, which suffered losses during the COVID-19 pandemic, are struggling to fund new construction or renovation projects that keep student costs down and address local government and neighborhood concerns.

Historically, student housing has rarely been a discussion point for the Education Budget Subcommittee, as the state does not traditionally support housing costs and has left campuses and the systems to develop and support their own housing programs, supported by student rent. Given the state's housing crisis, however, that is changing. In urban areas, local market rental rates – among the highest in the country - are forcing students to pack into apartments or homes, and in rural areas, many campuses do not have enough local housing to accommodate current or future enrollment levels.

On-Campus Housing is Most Common at UC. All UC and CSU campuses have on-campus housing programs, whereas only 12 (of 115) community colleges have student housing programs. System-wide, UC houses the greatest share of its undergraduate students—37 percent in 2021-22. Among UC campuses, the share of undergraduate students housed ranges from 22 percent (Irvine) to 51 percent (Los Angeles). Based on the number of on-campus beds at each segment, we estimate approximately 15 percent of all CSU students system-wide and less than one percent of CCC students system-wide live in on-campus housing.

California Community College (CCC) Housing is Mostly at Rural Colleges and Decades Old. Prior to 2019, 11 community colleges had student housing programs. Almost all of these colleges were located in rural areas and had longstanding housing programs. In 2019, Orange Coast College opened a student housing facility with 800 beds. This student housing facility is the largest among the community colleges (more than four times larger than at any other, accounting for about one-third of all community college beds in the system). Santa Rosa Junior College recently secured financing for a 352-bed project through the California School Finance Authority. The authority completed a $68.3 million revenue bond sale in summer 2021 for the project, which is intended to address severe housing shortages and high rental costs in the area due in part to recent wildfires. Community college districts also have the ability to utilize local general obligation bonds, which could be used to support housing projects if local voters approve. Data compiled by the Chancellor's Office indicates that students pay on average about $5,800 per person per year in a two-person room. These costs do not include food.

PREVIOUS BUDGET ACTIONS

Higher Education Student Housing Grant Program, and Capacity Expansion Grant Program (2021). SB 169 (Committee on Budget and Fiscal Review), Chapter 262, Statutes of 2021, created two new programs to support affordable student housing at the UC, CSU and CCC, and campus expansion projects at UC and CSU. SB 169 appropriated $500 million one-time General Fund in 2021-22 for student housing projects and included legislative intent to provide $750 million in 2022-23 and $750 million in 2023-24 for this purpose. These appropriations have the following proportions by segment: 50 percent to CCC, 30 percent to CSU, and 20 percent to UC. The law created a process for campuses to propose housing projects by October 2021 for inclusion in the subsequent budget act. The law also created the campus expansion program with legislative intent language to provide funding for this program in the future. Of the total $2 billion one-time General Fund for the Higher Education Student Housing Grant program in 2021-22, $25 million was specifically available for CCC planning grants for student housing.

On March 1, 2022, DOF provided the Joint Legislative Budget Committee a list of projects proposed to be funded with the 2021-22 appropriation and documented their overall application process to the Legislature in budget subcommittee hearings. DOF's proposed list of projects totaled $488 million for the first round of funding. DOF received 115 applications for the first round of funding, consisting of 73 planning grant applications and 42 construction grant applications. The applications in total requested $3 billion in grant funding, surpassing both the $500 million designated for the first round and the $2 billion designated for all three funding rounds combined. Short- and long-term solutions through the 2022 Budget Act remedied this oversubscription problem.

Higher Education Student Housing Actions (2022). To address implementation issues that arose, the Budget Act of 2022 included an additional $2 billion General Fund for student housing projects across the UC, CSU, and CCC. This augmentation raised the total amount of student housing funding over fiscal years 2021-22 to 2024-25 from $2 billion to $4 billion General Fund. Of the additional amount included in the new budget agreement, $200 million was scored to 2021-22, $900 million is scored to 2023-24, and $900 million is scored to 2024-25. Moreover, the budget agreement makes the following changes to student housing in trailer bills AB 183 (Committee on Budget), Chapter 54, Statutes of 2022 and AB 190 (Committee on Budget), Chapter 572, Statutes of 2022:

- Approved all UC, CSU, and CCC student housing construction grant projects deemed eligible by the Department of Finance (DOF) from the first round of applications submitted as part of the October 2021 application process. This change is in AB 183 and documented in the next section.

- Appropriated roughly $1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. This change is also in AB 183 and documented in the next section.

- Changed subsequent rounds of the student housing grant program's application process, including the administrator of the program to allow the higher education segments to nominate projects, incorporating the Legislative Analyst Office's recommendations to address cost overruns, project requirements to have contingency plans, a notification process, and reporting requirements for all projects funded in the first application round and any submitted project proposals in subsequent rounds. This change is in AB 183.

- Established a new California Student Housing Revolving Loan Fund to provide zero-interest loans to qualifying campuses of the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) for construction of affordable student, faculty, and staff housing. States that the fund will receive $1.8 billion in 2023-24 and 2024-25 and creates a process for the California School Finance Authority and the California Educational Facilities Authority to create and receive applications from campuses, and distribute funds. This change is in AB 190.

Implementation to Date:

The state made its first round of student housing grants on July 1, 2022. Figure 1 documents the projects by campus. Roughly $1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by DOF in the first year of the Program. Projects that DOF determined as eligible were fully funded in their requested amounts while ineligible projects went unfunded.

Figure 1: Affordable Student Housing Construction Grant Awards
2022-23 Awards Specified in Budget Act of 2022 (In Thousands)

	Funding			Beds	
Campus	**State**	**Non-state**		**Affordable**	**Standard**
California Community Colleges					
Sierra	$80,497	—		354	—
Compton	80,389	—		250	—
Ventura	62,923	—		320	—
Canyons	61,858	—		100	—
Bakersfield	60,245	—		154	—
Cosumnes River	44,144	—		145	—
Lake Tahoe	39,369	—		100	—
Fresno City	34,080	—		360	—
Siskiyous	32,613	—		252	—
Napa Valley	31,000	$97,000		124	404
Santa Rosa	15,000	63,288		70	282
Imperial Valley[a]	4,554	4,708		78	—
Subtotals	**($546,672)**	**($160,288)**		**(2,229)**	**(686)**
California State University					
San Francisco	$116,300	$62,691		750	—
San Marcos	91,000	49,023		390	210
Fullerton	88,900	47,997		390	210
Long Beach	53,300	28,700		403	—
Dominguez Hills	48,750	26,250		238	127
Northridge	37,500	20,248		200	—
Fresno	31,050	16,718		175	—
Humboldt	27,107	14,603		138	—
San Diego[a]	4,554	—		—	—
Subtotals	**($498,461)**	**($266,230)**		**(2,684)**	**(547)**
University of California					
San Diego	$100,000	$235,500		1,100	208
Berkeley	100,000	212,014		310	803
Santa Cruz	89,000	—		320	—
Irvine	65,000	700		300	—
Los Angeles	35,000	28,557		358	—
Subtotals	**($389,000)**	**($476,771)**		**(2,388)**	**(1,011)**

[a] Reflects one intersegmental project. The budget appropriates half of the project's grant funding to Imperial Valley College and half to CSU San Diego. For display purposes, this table reflects the project's non-state funds and beds only in the Imperial Valley College row.

Segments Experienced Cost Overruns and Delays. Grant program guidelines direct the campuses across the three segments to build funds into the submitted project bids for project contingency, to identify the non-grant fund sources and their respective balances that would be available to cover costs overruns, and to cover any costs above those identified in their application using the non-state funds. The campuses have reported cost overruns for several projects funded in the 2022 Budget Act. For example, CSU states that the unprecedented rise in inflation drove construction costs beyond initial projections. CSU also described rising costs due to contractors attempts to mitigate risk and uncertainty in the supply chain. Because of these two factors, CSU now projects a 14 percent increase (about $108 million) above initial projections for the projects funded in Table 1.

CSU reported various ways that campuses have considered to address this shortfall. First, campuses requested to fund the budget shortfalls using housing reserves or increasing the amount of CSU debt financing. Additionally, campuses have considered reducing the number of standard rate beds (higher rate than the affordable bed rate). Through this method, the delivery of affordable beds would be prioritized to the extent the financial models can support the reduction in standard bed spaces. A third way is to reduce the square footage of the proposed projects and project amenities. Despite these strategies to reduce the $108 million shortfall, CSU stated that $12 million in state grant funds would assist campuses with the budget shortfall. As of this writing, staff has not received an update for UC and CCC projects funded in the 2022 Budget Act but CSU's responses are an indication that similar cost overruns likely exist across all three segments.

UC's status report cited litigation and receipt of conflicting direction from the Division of the State Architect as reasons for potential delays in two projects - People's Park Housing Project at UC Berkeley and Pepper Canyon West at UC San Diego. Nevertheless, they report that their funded projects are on track for construction within the next 18 months.

2023-24 Housing Grant Allotment and Proposals to Date. Figure 2 shows the statutory allotments per segment remaining for the Higher Education Student Housing Grant Program. The higher education segments submitted grant application information on February 1, 2023 to the Department of Finance, the LAO, and the budget committees of the Legislature with information on all submitted project proposals for the 2023-24 grant cycle.

Figure 2: Affordable Student Housing Construction Grant Awards Remaining per Segment ($ in millions)

	Grant Awards				Statutory Allotments	
	Planning[a]	**Construction[a]**	**Total**		**Total[b]**	**Remainder**
CCC	$17	$547	$564		$1,109	**$545**
CSU	0.3	498	499		655	**157**
UC	0.3	389	389		437	**48**
Totals	**$18**	**$1,434**	**$1,452[c]**		**$2,202**	**$750**

Thus far, CSU submitted proposals for three projects and requested $149.3 million General Fund (see table below). Though the total project costs are estimated to be $429.9 million, CSU expects to cover 65 percent of the costs with non-state funding. In addition, a separate letter sent to the Assembly and Senate requested $7.7 million for construction cost escalation assuming the three projects submitted for 2023-

24 are approved. If the CSU requests are included in the 2023 Budget Act, then there would be no remaining funding from the funds targeted for CSU. UC's requested $573 million General Fund to support six eligible projects - an amount that exceeds UC's remaining allotment per Figure 2. At the time of this publication, staff had not received CCC applications.

GOVERNOR'S PROPOSAL

Proposed Delays in 2023-24 Funding for Student Housing Grant and Revolving Loan Fund. In response to revenue shortfalls, the Governor's budget proposes delaying a portion of funding to future fiscal years as outlined below:

- The total allotment for the Higher Education Student Housing Grant Program is currently $2.2 billion General Fund for student housing grants over the three-year period ($700 million in 2021-22, $750 million in 2022-23, and $750 million in 2023-24). The Governor now proposes to reduce this funding to $500 million by delaying $250 million until 2024-25.

- The 2022 Budget Act included intent language to provide $1.8 billion General Fund over a two-year period ($900 million scored to 2023-24, and $900 million scored to 2024-25) to establish a student housing revolving loan program for the UC, CSU, and CCCs. The Governor proposes delaying $900 million planned in 2023-24 to the 2025-26 fiscal year and delaying $250 million from the 2024-25 fiscal year to the 2025-26 fiscal year. This delay would result in $650 million in 2024-25 and $1.15 billion in 2025-26 being available for the program.

ISSUES FOR CONSIDERATION

What Should California Do in the Immediate Term? According to the Legislative Analyst's Office in November 2022, the Legislature would face a budget problem of $24 billion in 2023-24. The budget problem is mainly attributable to lower revenue estimates compared to budget act projections between 2021-22 through 2023-24. Typically, revenue losses are offset by lower spending in certain areas, which could be aided by pauses or delays in recent appropriations that have not yet been distributed. These projections led to the Governor's proposed shifts in portions of student housing funding from 2023-24 to 2024-25 in his January budget proposal. The Legislature may wish to consider its options as budget deliberations unfold.

If the Governor's proposed delay is not adopted in the final budget agreement, then California will transition from the short-term Higher Education Student Housing Grant Program to the long-term Student Housing Revolving Loan Fund beginning in 2023-24. Irrespective of the final agreement details, the remaining funding in the grant program is dwindling, shortages in student housing persist, and state revenue shortfalls are projected. The state may wish to consider its options in the immediate term to address these problems in a strategic way that does not undermine its goals and student outcomes.

$750 million General Fund remains in the Higher Education Student Housing Grant Program for expenditure in 2023-24. The remaining amount, as detailed in Figure 2, largely covers projects at the CCC. As a result, CSU and UC will either have to reduce the number of fully-funded projects to be covered with state General Fund, find non-state alternatives to fund eligible student housing projects and/or use their state General Fund allocations to cover a percentage of the project instead of the entire project. The state's future fiscal outlook complicates these circumstances.

In lieu of using state funds to increase the available amount through the grant program, the Legislature may wish to encourage the segments to cover project costs with non-state funds or bonds. The Legislature could, for example, influence applications in future rounds by amending statute to include specific expectations regarding non-state funding contributions. Encouraging more non-state funding contributions could permit some shovel-ready projects to move forward. This strategy would increase the stock of available beds for students, remedying the housing shortage situations across the segments. The segments have indicated to staff however, that proceeding in this manner would result in housing stock with lower proportions of affordable beds-thereby undermining a legislative priority in establishing the grant program.

If the Legislature considers moving forward with the Governor's proposed delay, then there are a variety of options, all with significant impacts, to implement the delay. For example, the $250 million reduction in 2023-24 and expenditure in 2024-25 could be applied on a pro rata basis across the segments. Alternatively, the reduction in 2023-24 could be made to the segment with the largest remaining statutory appropriation- the community colleges. Nevertheless, would impact the segments' projects. Applying a pro rata reduction in 2023-24 reduces the amount available for the CSU and UC, which already has a significantly smaller allotment than the community colleges. Presumably, as a result, the CSU would not receive funding for all of its projects and would presumably discontinue an unfunded project. Similar impacts would be felt by UC. If the delay was only applied to the CCC's remaining allotment, then the amount of projects that they could funded would be lower and they have indicated to staff that certain projects would discontinue.

State Should Assess Housing Affordability in Context of Total Cost of Attendance. The student housing grant program is modeled after programs generally intended to gauge housing affordability for low-income families living in the community. Many UC, CSU, and CCC campuses are located in areas with particularly constrained housing markets and relatively high housing costs. Efforts to construct housing in these areas—whether on-campus student housing or off-campus housing—will help mitigate these constraints. Based on the low thousands of affordable beds to be constructed in the first round, relatively few of the millions of students across the three systems, however, are likely to benefit directly from the program. College students, for example, can be dependents of their parents. In these cases, households already must cover housing costs for their primary residences and thus likely cannot afford to allocate an additional 30 percent of their income to house their respective college students on campus. Moreover, housing is only one of the costs that traditionally have been embedded within the concept of college affordability. In the college context, the Legislature has focused on students' total cost of attendance (tuition and living costs).

Even if the new affordable housing units successfully offer some students lower-cost housing options, many low-income students at CSU and CCC likely will continue to face affordability challenges. This is because financial aid at these segments, in the interim, primarily focuses on covering the cost of tuition, providing substantially less coverage for living costs. Today's college students face significant costs, particularly housing: all three public segments and independent postsecondary institutions indicate many students spent at least $12,000 annually on room and board in 2018-19. In contrast to CSU and CCC, UC fully covers financial need for its students, after assuming students cover a portion of total attendance costs from parent contributions, working part time, and borrowing. Previous analyses have estimated the cost to cover remaining financial need to be in the low billions of dollars. Moving forward, the Legislature may wish to work with the segments, student groups, policy experts, and other stakeholders to develop a more integrated framework that considers student housing affordability within the broader context of overall college affordability and student financial aid programs. The Legislature may wish, for example, to consider prioritizing the full implementation of the Cal Grant Reform Act and Middle

Class Scholarship to alleviate these cost attendance concerns for low-income students across the three segments.

Substantial Academic Facility Backlogs Exist. Traditionally, the state has focused its higher education capital funding on academic facilities (such as classrooms, lecture halls, and laboratories), which are not self-funded from student charges but rely primarily on state funding. The state continues to face many substantial academic facility budget priorities. For example, all three segments report substantial academic facility maintenance backlogs (UC with $7.3 billion, CSU with $5.8 billion, and CCC with $1.2 billion). Moreover, the segments have billions of dollars in seismic safety upgrades they could make. Campuses at all three segments also do not spend enough money to keep their facilities in good condition and prevent their backlogs from growing. Addressing these existing critical capital issues is important—potentially mitigating life-safety hazards, avoiding disruptions to state programs, and minimizing future escalation in repair costs. Funding student housing projects leaves less budget capacity to support these and other high-priority academic facility issues. The Legislature may wish to prioritize investments in academic facilities in tandem with student housing or once the state's revenue outlook rebounds.

As budget deliberations unfold in 2023, the Legislature shall consider the balance between the state's current and future economic condition, immediate need for student housing, significant investments in the Budget Acts of 2021 and 2022, and competing priorities, such as academic facility upgrades, when deciding upon shifting or increasing funding for student housing.

Pandemic Recovery Resources

BUDGET ACTIONS

The budget recently included funding to help local educational educations (LEAs) respond to the COVID-19 pandemic and its impacts on students. While the following list is not exhaustive of all the pandemic recovery initiatives that the Legislature has funded or passed, the highlights are as follows:

2021-22 Budget

- **Early Budget Package (April 2021):** Appropriated a total of $6.6 billion in one-time Proposition 98 General Fund for In-Person Instruction and Expanded Learning Opportunities Grants.

    - ***In-Person Instruction Grants:*** Of the total, $2 billion in In-Person Instruction Grants were provided to LEAs, with the exception of non-classroom based charter schools, proportionate to each LEA's share of the Local Control Funding Formula (LCFF) allocation, conditional on offering in-person instruction, commencing on or before April 1, 2021, to students as specified under the state's county tier system, with those with lower risk of COVID-19 spread providing services to larger populations of students. In addition, LEAs operating in-person were required to provide for specific testing regimes, in accordance with public health guidelines for their county's COVID-19 risk tier. Funds received under this section may be used for any purpose consistent with providing in-person instruction, including but not limited to COVID-19 testing, cleaning, personal protective equipment, facility needs, staffing costs, and social and mental health supports provided in conjunction with in-person instruction, and is available for expenditure through September 30, 2024.

    - ***Expanded Learning Opportunities Grants:*** Of the total, $4.6 billion in Expanded Learning Opportunities Grants was provided to LEAs proportionate to each LEA's share of the Local Control Funding Formula allocation. These funds are for LEAs to provide supplemental instruction and support to students. Specified allowable uses include extended instructional learning time, accelerated learning strategies, summer school, tutoring or one-on-one support, professional development, and social-emotional wellbeing supports, among others. $5 million one-time Proposition 98 General Fund was provided for the California Collaborative of Educational Excellence for the purpose of providing support to LEAs in maximizing positive pupil outcomes and effectively using funds provided under the Expanded Learning Opportunities Grant, available for expenditure until June 30, 2023.

- **Educator Effectiveness Block Grant.** Provides $1.5 billion in one-time Proposition 98 General Fund for the Educator Effectiveness Block Grant available over five years to provide LEAs with flexible resources to expedite professional development for teachers, administrators, and other in-person staff. The focus areas include those immediately relevant given COVID-19, distance learning, student and staff stress and anxiety, and social equity issues, as well as ethnic studies standards-aligned instruction, accelerated learning, inclusive practices, dual language acquisition, positive school climate, re-engaging students, restorative practices, and implicit bias training.

- **A-G Completion Improvement Grant Program**. The budget included $547.5 million in one-time Proposition 98 funds for the A-G Completion Improvement Grant Program for the purpose of providing additional supports to local educational agencies to help increase the number of California high school pupils, particularly unduplicated pupils (low-income foster youth, and English learners), who graduate from high school with A-G eligibility. Of the total, $400 grants for activities that directly support pupil access to, and successful completion of, the A-G course requirements. The remaining $147.5 million is to allow pupils who failed an A-G approved course in the spring semester of 2020 or the 2020–21 school year to retake those A-G courses or for other credit recovery.

- **County Office of Education Funding.** The budget provided $80 million in one-time Proposition 98 funds to the county offices of education for allocation on per average daily attendance for students in county community schools and juvenile court schools for costs related to in-person instruction.

- **Accelerated Learning.** The budget provided $50 million in one-time Proposition 98 funds for the California Collaborative for Educational Excellence to contract with a county office of education to establish a statewide professional development infrastructure to expand the use of evidence-based accelerated learning strategies.

- **Social-Emotional Learning Grants.** The budget provided $2 million in one-time General Fund for grants to community-based organizations supporting local educational agencies with the implementation of high quality integrated academic, behavioral, and social-emotional learning practices.

2022-23 Budget

- **Learning Recovery Emergency Block Grant.** The budget included $7.9 billion one-time Proposition 98 General Fund for the Learning Recovery Emergency Block Grant, to be allocated based on a local educational agency's unduplicated pupil percentage and available for use for up to five years, through the 2027-28 school year, to establish learning recovery initiatives.

- **Arts, Music, and Instructional Materials Discretionary Block Grant.** The budget included one-time $3.6 billion Proposition 98 General Fund for an Arts, Music, and Instructional Materials Discretionary Block Grant, to all local education agencies, based on average daily attendance. Funds are available to use on professional development and instructional materials that are standards-aligned or intended to improve school climate, books, operational costs, and COVID-19 related materials, through the 2025-26 fiscal year.

- **Teacher Residency Grant Program.** The budget augments the Teacher Residency Grant Program established in the 2021-22 Budget Act with $184 million one-time Proposition 98 General Fund, for a total program increase of $250 million Proposition 98 General Fund with re-appropriated funds, and expands eligibility to school counselors. The budget also extends the sunset deadline by one year to 2030. The budget also sets aside $10 million for capacity grants to create school counselor residency programs.

In addition to the actions taken above, the budget also included significant ongoing increases to the LCFF allocations. The budget provides a total of approximately $75.2 billion for the LCFF in 2022-23. This funding amount provides a cost-of-living adjustment (COLA) of $771.5 million (6.56 percent), in addition to changes to LCFF and a rate increase that equal $4.3 billion above COLA, for school districts, charter schools, and county offices of education (COEs), known as Local Educational Agencies (LEAs), in 2022-23. In total, funding increases to LCFF are 13 percent over 2021-22 rates. The budget increased school district and charter school LCFF funding by $4.32 billion above COLA. The budget also adopted protections for declining enrollment by including the average of three prior years' average daily attendance for funding, one year protection for classroom-based charter schools that is estimated to be $413 million, and protections for the 2021-22 average daily attendance for local educational agencies that offered independent study in 2021-22 – these changes result in an additional $2.8 billion for the LCFF. The budget also adjusts the funding bands used to compute necessary small school entitlements to provide qualifying necessary small schools with the greater of either their computed local control funding formula entitlement or their computed necessary small schools entitlement.

GOVERNOR'S PROPOSAL

The January Budget proposes the following related to the programs mentioned in this overview document:

- **Reduction to the Arts, Music, and Instructional Materials Block Grant.** The Governor's Budget proposes to reduce this block grant by $1.2 billion, due to the new Proposition 28 requirement to invest $941 million for arts education and the need to cover costs of LCFF in 2022-23.

- **Cost of Living Adjustment (COLA).** The Governor's budget proposes to fund an 8.13 percent COLA for LCFF and across other categorical programs.

- **Literacy Coaches.** The Governor's Budget proposes $250 million for literacy coaches and reading specialists. For the 2022-23 Budget, the Administration proposed $500 million for literacy coaches and reading specialists, and the final agreement included $250 million for this purpose.

- **Accountability.** The Governor's budget proposes changes to the school accountability system, including:

  - *Local Control and Accountability Plan (LCAP) Annual Update and Dashboard Posting Timeline.* Requires the LEA to provide an annual update on its LCAP by February 28 of every year. Also requires actions that are not effective to be changed to new or strengthened approach, and requires associated metrics with actions. Also would require LEAs to link its LCAPs to any technical or differentiated assistance it may be receiving. Specifies that LCAPs address disparities in opportunities and outcomes between student groups as indicated by the School Dashboard, and include focused goals for its lowest performing student groups or if a school receives equity multiplier funding. Finally, it establishes deadlines for which School Dashboard data is publicly available.

  - *Long-Term English Learners.* Includes long-term English learners as a separate pupil subgroup within the state's public school performance accountability program.

- *LCAP Review and Approval.* Requires LEAs that are eligible for differentiated assistance to include actions and services that implement the work related to technical assistance to improve outcomes for students that led to identification.

- *Statewide Systems of Support.* Requires that LEAs that meet certain conditions are referred to the California Collaborative for Educational Excellence.

- *Equity Leads.* Selects two to four county offices of education or consortia of county offices of education as equity leads to operate within the statewide systems of support.

ISSUES FOR CONSIDERATION

Continued Pandemic Recovery. Due to the COVID-19 pandemic, the 2022 Dashboard is the first year since 2019 to display accountability measures of local educational agencies, and does so with limited data due to the re-start. As a result, the most recent statewide data that we have shows a very high rate for chronic absenteeism, that foster youth and students with disabilities performed very low on English Language Arts, and that foster youth, homeless, students with disabilities and Black students performed very low for Mathematics. The Legislature may want to consider if the proposed changes to California's accountability system will help LEAs support and close disparities for its students.

Proposition 98 Package. The Administration proposes to reduce the Arts, Music, and Instructional Materials Block Grant by $1.2 billion, but also proposes new spending. The Legislature may want to consider its priorities in protecting past investments and whether any of the new proposed spending provides merit.

Continued Implementation of Prior One-Time Investments. Several one-time appropriations were approved in the 2021-22 Budget Act and the 2022-23 Budget Act related to recovery efforts from the pandemic. The Legislature may want to consider if any tweaks are needed to help continued implementation of these past investments.

Universal School Meals

BACKGROUND

Beginning in 2022-23, local educational agencies (LEAs) will be required to provide two school meals to students free of charge for grades Transitional Kindergarten to grades twelve during each school day, regardless of a student's eligibility for federally funded free and reduced price meals under California's education code. The state provides reimbursement of school meals up to the combined free breakfast and lunch reimbursement rate amounts not covered by the federal meal reimbursements for schools participating in the federally funded school meals program. California is the first state to offer universal school meals.

RECENT BUDGET ACTIONS

2020-21 Budget. In response to the concerns that LEAs' nutrition programs were struggling to cover costs, the 2020-21 budget provided $192 million in one-time Federal Elementary and Secondary Schools Emergency Relief for LEA school meal reimbursements during summer break and COVID-19 school closures through August 30, 2020, at a rate of up to an additional 75 cents per meal. It also allowed state reimbursement funds from 2019-20 to be used for disaster relief for LEAs that, or attempted to, serve student meals during the school closure period.

2021-22 Budget. The 2021-22 budget provided $54 million ongoing Proposition 98 General Fund for the Child Nutrition Program to provide the state reimbursement rate for universal breakfast and lunch in the 2021-22 budget year. Additionally, the 2021-22 budget included $150 million one-time Proposition 98 General Fund for school districts to upgrade kitchen infrastructure and equipment, as well as provide training to food service employees. Of this amount, $120 million will provide a minimum of $25,000 per district for kitchen upgrades and equipment, and $30 million to provide a minimum of $2,000 per district for training to promote nutritious foods, food preparation, and healthy food marketing. On December 17, 2021, the USDA announced $1.5 billion nationwide to states and school districts to help school meal program operators deal with the challenges of supply chain disruptions brought on by the pandemic. Of this amount, California received $171.5 million.

2022-23 Budget. The 2022-23 Budget Act includes $611.8 million ongoing Proposition 98 General Fund to enhance the reimbursement rates for school meals under the state's new universal school meals program. Additionally, the budget also includes $596 million Proposition 98 General Fund to fund universal access to subsidized school meals. Additionally, the budget includes authority for the Department of Finance to adjust the appropriation for school meals in case funding falls short mid-year. The proposed budget also includes $600 million in one-time Proposition 98 General Fund to upgrade school kitchen infrastructure and training, and $100 million in one-time Proposition 98 General Fund for school food best practices and can be used to procure foods that are California-grown, plant-based, and special dietary-restriction necessities for students in the existing universal school meal program.

GOVERNOR'S PROPOSAL

The January budget proposes the following related to the universal school meals program:

- **Dishwasher grants.** The Administration proposes to include $15 million for dishwasher grants from the $600 million that has already been appropriated for Kitchen Infrastructure and Training in the 2022-23 Budget.

ISSUES FOR CONSIDERATION

Continued implementation. 2023-24 will be the second year of implementation of the universal school meals program. The 2023-24 appropriation for school meals has been adjusted down to reflect an updated estimate for served meals, and local educational agencies have expressed challenges in collecting the free and reduced meal federal forms required for federal reimbursement. The Legislature may want to consider proposals that continue to smooth the path for local educational agencies to continue implementation.

SUBCOMMITTEE NO. 2

RESOURCES, ENVIRONMENTAL PROTECTION and ENERGY

Resources, Environmental Protection and Energy

Drought Response and Resilience Package

BACKGROUND

Drought. California is in the third year of a serious drought. On October 19, 2021, the Governor expanded the drought emergency to include eight remaining counties, resulting in all 58 counties subject to the declaration.

The Department of Water Resources (DWR) estimates a 10 percent reduction in water supply by 2040. This is a planning scenario that considers increased temperatures and decreased runoff due to a thirstier atmosphere, plants, and soils. According to the California Water Plan Update, the state's managed water supply (used for agriculture, urban, and environmental purposes) ranges from 60-90 million acre-feet (MAF) per year so the effect of a drier climate results in a disappearance of about 6-9 MAF of water supply. For perspective, the state's largest reservoir — Shasta — holds 4.5 MAF.

The 2012-2016 Drought. The state last experienced a severe drought for five years between 2012-2016. That drought was the second time that a statewide emergency proclamation for drought impacts was issued.

Drought Impacts. According to the Legislative Analyst's Office (LAO), the 2012-2016 drought affected various sectors in different ways. Sector-specific water needs and access to alternative water sources led to notable distinctions in the severity of the drought's impacts across the state.

For example, while the drought led to a decrease in the state's agricultural production, farmers and ranchers moderated the drought's impacts by employing short-term strategies, such as fallowing land, purchasing water from others, and pumping groundwater. In contrast, some rural communities — mainly in the Central Valley — struggled to identify alternative water sources upon which to draw when their domestic wells had gone dry.

Multiple years of warm temperatures and dry conditions had severe effects on environmental conditions across the state, including degradation of habitats for fish, water birds, and other other wildlife, killing millions of trees, and contributing to more prevalent and intense wildfires. For urban communities, the primary drought impact was a state-ordered requirement to use less water, including mandatory constraints on the frequency of outdoor watering.

Report to the Legislature on the 2012-2016 Drought. Pursuant to SB 839 (Committee on Budget and Fiscal Review), Chapter 340, Statutes of 2016, California Natural Resources Agency (CNRA) released, "Report to the Legislature on the 2012-2016 Drought," in March 2021 outlining lessons learned from the 2012-2016 drought.

According to the report, since the last drought, several legislative and regulatory changes were enacted, including:

- Enactment in 2014 of the Sustainable Groundwater Management Act (SGMA) to require local agencies to bring overdrafted groundwater basins into sustainable conditions by 2042.

- Legislation to establish new standards for indoor, outdoor, and industrial use of water.
- Funding for disadvantaged communities lacking access to safe drinking water through the Safe and Affordable Drinking Water Act.
- Increase the frequency of water use reporting.
- Give the state authority to order failing public water systems to consolidate with better-run systems.
- Tighten landscape efficiency standards for new developments.

Implementation of these laws and regulations are intended to help with extended dry conditions in the future.

According to the report, effective response depends heavily on capacity built before drought deepens. This includes reducing the drought vulnerability of water users and ecosystems, making key policy decisions in advance, improving hydroclimate forecasting to provide longer lead times for decision-making, having the information at hand necessary to make well-informed decisions, and creating the capacity to communicate effectively across governments and to the public about a rapidly changing situation.

The report provided the following recommendations on state action:

- Provide longer lead times for state financial assistance to local agencies.
- Dedicate staff to ongoing drought preparedness and response work.
- Improve accounting for wildlife needs before and during drought.
- Improve the quality and timeliness of forecasting and data.
- Restore forest health in upper watersheds.

These recommendations were intended to address long-standing water problems and strengthen the state's ability to cope with a changing climate.

Water Use. Water use is shared across three main sectors — statewide, average water use is about 50 percent environmental, 40 percent agricultural, and 10 percent urban, although the percentage of water use by sector varies dramatically across regions and between wet and dry years.

PREVIOUS BUDGET ACTIONS

2012-2016 Drought. According to the LAO, a major legislative response action during the 2012-2016 drought was providing emergency funding in the state budgets of 2014 and 2015. In March 2014, a budget amendment for 2013-14 authorized $687.4 million for drought relief, with $549 million for accelerated expenditure of Proposition 84 and Proposition 1E bond funds for grants to local agencies for integrated regional water management projects. In March 2015, an amendment for the 2014-15 budget authorized more than $1 billion for additional relief, including water conservation and recycling assistance, emergency food aid, and small drinking water emergencies. Also, SB 88 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2015, authorized State Water Resources Control Board (SWRCB) to require consolidation of water systems consistently failing to provide an adequate supply of safe drinking water as well as provide for more thorough measurement and reporting of diversions to SWRCB.

According to the LAO, the state funded both short- and longer-term drought response activities and deployed numerous resources — fiscal, logistical, and personnel — in responding to the 2012-2016 drought. LAO provided the following figure outlining $3.4 billion in the state's drought response appropriations from 2013-14 though 2016-17:

State Drought Response Appropriations

2013-14 Through 2016-17 (In Millions)

Activity	Amount
Water Supply	
Support groundwater management and clean-up	$843
Improve/increase water recycling, wastewater treatment, stormwater management, and desalination	609
Fund Integrated Regional Water Management projects	473
Improve drinking water infrastructure	311
Subtotal	($2,235)
Emergency Response	
Expand/enhance fire protection	$379
Address emergency drinking water needs	115
Provide food and other assistance to drought-affected communities and farmworkers	99
Conduct statewide drought assistance, monitoring, and response	55
Remove and dispose of dead trees	41
Monitor/enforce water rights and conservation regulations	20
Various other activities	21
Subtotal	($730)
Water Conservation	
Increase urban water efficiency and conservation	$166
Increase agricultural water efficiency and conservation	122
Fund innovative water efficiency technologies	30
Conduct conservation outreach and public messaging	23
Increase water efficiency at state facilities and wildlife refuges	28
Subtotal	($369)
Environmental Protection	
Emergency fish and stream activities	$70
Eradicate water hyacinth	4
Study and model flows	3
Subtotal	($78)
Total	**$3,410**

Source: LAO

As shown in the figure above, most of the $3.4 billion for drought response activities was spent on longer-term water supply projects. Because water supply projects typically take several years to complete, they were more likely to enhance supplies and build greater resilience for subsequent droughts than provide immediate relief. Spending for emergency response, water conservation, and environmental protection was more targeted for addressing and ameliorating urgent drought effects on people, agriculture, and the environment.

The funding source for a majority of this spending was from voter-approved general obligation bonds — about 70 percent — while the state's General Fund supported approximately 20 percent (close to $700 million). The remainder was from 13 different special funds for various efforts that aligned with each fund's allowable uses, with the largest share coming from the Greenhouse Gas Reduction Fund for water and energy efficiency programs.

2021 Budget Act. According to LAO, the 2021 Budget Act included the Drought and Water Resilience Package, which dedicated $4.6 billion over three years for drought and water-related activities. The budget package included $3.3 billion for water and drought-related activities in 2021-22, primarily from the General Fund, spread across multiple departments and activities. *(Please see figure on following page for more detail.)*

A total of $437 million was for activities intended to respond to emergency drought conditions over the coming year and spent immediately, such as the SWRCB and the Department of Fish and Wildlife (DFW) to oversee and enforce regulatory restrictions on water diversions and fishing in certain streams. In contrast, some of the activities — such as allocating grants for water supply and ecosystem restoration projects — take multiple years to complete. Consequently, for many of the activities, statutory language allowed the funding to be encumbered or expended over the course of two or three years.

The largest funding allocation in the package was $1.3 billion for SWRCB to allocate grants for improvements to drinking and wastewater systems. The budget agreement also included the intent to provide an additional $1.4 billion — $880 million in 2022-23 and $500 million in 2023-24 — to continue some activities over the coming years.

While most of the funded programs and activities built upon existing state efforts, some represented new initiatives — such as providing funding to the Wildlife Conservation Board to ensure additional streamflow for the environment, and to the Department of Conservation to establish a land repurposing program that improves groundwater sustainability. For new programs such as these, budget trailer legislation provided some guidance to implementing departments.

Drought and Water Resilience Package

(In Millions)[a]

Activity	Department	2021-22	2022-23	2023-24	Totals
Water Supply and Reliability, Drinking Water, and Flood		**$2,376**	**$420**	**$220**	**$3,016**
Drinking water and wastewater projects	SWRCB	$1,300	—	—	$1,300
Multibenefit water projects	DWR	200	—	—	200
SGMA implementation	DWR	180	$60	$60	300
Groundwater cleanup and water recycling projects	SWRCB	150	100	100	350
Flood management	DWR	130	110	60	300
Water conveyance repairs	DWR	100	100	—	200
Data, research, and communications	DWR	91	—	—	91
SWEEP	CDFA	50	50	—	100
San Diego Pure Water project	SWRCB	50	—	—	50
Multibenefit land repurposing program	DOC	50	—	—	50
Water rights modernization	SWRCB	30	—	—	30
Watershed climate studies	DWR	25	—	—	25
Aqueduct solar panel pilot study	DWR	20	—	—	20
Water Quality and Ecosystem Restoration		**$456**	**$460**	**$280**	**$1,196**
Water resilience projects	CNRA	$165[b]	$100	$180	$445
Streamflow for the environment	WCB	100	150	—	250
Resilience projects for fish and wildlife	WCB	65	40	—	105
Salton Sea	DWR	40	100	80	220
Funding to address PFAs contamination	SWRCB	30	50	20	100
Urban rivers and streams	Various	30	20	—	50
Water quality improvements for border rivers	SWRCB	20	—	—	20
Clear Lake rehabilitation	CNRA	6	—	—	6
Immediate Drought Response		**$437**	**—**	**—**	**$437**
Community water projects	DWR	$300	—	—	$300
Drought support for fish and wildlife	CDFW	33	—	—	33
Drought emergency response	Various	25	—	—	25
Drought permitting compliance and enforcement	SWRCB	18[c]	—	—	18
Drought permitting compliance and enforcement	CDFW	8	—	—	18
Drinking water emergencies	SWRCB	12	—	—	12
Drought technical assistance	DWR	10[d]	—	—	10
Salinity barrier	DWR	10	—	—	10
Data, research, and communications	Various	6	—	—	6
Agriculture technical assistance	CDFA	5	—	—	5
Totals		**$3,269**	**$880**	**$500**	**$4,649**

[a]All from the General Fund unless otherwise noted. Does not include funding approved by the Legislature for water-related activities outside of the Drought and Water Resilience packages approved in July and September 2021.

[b]Includes $125 million from Proposition 68.

[c]Includes $2 million from the Safe Drinking Water Account.

[d]Includes $7 million from Proposition 1.

SWRCB = State Water Resources Control Board; DWR = Department of Water Resources; SGMA = Sustainable Groundwater Management Act; SWEEP = State Water Efficiency and Enhancement Program; DOC = Department of Conservation; CNRA = California Natural Resources Agency; WCB = Wildlife Conservation Board; PFAs = per- and polyfluoroalkyl substances; CDFW = California Department of Fish and Wildlife; and CDFA = California Department of Food and Agriculture.

Source: LAO

Please note that the totals shown in the figure above do not include funding approved by the Legislature for water-related activities outside of the Drought and Water Resilience Packages approved in July and September 2021.

The budget trailer legislation, AB 148 (Committee on Budget), Chapter 115, Statutes of 2021, included provisions applicable to drought response expenditures. In particular, the language allowed implementing departments to make direct expenditures to provide immediate relief for drought conditions — rather than being subject to typical statutory requirements for competitive grant or bid processes — if the Governor had declared a drought state of emergency or SWRCB determined that urgent actions were needed to respond to drought impacts on drinking water, public safety, or fish and wildlife. Such expenditures could include providing emergency drinking water supplies, drilling new wells, or rescuing and relocating at-risk fish and wildlife. The legislation also allowed departments to provide local grantees that have demonstrated cash flow problems with advance payments for up to 25 percent of the costs of their emergency drought response projects in lieu of relying completely on the traditional cost reimbursement process.

2022 Budget Act. According to the LAO, the 2022 Climate-Energy Package included $2.9 billion across three years from the General fund — including $1 billion through the California Emergency Relief Fund — to respond to current drought conditions, as well as for activities to prepare for future droughts. This included $2.3 billion that reflects new resources available in 2022-23 ($1.9 billion of which is scored in 2021-22) and $565 million that the Legislature intends to appropriate in 2023-24. This total includes $36 million for ongoing activities, including new staff in a number of departments and for DWR to enhance its forecasting practices. (Besides the totals shown in the figure below, the budget agreement expresses intent to provide additional funding in future years, including $100 million for watershed resilience over 2024-25 and 2025-26 and $500 million for water storage slated for 2026-26.)

As shown in the figure on the following page, the package included $665 million for immediate drought response activities, such as $300 million to support grants for drought relief projects in small communities and urban areas and $176 million for technical assistance and emergency response. The latter included $50 million to address urgent drinking water shortages, $21 million to purchase base and position water storage tanks, and $71 million in flexibility contingency funding for drought-related emergencies that may emerge over the year.

The package also included $441 million for water conservation efforts over the near-and longer-term, such as grants for local agency projects and for replacing turf with more drought-tolerant plants ($185 million), and support for groundwater recharge projects related to implementing the requirements of the 2014 Sustainable Groundwater Management Act ($56 million).

Additionally, the budget included funding for the State Water Efficiency and Enhancement Program ($60 million), which provides grants to farming operations to replace irrigation systems with more water- and energy-efficient equipment. Some of the funded activities in the package — such as allocating grants for improving drinking water and wastewater systems as well as for ecosystem restoration and watershed resilience projects — likely will take multiple years to complete.

Drought Response and Resilience Package

(In Millions)[a]

Activity	Department	2021-22	2022-23	2023-24	Totals
Drinking Water, Water Supply and Reliability, and Flood		**$515**	**$90**	**$385**	**$990**
State Revolving Fund projects	SWRCB	$400	—	—	$400
Water recycling and groundwater cleanup	SWRCB	100	$90	$210	400
Aqueduct solar panel pilot study	DWR	15	—	—	15
Flood and dam safety	DWR	—	—	75	75
PFAs support	SWRCB	—	—	100	100
Habitat and Nature-Based Solutions		**$415**	**$239**	**$151**	**$804**
Aquatic and large-scale habitat projects	Various[b]	$122	$7	$7	$136
Fish and wildlife protection	CDFW	175	—	—	175
Watershed resilience projects	WCB, DWR	76[c]	225	144	445
State-land and migratory bird habitat projects	CDFW, DWR	25	—	—	25
Climate-induced hatchery upgrades	CDFW	17	—	—	17
Salmon study, tribal co-management activities	DWR, CDFW	—	7	—	7
Immediate Drought Support		**$560**	**$82**	**$29**	**$672**
Small and urban community drought relief	DWR	$300	—	—	$300
Technical assistance and emergency response	Various[d]	169	$7	—	176
Water rights modernization	SWRCB	44	—	$6	49
Drought food assistance	DSS	23	—	—	23
Data, research, and communications	DWR	17	75	17	109
Drought permitting compliance and enforcement	SWRCB	8	—	7	15
Water Conservation and Agriculture		**$441**			**$441**
Water conservation and turf replacement	DWR	$185	—	—	$185
Agriculture and Delta drought response programs	DWR	60	—	—	60
State water efficiency and enhancement program	CDFA	60	—	—	60
SGMA implementation	DWR	56	—	—	56
Multi-benefit land repurposing	DOC	40	—	—	40
Relief for small farmers	CDFA	25	—	—	25
Agriculture technical assistance	CDFA	15	—	—	15
Totals		**$1,932**	**$411**	**$565**	**$2,908**

[a]All from the General Fund, including roughly $1 billion through the California Emergency Relief Fund.

[b]Includes funding for DWR ($125.5 million), CDFW ($5.5 million), SWRCB ($4.1 million), and CNRA ($432,000).

[c] Includes $50 million for Metropolitan Water District of Southern California.

[d]Includes funding for SWRCB ($55 million), DWR ($50 million), and contingency funding for emergency costs that may materialize ($71 million).

SWRCB = State Water Resources Control Board; DWR = Department of Water Resources; PFAs = per- and polyfluoroalkyl substances; CDFW = California Department of Fish and Wildlife; WCB = Wildlife Conservation Board; DSS = Department of Social Services; CDFA = California Department of Food and Agriculture; SGMA = Sustainable Groundwater Management Act; DOC = Department of Conservation; and CNRA = California Natural Resources Agency.

Source: LAO

The 2022 package provided roughly $7 million ongoing from the General Fund for positions at DWR, CNRA, SWRCB, and DFW. These new staff are intended to expedite habitat restoration projects in the Sacramento-San Joaquin Bay-Delta and to finalize voluntary agreements among the state, water users, and environmental groups to help implement SWRCB's forthcoming update to the Bay-Delta Water Quality Control Plan. The package also included $122 million for implementing related projects.

Implementation To Date. The 2021 and 2022 packages fund multiple drought relief programs that offer financial assistance to address drought impacts. The financial assistance is intended to provide water to communities that face the loss or contamination of their water supplies, to address immediate impacts on human health and safety, to secure the future of the state's water supply, and to protect fish and wildlife resources. Among the various drought-related programs include the following:

Small Community Drought Relief Program. Among the many components of the 2022 drought package, the most recent action taken by DWR was awarding $86 million in financial assistance to meet immediate and long-term water needs in local communities small and large. Of the $86 million, $44 million provides financial assistance to small communities through the Small Community Drought Relief Program. In addition, $20 million was made available to initiate a tank program intended to provide household water storage tanks and hauled water for residents whose wells have gone dry due to the ongoing drought. In 2021, of the $200 million allocated to the program, a total of $190 million was made available for grants for 89 projects.

Urban Community Drought Relief Program. The 2021 Budget Act allocated $200 million for Urban Communities, $75 million for Conservation for Urban Suppliers, and $75 million for Turf Replacement. DWR is combining a portion of these three allocations into a $300 million program, which is separate from the 2021 Urban and Multibenefit Drought Relief Solicitation. DWR released the final 2022 Guidelines/Proposal Solicitation Package on October 10, 2022 and the deadline for applications is January 31, 2023.

Sustainable Groundwater Management (SGM) Grant Program. The drought packages include $200 million to DWR for SGMA implementation activities. The SGM Grant Program's SGMA Implementation Round 2 provides funding to groundwater sustainability agencies and other responsible entities to update/revise/modify their groundwater sustainability plans (GSPs) or their Alternatives to a GSP or implementation of the plans. Eligible applicants are located in medium and high priority basins, including overdrafted basins. Expected announcement for awards will be in August 2023 with amounts ranging between $1 million to $20 million.

GOVERNOR'S PROPOSAL

The 2021 and 2022 Budget Acts committed $8.7 billion over multiple years for purposes of drought response and water resilience. The Governor proposes to maintain $8.6 billion (98 percent) overall by reducing $194 million General Fund across various programs. Proposed new investments include:

- **Urban Flood Risk Reduction.** An increase of $135 million General Fund over two years to support local agencies working to reduce urban flood risk.

- **Delta Levees.** An increase of $40.6 million General Fund for ongoing Delta projects that reduce risk of levee failure and flooding, provide habitat benefits, and reduce the risk of saltwater intrusion contaminating water supplies.

- **2023 Drought Contingency.** A set-aside of $125 million General Fund as drought contingency funding to be allocated as part of the spring budget process when additional water data will be available to inform future drought needs.

- **Planning and Permitting for New Water Supplies.** An increase of $4.7 million Waste Discharge Permit Fund in 2023-24, and $5.7 million Waste Discharge Permit Fund and $408,000

Safe Drinking Water Account ongoing to support planning and permitting for projects that produce new water supplies.

- **Modernizing Water Rights.** An increase of $31.5 million General Fund one-time in 2023-24 to continue development of the Updating Water Rights Data for California Project to enhance the state's water management capabilities.

The Governor proposes the following changes to address the budget problem:

- **Watershed Resilience Programs.** A reduction of $24 million General Fund in 2023-24 and a delay of an additional $270 million General Fund to 2024-25. This maintains approximately $470 million (95 percent) across various watershed resilience programs.

- **Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS) Cleanup.** A reduction of $70 million General Fund in 2023-24 and a delay of an additional $30 million General Fund to 2024-25. This maintains approximately $130 million (65 percent) of PFAS cleanup resources.

- **Water Recycling.** A reduction of $40 million General Fund in 2023-24. This maintains approximately $760 million (95 percent) to support water recycling and groundwater cleanup.

- **State Water Efficiency and Enhancement Program (SWEEP).** A reduction of $40 million General Fund in 2022-23. This maintains approximately $120 million (75 percent) for SWEEP.

ISSUES FOR CONSIDERATION

Potential Water Supply Shortage. Despite the significant rainfall amounts in December 2022 and January 2023, forecasts continue to predict a potential fourth year of drought. DWR released its first annual water supply and demand assessment, *2022 Annual Water Supply and Demand Assessment Summary Report (*November 2022), which surveyed the state's urban water agencies, focusing on water agencies that serve at least 3,000 connections, representing about 90 percent of the population. Of the 414 reporting agencies, 82 percent stated that they do not anticipate shortages so long as current conservation efforts continue, including voluntary reductions in water use and local Level 2 water shortage measures. Findings show that, in many cases, water saving efforts, such as early drought planning and conservation, are making a difference. 73 agencies (about 18 percent of respondents), including the Los Angeles Department of Water and Power and the Metropolitan Water Districts of Southern California identified a potential shortage through July, 2023, which they said could be addressed through additional conservation measures. Three agencies anticipated shortages that may not be fixable through additional conservation measures alone. It is possible that nearly a fifth of the agencies could face some shortages should drought conditions persist.

Small Water Systems. Small water systems serve 15 to 2,999 service connections and provide less than 3,000 acre-feet of water annually. Many small, and often rural communities, rely heavily on groundwater are among those hit hardest by drought. Approximately 1,400 dry wells have been reported in the state as of November 2022. DWR is continuing to work with small suppliers through direct assistance grants and technical support programs, including DWR's Small Community Drought Relief program, which provides funding for immediate and temporary actions such as hauled water, temporary water tanks, bottled water, and emergency inter-ties between communities. To help such areas better prepare for water shortage conditions, small water suppliers will have to meet new drought planning requirements pursuant to SB 552 (Hertzberg), Chapter 245, Statutes of 2021. SB 552 enacted many of the recommendations in the final "Small Water Systems and Rural Communities Drought and Water Shortage Contingency Planning and Risk Assessment" report. It would be prudent for the Legislature to check in on the status of how agencies are progressing and fulfilling the requirements of SB 552 to address water shortage concerns.

California's Water Supply Strategy. In August 2022, the Administration released the report, *California's Water Supply Strategy: Adapting to a Hotter, Drier Future.* The document outlines the state's strategy and priority actions to adapt and protect water supplies in an era of rising temperatures, including the following:

- ***Create storage space for up to four million acre-feet of water***, allowing the state to capitalize on big storms when they do occur and store water for dry periods.
- ***Recycle and reuse at least 800,000 acre-feet of water per year by 2030,*** enabling better and safer use of wastewater currently discharged to the ocean.
- ***Free up 500,000 acre-feet of water*** through more efficient water use and conservation, helping make up for water lost due to climate change.
- ***Make new water available for use*** by capturing stormwater and desalinating ocean water and salty water in groundwater basins, diversifying supplies and making the most of high flows during storm events.

With the billions of dollars appropriated and earmarked for multiple years in the past two budget packages, the 2023 legislative session provides an opportunity to conduct oversight on how those funds have been, and will be, used to help implement the Administration's Water Supply Strategy to protect the state's water supply — both in quantity and quality — for all uses, including urban, agricultural, and the environmental.

As noted above, the state will likely experience a ten percent reduction in water supply by 2040; and adaptation to warmer, drier conditions is imperative. According to the Public Policy Institute of California (PPIC) report, *Priorities for California's Water: Thriving with Less* (November 2022), "The grand challenge for 21st-century water management in California is learning how to thrive with less," shifting traditional focus on expanding supplies toward a different lens: How to thrive with less. The report notes that more investments must be made in supply reliability, including diversifying sources; improving the capacity to store and trade water; and capturing storm runoff — all the while continuing to promote increases in water use efficiency.

Energy

BACKGROUND

Clean Energy. The Legislature has set ambitious goals to reduce greenhouse gas (GHG) emissions from the energy sector. More specifically, Chapter 312 of 2018 (SB 100, de León) requires all retail electricity to be generated from renewable and zero-carbon sources by 2045. In addition, Chapter 361 of 2022 (SB 1020, Laird) sets interim requirements on the way to achieving the 2045 target—it requires renewable and zero-carbon sources make up 90 percent of statewide electricity sales by 2030 and 95 percent by 2035. Although the electric power sector remains a significant source of GHG emissions in the state—making up over 14 percent of the state's GHG emissions in 2020—a growing share of state electricity use is coming from zero-carbon sources. Currently, about 59 percent of state electricity use comes from renewable sources, such as hydropower, solar, wind, and nuclear. However, to meet the clean energy goal set by SB 100, a recent joint agency report found that it still requires significant investments in a diverse portfolio of clean energy generation and storage facilities over the next several decades.

Reliable Energy. During recent extreme heat events, state energy officials have often projected the demand for electricity would outpace the state's energy supply. In these instances, California residents faced potential electricity outages. This is because energy demand surges during heat waves, since air conditioning needs to be set at a high level to cool down residences, schools, workplaces, and other buildings. At the same time, the state's sources of energy cannot ramp up to produce a sufficient amount to meet the demand. In addition, energy demand is likely going to further increase due to the transition of gas-powered vehicles and appliances to electric ones. To ensure greater energy reliability, additional clean energy generation sources and storage facilities will likely be needed to meet the energy demand at peak times.

Affordable Energy. Californians often pay relatively high prices for energy when compared to the rest of the country. For example, Southern California Edison customers pay about 45 percent higher prices than the national average, San Diego Gas & Electric customers pay about double, and Pacific Gas & Electric (PG&E) customers pay about 80 percent higher. These high prices disproportionately impact lower-income households, who often do not have the opportunity to adopt cost saving measures with high up-front costs, like installing solar or upgrading to more energy efficient appliances and building features.

PREVIOUS BUDGET ACTIONS

2022-23 Energy Package. Budget Act of 2022 included $7.9 billion (mainly from the General Fund) over five years. Specifically, it includes $4.5 billion for energy reliability, mainly for programs that aim to increase energy storage an generation; $2.2 billion for programs intended to reduce GHG emissions from the energy sector; and $1.2 billion to provide ratepayer relief, in particular to pay unpaid electricity bills accrued during the pandemic.

Summary of Energy Package

General Fund, Unless Otherwise Noted (In Millions)

Program	Department	2021-22	2022-23	2023-24	2024-25	2025-26	Totals
Reliability		**$2,250**	**$908**	**$1,165**	**$100**	**$100**	**$4,523**
Investments in Strategic Reliability Assets	DWR	$1,500	$700	$20	$75	$75	$2,370
Residential Solar and Storage	CPUC	—	—	900	—	—	900
Distributed Electricity Backup Assets	CPUC	550	—	100	25	25	700
Demand Side Grid Support	CEC	200	—	95	—	—	295
Transmission and Energy Financing	IBank	—	200	50	—	—	250
DOE Grid Resilience Match	CEC	—	5	—	—	—	5
Support for Reliability	DWR	—	3	—	—	—	3
Clean Energy		**—**	**$764**	**$1,261**	**$54**	**$93**	**$2,173**
Equitable Building Decarbonization	CEC/CARB	—	$182	$780	$53	$92	$1,107
Incentives for Long Duration Storage	CEC	—	140	240	—	—	380
Oroville Pump Storage	DWR	—	100	140	—	—	240
Carbon Removal Innovation	CEC	—	50	50	—	—	100
Industrial Decarbonization	CEC	—	100	—	—	—	100
Hydrogen Grants	CEC	—	100	—	—	—	100
Food Production Investment Program	CEC	—	25	50	—	—	75
Offshore Wind Infrastructure	CEC	—	45	—	—	—	45
Energy Modeling	CEC	—	7	—	—	—	7
Distributed Energy Workload[a]	CPUC	—	1	1	1	1	5
Hydrogen Hub	GO-Biz	—	5	—	—	—	5
Energy Data Infrastructure	CEC	—	5	—	—	—	5
AB 525 Implementation[b]	Various	—	4	—	—	—	4

Ratepayer Relief		**—**	**$1,230**	**—**	**—**	**—**	**$1,230**
California Arrearage Payment Program[c]	CSD	—	$1,200	—	—	—	$1,200
Capacity Building Grants	CPUC	—	30	—	—	—	30
Totals		**$2,250**	**$2,902**	**$2,426**	**$154**	**$193**	**$7,926**

[a]Public Utilities Commission Utilities Reimbursement Account.

[b]Includes $1.5 million Energy Resources Program Account and $2.6 million General Fund.

[c]General Fund through the California Emergency Relief Fund.

DWR = Department of Water Resources; CPUC = California Public Utilities Commission; CEC = California Energy Commission; IBank = California Infrastructure and Economic Development Bank; DOE = Department of Energy; CARB = California Air Resources Board; GO-Biz = Governor's Office of Business and Economic Development; and CSD = Department of Community Services and Development.

Source: Legislative Analyst's Office

In addition, the energy package included a new state lithium tax. Lithium is critical in the production of batteries for electricity storage and electric vehicles. The budget included a new state excise tax on lithium extraction, the rate of which will range from $400 to $800 per metric ton of lithium carbonate equivalent that a producer extracts, adjusted annually for inflation. 80 percent of the revenue will go to the counties where lithium extraction occurs and the remaining 20 percent will go to the Salton Sea Restoration Fund.

Diablo Canyon Power Plant Extension. Chapter 239 of 2022 (SB 846, Dodd) provides the administration the authority to loan up to $600 million from the General Fund to PG&E for the extension of the operations of the Diablo Canyon power plant to 2030. In addition, Chapter 239 included intent language that directed CEC to develop a Clean Energy Reliability Investment Plan that would expend $1 billion from 2023-24 through 2025-26 for clean energy, energy reliability, and energy affordability activities.

2021-22 Energy Package. Budget Act of 2021 included $172 million (mostly from the General Fund) for activities intended to electrify buildings, reduce GHG emissions from the energy sector, and improve energy reliability.

2021-22 Energy Package

(In Millions)[a]

Program	Department	Amount
BUILD expansion	CEC	$75
Grants for cities to establish online solar permitting	CEC	20
SB 100 interagency planning	CEC/CPUC	18
Terrestrial renewable energy permitting and review	DFW	15
Humbolt Offshore Wind Port development	CEC	11
Supplementary Funding for Flex-Alert	CPUC	10
Wildfire operational observer (Filsinger Energy Partners)	OES	9
Marine renewable energy permitting and review	DFW	4
Offshore Wind - Environmental and Port Analyses	OPC/CCC	3
SB 100 grants for local and tribe participation	CEC	2
Energy Division management and support	CPUC	2[b]
Study for North Coast offshore wind project	CEC	2
Energy emergency planning	CEC	2
Offshore wind community outreach	CEC	1
Total		**$172**

[a]One-time General Fund, unless otherwise noted.

[b]Ongoing funding from Public Utilities Commission Utilities Reimbursement Account.

BUILD = Building Initiative for Low-Emissions Development; CEC = California Energy Commission; SB 100 = Chapter 312 of 2018 (SB 100, de León); CPUC = California Public Utilities Commission; DFW = Department of Fish and Wildlife; OES = Office of Emergency Services; OPC = Ocean Protection Council; and CCC = California Coastal Commission.

Implementation to Date. The funding above are in various stages of implementation, ranging from guideline development to grants awarded. Below is a summary of the current status of implementation for programs that received an appropriation in 2021-22 and 2022-23.

- **Energy Reliability.** Implementation varied across the energy-reliability programs. For example, DWR has committed some funding for multiple agreements for 2022 summer grid reliability and is in the process of negotiating agreements with once-through cooling power plants for the Investments in Strategic Reliability Assets program. However, other programs are in earlier stages of development. As an example, CEC is currently conducting the initial stakeholder process for the Distributed Electricity Backup Assets program and accepting applications for the Demand Side Grid Support program.

- **Ratepayer Relief.** CSD has committed about $650 million of the $1.2 billion total appropriated for the California Arrearage Payment Program. The department estimates about $400 million will be left unused due to lack of actual applications received and approved for funding.

- **Industrial and Equitable Building Decarbonization.** Both the Industrial Decarbonization and Equitable Building Decarbonization programs are in early stages of implementation. CEC, ARB, and CPUC are all developing program guidelines by conducting initial staff analysis and planning, holding public workshops, as well as soliciting for technical assistance.

- **Clean Energy Storage.** Funding for the Incentives for Long Duration Storage program has begun to be awarded, with three initial grants funding projects that are planned to be operational between 2023 and 2025. Technical assistance grants to develop new solicitations are expected to be released in July 2023. Comparatively, funding for the Oroville Pump Storage has not committed any funds, and is in the beginning stages of conducting a feasibility analysis study and hiring a program manager.

- **Hydrogen.** Most of the funding for hydrogen-related programs have not yet been committed. For example, the CEC is still in the midst of guideline development for the Hydrogen Grants program, having held a public workshop in December 2022 and currently conducting focused stakeholder engagement. Project solicitation is expected to begin later in 2023. However, some funding has been awarded—Go-Biz has awarded funding to support the application process and implementation for establishing a federally-funded hydrogen hub in California.

- **Offshore Wind.** Funding for offshore wind energy from the recent energy packages have largely been committed. For example, the CEC has awarded $10.45 million to Humboldt Bay Harbor, Recreation, and Conservation District earlier this year to support offshore wind development at the port. In addition, the Ocean Protection Council has funded ten projects, totaling over $1.8 million to support environmental data, cultural resources inventory, siting models, fishery grounds mapping, and industry to industry coordination on community benefit agreements.

GOVERNOR'S PROPOSAL

Energy Investments. The budget includes $897 million in General Fund reductions and $370 million in General Fund delays to future years. If there is sufficient General Fund in January 2024, up to $410 million of these reductions will be restored. This lowers the funding provided for energy programs provided in the 2022 Budget Act from $7.9 billion to $7 billion. Key changes to the funding include the following:

- **California Arrearage Payment Program:** The budget reverts $400 million in California Emergency Relief Funds to the General Fund in 2022-23, for savings from the California Arrearage Payment Program, based on actual applications received and approved for funding.

- **Residential Solar and Storage:** A reduction of $270 million in 2023-24 from the Residential Solar and Storage program at the Public Utilities Commission. This maintains approximately $630 million (70 percent) for solar and storage incentives for low-income utility customers.

- **Long Duration Energy Storage:** A reduction of $50 million in 2023-24 from the Long Duration Energy Storage Program at the California Energy Commission (CEC). This maintains approximately $330 million (87 percent) for support of long duration energy storage projects.

- **Carbon Removal:** A reduction of $25 million in 2023-24 from the Carbon Removal Program at the CEC. This maintains approximately $75 million (75 percent) for this program.

- **Transmission Financing:** A reduction of $25 million in 2023-24 from the Transmission Financing Program at the California Infrastructure Bank. This maintains approximately $225 million (90 percent) for financing support of new energy transmission projects.

- **Accelerating Adoption of Low Global Warming Pollutant Refrigerants:** A reduction of $20 million in 2023-24 from the Air Resources Board Equitable Building Decarbonization program to Accelerate Adoption of Low Global Warming Pollutant Refrigerants. This maintains approximately $20 million (50 percent) for support of businesses adopting technologies with low global warming pollutant refrigerants.

- **Food Production Investment Program:** A reduction of $10 million in 2023-24 from the Food Production Investment Program at the CEC. This maintains approximately $65 million (87 percent) for support of projects that help with the decarbonization of the food production process.

- **Industrial Grid Support and Decarbonization:** A reduction of $10 million in 2022-23 from the Industrial Grid Support and Decarbonization at the CEC. This maintains approximately $90 million (90 percent) for projects that support decarbonization of the industrial sector and provide grid support.

- **Equitable Building Decarbonization:** A delay of $370 million of funds in the current year and the budget year to future years for the Equitable Building Decarbonization Program at the CEC. In addition, a reduction of $87 million is planned for 2025-26 for this program. This maintains approximately $835 million (91 percent) for support of projects reducing greenhouse gas emissions in homes and advancing energy equity.

SB 846. SB 846 (Dodd), Chapter 239, Statutes of 2022, proposed $1 billion over three years beginning in 2023-24 for a Clean Energy Reliability Investment Plan, subject to later appropriation. The budget proposes an initial allocation of $100 million in 2023-24 from SB 846 Clean Energy Reliability Investment Plan funds.

ISSUES FOR CONSIDERATION

Significant Federal Funding Available for Energy Activities. Both the Infrastructure Investment and Jobs Act as well as the Inflation Reduction Act includes billions of dollars for energy-related activities, such as clean energy, energy efficiency, and grid resiliency. As the federal government begins to allocate funding over the next several years, any state funding for energy-related activities should (1) be leveraged to maximize available federal funding and (2) fill in any gaps for any activities there is not a lot of federal funding for.

Balance Between Electrification and Energy Reliability. To reach the state's GHG reduction goals, the state needs to rapidly electrify its vehicles and buildings. However, as we move from natural gas-powered appliances and gasoline-powered cars to electric appliances and vehicles, the demand for electricity will likely increase. As the state implements policies to incentivize building electrification and EV adoption, it also needs to scale up renewable energy generation and storage to ensure energy reliability, even through peak demand times. Both policies are critical to a clean energy transition, and should be considered hand in hand.

Equity. As the state moves towards electrification and clean energy, it is important to ensure all residents, regardless of income, are not overly financially burdened by the transition. The cost of energy-related activities can disproportionately affect low-income households in two primary ways: (1) the cost of electricity and (2) the cost of new technologies.

First, as mentioned previously, Californians are already paying relatively high prices for electricity. If utility companies pass off the cost of building additional renewable energy generation and storage facilities to ratepayers, customers would face even higher costs. A rate hike can be quite regressive, and disproportionately impact low-income households with far less discretionary income to absorb high electricity bills and/or adopt cost-saving measures, like installing solar panels or buying energy efficient appliances. This not only burdens low-income households, but it further financially disincentives electrification.

Second, low-income households will also be slower to adopt electrification in general—EVs, appliances, and other building electrification—due to currently high upfront costs. To ensure equitable electrification across the state, programs should prioritize low-income households that cannot otherwise afford these activities.

Wildfire Prevention and Forest Resiliency

BACKGROUND

Wildfires. Wildfires are sweeping and destructive blazes that can occur in forestlands, grasslands, and brush lands. In California, wildfires have escalated significantly in severity over recent years, getting larger and more unpredictable. Fires today burn twice as many acres and for twice as long as they did in the 1990s.

Forestland. There are 33 million acres of forest in California, including:

- 57 percent (19 million acres) owned and managed by federal agencies (including the US Forest Service, Bureau of Land Management, and National Park Service).

- 3 percent (700,000 acres) owned by state and local agencies, including the Department of Forestry and Fire Protection (CalFire); local open space, park, and water districts; and land trusts.

- 40 percent (13.3 million acres) privately owned, including individuals/families, Native American tribes, and corporations.

State's Forests Are in Poor Condition, Increasing Risk of Severe Wildfires. According to the Legislative Analyst's Office (LAO), roughly one-third of California is forested, and these forests provide critical air, water, wildlife, climate, and recreational benefits. However, a combination of factors have resulted in poor conditions across these forests, including excessive vegetation density and an over abundance of small trees and brush. Such conditions have contributed to more prevalent and severe wildfires and unprecedented tree mortality in recent years. Experts are concerned these trends will continue if steps are not taken to significantly improve the health of the state's forests.

Wildfire Prevention. The state runs wildfire prevention programs to reduce the chances that wildfires will start and to limit the damage they cause when they do occur. Some examples of wildfire prevention activities include removing trees from overgrown forests and clearing dead plants that are likely to catch on fire in areas near buildings.

PREVIOUS BUDGET ACTIONS

Overall Funding for Wildfire Prevention and Forest Resilience in the Budget Acts of 2021 and 2022. The last two Budget Acts (2021 and 2022) included unprecedented funding totaling $2.8 billion over four fiscal years to address wildfires by focusing on prevention efforts and forest resiliency. The chart below outlines the investments approved in 2021 and 2022.

Wildfire & Forest Resilience Expenditure Plan
(Dollars in Millions)

Investment Category	Department	Program	Early Action 2020-21	2021-22	2022 Wildfire Package (over two years)	Total
Resilient Forests and Landscapes	CAL FIRE	Forest Health Program	$155	$160	$240	$555
		Forest Improvement Program for Small Landowners	$10	$40	$25	$75
		Forest Legacy	$6	$10	$33	$49
		Nursery	$2	$9	$4	$15
		Urban Forestry	$10	$20	$30	$60
		Tribal Engagement	$1	$19	$20	$40
		Post-Fire Reforestation and Regeneration	-	-	$100	$100
	Various	Stewardship of State-Owned Land	$30	$145	$130	$305
Wildfire Fuel Breaks	CAL FIRE	CAL FIRE Unit Fire Prevention Projects	$10	$40	$40	$90
		Fire Prevention Grants	$123	$120	$232	$475
		Prescribed Fire and Hand Crews & Contract Counties	$15	$49	$70	$134
	California Conservation Corps	Fuel Reduction Crews	-	$20	$40	$60
		Residential Centers	-	$7	-	$7
Community Hardening	Cal OES & CAL FIRE	Home Hardening	$25	-	$25	$50
	CAL FIRE	Defensible Space Inspectors	$2	$13	$10	$25
	CAL FIRE & University of California	Land Use Planning and Public Education Outreach	-	$7	$9	$16
Regional Capacity	Department of Conservation	Regional Forest Capacity	$50	$60	$40	$150
	Conservancies	Project Implementation in High-Risk Regions	$69	$139	$170	$378
Science-Based Management	CAL FIRE	State Demonstration Forests	-	-	$10	$10
		Monitoring and Research	$3	$20	$15	$38
		Prescribed Fire Liability Pilot	-	$20	-	$20
		Interagency Forest Data Hub	-	$10	-	$10
	Natural Resources Agency	LiDAR Remote Sensing	-	$25	$5	$30
	Air Resources Board and Water Board	Prescribed Fire and Water Permitting	-	$4	$8	$12
Economic Development of the Forest Sector	IBank	Climate Catalyst Fund	$16	$33	-	$49
	CAL FIRE	Workforce Training	$6	$18	$30	$54
		Transportation Grants for Woody Material	-	-	$10	$10
	Office of Planning and Research	Market Development	$3	-	$4	$7
		Total	**$536**	**$988**	**$1,300**	**$2,824**

Source: Department of Finance

Wildfire and Forest Resilience Package of 2022. According to the Legislative Analyst's Office (LAO), the 2022 Budget Act includes a total of $900 million General Fund on a one-time basis over three years — $80 million in 2021-22, $320 million in 2022-23, and $500 million in 2023-24 — for various departments to implement a package of proposals focused on wildfire prevention and improving landscape health. This funding is in addition to the $200 million annually in continuously appropriated funding until 2028-29 from the Greenhouse Gas Reduction Fund (GGRF) for healthy forests and fire prevention programs and projects that improve forest health and reduce emissions of greenhouse gases caused by uncontrolled wildfires and for completion for prescribed fires and other fuel reduction projects.

Roughly 45 percent of funds over three years, $582 million, is to support programs designed to promote healthy forests and landscapes, generally removing hazardous fuels. Another roughly one-third of the funds, $382 million, is to support the installation and maintenance of wildfire fuel breaks. The remaining funds, totaling $336 million, are for projects to provide regional capacity for forest health projects, as well as to encourage forest sector economic stimulus, science-based forest management, and community hardening.

LAO provides a more detailed breakdown of the $1.3 billion approved in the 2022 Budget Act, as follows:

Wildfire and Forest Resilience Package

General Fund, Unless Otherwise Noted (In Millions)

Program	Department	2021-22	2022-23	2023-24	Totals
Resilient Forests and Landscapes		**$80**	**$212**	**$290**	**$582**
Forest Health Program[a]	CalFire	—	$120	$120	$240
Post-fire reforestation	CalFire	$50	—	50	100
Stewardship of state-owned land	CDFW	—	30	30	60
Stewardship of state-owned land	Parks	—	20	20	40
Forest Legacy Program[a]	CalFire	10	4	19	33
Urban forestry	CalFire	20	—	10	30
Stewardship of state-owned land	CNRA	—	15	15	30
Forest Improvement Program[a]	CalFire	—	11	14	25
Tribal engagement	CalFire	—	10	10	20
Reforestation nursery	CalFire	—	2	2	4
Wildfire Fuel Breaks		**—**	**$190**	**$192**	**$382**
Fire prevention grants[a]	CalFire	—	$115	$117	$232
Prescribed fire and hand crews[a]	CalFire	—	35	35	70
CalFire unit fire prevention projects	CalFire	—	20	20	40
Forestry Corps and residential centers[a]	CCC	—	20	20	40
Regional Capacity		**—**	**$55**	**$155**	**$210**
Conservancy projects	Various conservancies	—	$35	$135	$170
Regional Forest and Fire Capacity Program	DOC	—	20	20	40
Community Hardening		**—**	**$22**	**$22**	**$44**
Home hardening	OES, CalFire	—	$13	$12	$25
Defensible space inspectors	CalFire	—	5	5	10
Land use planning and public education	UC ANR, CalFire	—	4	5	9
Forest Sector Economic Stimulus		**—**	**$22**	**$22**	**$44**
Workforce development	CalFire, CWDB	—	$15	$15	$30
Woody biomass transportation	CalFire	—	5	5	10
Market development	OPR	—	2	2	4
Science-Based Management		**—**	**$19**	**$19**	**$38**
Monitoring, research, and management	CalFire	—	$7	$8	$15
State demonstration forests	CalFire	—	5	5	10
Remote sensing	CNRA	—	3	2	5
Permit efficiencies	CARB	—	2	2	4
Permit efficiencies	SWRCB	—	2	2	4
Totals		**$80**	**$520**	**$700**	**$1,300**

[a]Includes some Greenhouse Gas Reduction Fund.

CalFire = California Department of Forestry and Fire Protection; CDFW = California Department of Fish and Wildlife; Parks = Department of Parks and Recreation; CNRA = California Natural Resources Agency; CCC = California Conservation Corps; DOC = Department of Conservation; OES = Governor's Office of Emergency Services; UC ANR = University of California Agriculture and Natural Resources; CWDB = California Workforce Development Board; OPR = Governor's Office of Planning and Research; CARB = California Air Resources Board; and SWRCB = State Water Resources Control Board.

Source: LAO

Wildfire Reporting. The 2021 Budget Act included trailer bill language requiring an agency, on or before April 1, 2022, and annually thereafter to report on the $1.5 billion appropriated for programs related to wildfires and forest resilience funded pursuant to the Budget Act of 2021 for purposes of informing the Legislature and the public on the agency's implementation of funded programs.

Implementation to Date: According to the Natural Resources Agency report, "Wildfire Resilience Budget Implementation" (April, 2022), investments made with the $1.5 billion appropriated in the 2021 Budget Act included:

- More than 552 wildfire resilience projects in less than one year, speeding up and increasing the scale of wildfire resilience activities, such as home-hardening, fuel breaks, and reforestation. The $1.5 billion wildfire resilience budget includes 40 programs executed by 21 departments within four different agencies.

- In addition to the funding, changes in internal business practices to ensure government can sustain the speed of wildfire resilience projects at a larger scale have been made to address a backlog of projects, including regulatory efficiencies (e.g. permitting efficiencies, expedited grants, as well as reducing contracting and procurement timelines), workforce development, and promotion of wood products businesses.

GOVERNOR'S PROPOSAL

The 2021 and 2022 Budget Acts committed $2.8 billion over four years for purposes of wildfire prevention and forest resiliency. The Governor proposes to maintain $2.7 billion (97 percent) of this funding by reducing $91 million General Fund across various programs, which are partially offset by a $14 million shift to Proposition 98. Also, if there is sufficient General Fund in January 2024, the Governor proposes for reductions not otherwise offset by other funds will be restored. Among the proposed changes, reductions include the following:

- **Stewardship of State-Owned Lands.** $10 million General Fund in 2022-23 and $15 million in 2023-24. This maintains approximately $280 million (92 percent) for wildfire prevention projects on state-owned lands.

- **Defensible Space Inspections.** $5 million General Fund in 2023-24. This maintains approximately $20 million (80 percent) to support defensible space inspections.

- **Monitoring and Research.** $5 million General Fund in 2023-24. This maintains approximately $33 million (87 percent) to support monitoring and research.

- **Climate Catalyst Fund.** $10 million General Fund in 2020-21 and $31 million in 2021-22. This maintains approximately $8 million (16 percent) to support the Climate Catalyst Fund.

Nature-Based Solutions and Coastal Resilience. The 2021 and 2022 Budget Acts committed $1.6 billion for nature-based solutions and $1.3 billion for coastal resilience over multiple years. The Governor proposes to maintain $1.3 billion (86 percent) of nature-based solutions funding and $734 million (57 percent) of coastal resilience funding. The Governor proposes $779 million in General Fund reductions across various programs. If there is sufficient General Fund in January 2024, reductions that are not otherwise delayed will be restored. Among the proposed changes, reductions include the following:

- **Coastal Protection and Adaptation**. $175 million in 2022-23, $297 million in 2023-24, and $9 million in 2024-25 across various coastal protection and adaptation programs administered by the State Coastal Conservancy. This maintains approximately $582 million (55 percent) for the purpose of funding actions to protect against, and adapt to, sea-level rise.

- **Ocean Protection.** $69 million in 2023-24 and $10 million in 2024-25 across various ocean protection programs administered by the Ocean Protection Council. This maintains approximately $139 million (64 percent) for this purpose.

- **Protecting Fish and Wildlife from Changing Climate.** $35 million General Fund in 2023-24. This maintains approximately $318 million (90 percent) for this purpose.

- **San Joaquin Valley Flood Plain Restoration.** $40 million General Fund in 2023-24, which eliminates funding for flood plain restoration in the San Joaquin Valley.

ISSUES FOR CONSIDERATION

Mostly One-Time Funding. As noted above, the funding in these packages is one-time and the only continuous funding, for a limited time, is GGRF. However, efforts to address wildfire prevention and improved forest health are not "one and done" projects. For example, a fuels reduction project may require multiple years to fully eradicate an invasive species plant and allow native plants to proliferate. Although the significant infusion of one-time funding will benefit wildfire prevention and forest resiliency, it does not eliminate the need for more, and continuous, funding in future years.

It Takes a Village. Most forestland in California is owned by entities other than the state. The state has taken efforts to join forces with the federal government on wildfire prevention projects, such as through the Good Neighbor Authority, which allows the US Forest Service to enter into cooperative agreements or contracts with states to allow the states to perform forest, rangeland, and watershed restoration services on National Forest System lands. Also, the state has focused significantly more funding in recent years on local assistance.

Wildfire prevention requires entities from the federal government down to the individual residential owner to contribute and lower wildfire risk across the state. Among the various responsibilities of the state to prevent wildfires and improve forest resiliency, the state needs to continue and improve facilitation and funding of such efforts at all levels as well as maximize collaboration.

Impacts on Water Supply. Wildfire prevention and forestry resilience efforts provide multiple benefits. For example, improving the health of upper watersheds serves to improve water supply. The forested watersheds of the Sierra Nevada are the origin of more than 60 percent of the state's developed water supply. In the Sierra, precipitation falls and accumulates during the winter months in higher elevations as snow. Sierra Nevada mega fires that kill all, or nearly all, vegetation across large landscapes pose serious risks to this system. In the immediate aftermath of a fire, high-severity burn areas lack vegetation to stabilize soils. The intense heat can cause the soils to change in ways that reduce their ability to absorb water during rain or snowmelt events. The resulting sediment enters nearby creeks and rivers, degrading water quality and adversely affecting the regional aquatic habitats. Plumes of sediment from post-fire rain events can also impact reservoir operations until the sediment settles out to the bottom. Once there, it reduces water storage capacity. Adapting to, and cleaning up from, these sedimentation events can be a difficult and expensive process for the owners of water infrastructure. When addressing wildfire prevention and forestry resiliency, in some cases, there is an additional benefit of protecting and improving the state's water supply.

SUBCOMMITTEE NO. 3

HEALTH and HUMAN SERVICES

Health and Human Services

Behavioral Health Continuum Infrastructure

BACKGROUND AND PREVIOUS BUDGET ACTIONS

Behavioral Health Continuum Infrastructure Program. The 2021 Budget Act included expenditure authority of $755.7 million ($445.7 million General Fund and $310 million Coronavirus Fiscal Recovery Fund or CFRF) in 2021-22, $1.4 billion ($1.2 billion General Fund and $220 million CFRF) in 2022-23 and $2.1 million General Fund in 2023-24 for competitive grants to qualified entities to construct, acquire, and rehabilitate real estate assets to expand the community continuum of behavioral health treatment resources. Of this amount, $150 million was made available to support mobile crisis infrastructure, along with $55 million in federal grant funds from the Substance Abuse and Mental Health Services Administration (SAMHSA), for a total investment of $205 million. DHCS announced the BHCIP funding would be released in six rounds, as follows:

- Round 1: Mobile Crisis - $205 million
- Round 2: County and Tribal Planning Grants - $16 million
- Round 3: Launch Ready - $518.5 million
- Round 4: Children and Youth - $480.5 million
- Round 5: Behavioral Health Needs Assessment Phase One - $480 million
- Round 6: Behavioral Health Needs Assessment Phase Two - $480 million

The following facility types may be considered for project funding through BHCIP:

- Community wellness centers
- Hospital-based outpatient treatment (e.g. outpatient detox or withdrawal management)
- Intensive outpatient treatment
- Narcotic Treatment Programs (NTPs)
- NTP medication units
- Office-based outpatient treatment
- Sobering centers
- Acute inpatient hospitals – medical detox or withdrawal management
- Acute psychiatric inpatient facilities
- Adolescent residential treatment facilities for substance use disorders (SUD)
- Adult residential treatment facilities for SUD
- Chemical dependency recovery hospitals
- Children’s crisis residential programs (CCRPs)
- Community treatment facilities (CTFs)
- Crisis stabilization units (CSUs)
- General acute care hospitals (GACHs) and acute care hospitals (ACHs)
- Mental health rehabilitation centers (MHRCs)
- Psychiatric health facilities (PHFs)
- Short-term residential therapeutic programs (STRTPs)
- Skilled nursing facilities with special treatment programs (SNFs/STPs)
- Social rehabilitation facilities (SRF)
- Peer respite

- Recovery residence/sober living homes

Funding may also be used for mobile crisis infrastructure.

Implementation to Date:

Round 1 – Mobile Crisis Infrastructure Planning and Implementation Grants. During the fall of 2021, DHCS requested funding applications for Round 1 of BHCIP from county, city, or tribal behavioral health authorities to support planning or implementation of the development and expansion of Crisis Care Mobile Units (CCMUs) in California. During Round 1, DHCS awarded more than $156 million to 49 grantees, which will create or enhance 230 mobile crisis response teams in the state. The grantees were as follows:

Grantee	Type of Award	New teams	Enhanced Teams	Funding Awarded
Alameda	Implementation	0	1	$937,322
Amador	Implementation	1	1	$607,939
Berkeley	Implementation	1	0	$1,000,000
Butte	Implementation	2	3	$5,000,000
Calaveras	Planning	N/A	N/A	$50,000
Contra Costa	Implementation	3	0	$3,506,814
Del Norte	Planning	N/A	N/A	$187,450
El Dorado	Planning	N/A	N/A	$200,000
Fresno	Implementation	0	1	$753,437
Glenn	Implementation	0	2	$500,000
Hoopa Valley Tribe	Implementation	1	0	$1,000,000
Humboldt	Implementation	0	1	$985,063
Imperial	Implementation	2	1	$3,999,620
Inyo	Planning	N/A	N/A	$200,000
Kings	Planning	N/A	N/A	$186,338
Los Angeles	Implementation	50	30	$51,805,000
Madera	Implementation	2	1	$3,895,070
Marin	Implementation	1	1	$1,954,523
Mariposa	Implementation	1	0	$1,699,205
Mendocino	Implementation	3	1	$3,742,392
Merced	Implementation	1	0	$2,000,000
Mono	Implementation	1	0	$690,000
Monterey	Implementation	0	1	$999,117
Napa	Implementation	1	0	$500,000
Nevada	Implementation	1	1	$1,000,000
Orange	Planning	N/A	N/A	$200,000
Placer	Implementation	1	3	$4,000,000
Riverside	Implementation	7	0	$8,200,000
Sacramento	Implementation	3	0	$2,709,199
San Bernardino	Implementation	6	18	$7,703,122
San Diego	Implementation	18	0	$18,000,000

San Francisco	Implementation	0	2	$1,977,500
San Joaquin	Implementation	1	8	$1,934,594
San Luis Obispo	Implementation	1	3	$1,000,000
San Mateo	Planning	N/A	N/A	$200,000
Santa Barbara	Implementation	1	0	$1,000,000
Santa Clara	Implementation	0	15	$2,535,948
Santa Cruz	Implementation	1	3	$3,946,123
Siskiyou	Planning	N/A	N/A	$40,400
Solano	Implementation	2	2	$1,000,000
Sonoma	Implementation	2	1	$2,498,899
Stanislaus	Implementation	4	0	3,999,988
Sutter	Planning	N/A	N/A	$200,000
Tri-City (LA)	Planning	N/A	N/A	$200,000
Trinity	Implementation	1	0	$96,174
Tulare	Implementation	4	0	$4,000,000
Tuolumne	Implementation	1	0	$664,948
Ventura	Implementation	1	0	$758,848
Yolo	Implementation	1	4	$1,856,000
TOTAL		**126**	**104**	**$156,121,033**

The infrastructure investment in mobile crisis units will allow counties and other entities to deploy behavioral health treatment resources for individuals experiencing a behavioral health crisis, or other acute behavioral health needs, in the community. This infrastructure may also be used to implement the new Medi-Cal mobile crisis intervention services benefit, authorized by the federal American Rescue Plan Act, and pending review and approval by the federal Centers for Medicare and Medicaid Services.

Round 2 – Planning Grants. DHCS also completed its Round 2 application process for county and tribal planning grants. DHCS awarded $5.3 million to 36 grantees including nine tribes and 27 counties. The grantees were as follows:

- Bakersfield American Indian Health Project - $150,000
- Butte County - $150,000
- Contra Costa County - $150,000
- Merced County - $150,000
- Placer County - $150,000
- Riverside County - $150,000
- San Diego County - $150,000
- San Luis Obispo County - $150,000
- Santa Barbara County - $150,000
- Sonoma County - $150,000
- Dry Creek Rancheria Band of Pomo Indians - $145,073
- El Dorado County - $150,000
- Fresno American Indian Health Project - $150,000
- Fresno County - $150,000
- Glenn County - $150,000
- Habematolel Pomo of Upper Lake Tribe - $107,700
- Inyo County - $150,000

- Los Angeles County (Dept. of Mental Health) - $150,000
- Los Angeles County (Dept. of Public Health) - $150,000
- Marin County - $150,000
- Mariposa County - $150,000
- Mendocino County - $150,000
- Middletown Rancheria - $149,315
- Monterey County - $150,000
- Morongo Band of Mission Indians - $150,000
- Nevada County - $150,000
- Orange County - $150,000
- Sacramento County - $150,000
- San Mateo County - $149,873
- Santa Cruz County - $150,000
- Southern Indian Health Council - $150,000
- Stanislaus County - $150,000
- Sutter County - $150,000
- Ventura County - $149,916
- Washoe Tribe of Nevada and California - $150,000
- Wilton Rancheria - $149,880

Round 3 – Launch Ready Projects. Round 3 of BHCIP focused on projects considered "launch ready" and awarded $518.5 million to 42 entities, including 11 counties and two tribal entities. These projects will add a total of 1,176 beds and 126,801 annual program slots.

To be considered launch ready, applicants were required to demonstrate the proposed project had the following:

- <u>Site Control</u> – The applicant must have clear control of the property to be acquired or rehabilitated

- <u>Permits</u> – The applicant must understand approvals and permitting needed, and document the capacity to obtain these approvals and permits.

- <u>Licensure and Certification</u> – The applicant must provide documentation of all required certifications or licenses or, for projects that cannot be licensed or certified until after completion, the applicant must demonstrate understanding of the licensing and certification process and requirements.

- <u>Preliminary construction plans</u> – The applicant must provide preliminary construction plans for the proposed project.

- <u>Acquisition or construction timeline</u> – The applicant must begin acquisition or construction within six months of the award and provide a timeline from a licensed general contractor or construction manager.

- <u>Match requirements</u> – The applicant must have capacity to meet matching requirements.

- Approval and engagement – The applicant must demonstrate organizational support from county officials, active community engagement and support, and a contract for provision of Medi-Cal services in the facility.

The Round 3 – Launch Ready awards were as follows:

Project Sponsor	Proposed Facility Type(s)	County	Projected Completion	Beds	Annual Slots
West Covina Medical Center	• Acute Psychiatric Inpatient Facility	Los Angeles	Mar 2026	71	-
Via Care Community Health Center	• Community Wellness Center • Narcotic Treatment Program • Office-Based Outpatient Treatment	Los Angeles	Apr 2025	-	16,340
The Teen Project, Inc.	• Adult Residential Treatment Facility for SUD • Office-Based Outpatient Treatment	Los Angeles	Feb 2023	24	150
The Alliance for Community Wellness - TAY Wellness	• Office-Based Outpatient Treatment • Social Rehabilitation Facility	Alameda	Oct 2023	16	300
The Alliance For Community Wellness - Hayward Mocine Ave	• Crisis Stabilization Unit • Social Rehabilitation Facility	Alameda	Oct 2023	16	5,000
Telecare Corporation	• Social Rehabilitation Facility	Alameda	Feb 2024	16	-
Tarzana Treatment Centers, Inc.	• Adult Residential Treatment Facility for SUD • Recovery Residence/Sober Living Home	Los Angeles	Feb 2024	76	-
Tahoe Forest Hospital District	• Hospital Based Outpatient Treatment	Nevada	Dec 2022	-	600
Seneca Family of Agencies - River Road	• Children's Crisis Residential Program • Crisis Stabilization Unit	Monterey	Dec 2023	4	1,489
Seneca Family of Agencies - Kuck Lane	• Children's Crisis Residential Program	Sonoma	Aug 2023	8	-

Seneca Family of Agencies - Golf Links	• Children's Crisis Residential Program	Alameda	Aug 2023	6	-
Sanctuary Centers of Santa Barbara, Inc.	• Intensive Outpatient Treatment • Office-Based Outpatient Treatment • Outpatient SUD Treatment	Santa Barbara	Jan 2024	-	2,000
San Diego Freedom Ranch, Inc.	• Adult Residential Treatment Facility for SUD • Intensive Outpatient Treatment • Narcotic Treatment Program • Office-Based Outpatient Treatment	San Diego	Jun 2025	69	550
Redwood Quality Management Company	• Intensive Outpatient Treatment • Mental Health Rehabilitation Center	Mendocino	Dec 2023	16	2,940
Phoenix House California	• Adult Residential Treatment Facility for SUD • Office-Based Outpatient Treatment	Los Angeles	Feb 2023	42	90
Paving the Way Foundation	• Community Wellness Center	Los Angeles	Jul 2024	-	3,600
OC Health Care Agency/BHS	• Crisis Stabilization Unit Sobering Center	Orange	May 2024	-	15,768
Native Directions	• Community Wellness Center	El Dorado	Oct 2023	-	250
Los Angeles County Department of Mental Health	• Mental Health Outpatient Treatment	Los Angeles		-	4,400
LACADA - Lynwood	• Adult Residential Treatment Facility for SUD	Los Angeles	Apr 2023	75	-
LACADA - Altadena Project	• Adult Residential Treatment Facility for SUD	Los Angeles		18	-
LAC+USC Medical Center	• Acute Psychiatric Inpatient Facility	Los Angeles	Jul 2023	34	-
LA Downtown Medical Center	• Acute Psychiatric Inpatient Facility	Los Angeles	Jun 2025	73	-

K'ima:w Medical Center	• Intensive Outpatient Treatment • Mental Health Outpatient Treatment • Office-Based Outpatient Treatment	Humboldt	Mar 2024	-	1,700
JWCH Institute, Inc.	• Community Wellness Center	Los Angeles	Feb 2023	-	3,258
Good Samaritan Hospital, LP	• Community Wellness Center	Kern	Mar 2022	-	3,500
Friends of the Mission	• Adult Residential Treatment Facility for SUD	Yolo	Oct 2023	16	-
Ford Street Project	• Adult Residential Treatment Facility for SUD • Office-Based Outpatient Treatment • Recovery Residence/Sober Living Home	Mendocino	Nov 2023	24	150
Epidauras (DBA Amity Foundation)	• Adult Residential Treatment Facility for SUD	Los Angeles	Aug 2024	26	-
Drug Abuse Alternatives Center	• Adult Residential Treatment Facility for SUD	Sonoma	Feb 2023	50	-
CRI-Help, Inc.	• Adult Residential Treatment Facility for SUD	Los Angeles	Jan 2023	24	-
County of Santa Clara	• Crisis Stabilization Unit • General Acute Care Hospital • Office-Based Outpatient Treatment	Santa Clara	Oct 2024	42	11,406
County of San Francisco - Department of Public Health	• Crisis Stabilization Unit	San Francisco	Dec 2023	-	1,500
County of San Diego	• Acute Psychiatric Inpatient Facility	San Diego	Jan 2025	12	-
County of Sacramento	• Mental Health Rehabilitation Center	Sacramento	Dec 2025	64	-

County of Riverside - Riverside UHS - BH Coachella Recovery	• Adult Residential Treatment Facility for SUD • Crisis Stabilization Unit • Mental Health Rehabilitation Center • Office-Based Outpatient Treatment • Sobering Center • Social Rehabilitation Facility	Riverside	Jun 2025	106	12,960
County of Placer - South Placer	• Peer Respite	Placer	Jun 2023	16	-
County of Placer - Mid Placer	• Peer Respite	Placer	Apr 2024	20	-
County of Nevada HHS Agency	• Community Wellness Center • Office-Based Outpatient Treatment	Nevada	Apr 2023	-	800
City of Rancho Cordova	• Community Wellness Center	Sacramento	Apr 2026	-	36,000
Aspiranet	• Children's Crisis Residential Program • Community Wellness Center • Crisis Stabilization Unit • Office-Based Outpatient Treatment • Psychiatric Health Facility • Short-Term Residential Therapeutic Program	Stanislaus	Sept 2024	30	1,650
Archway Recovery Services	• Adult Residential Treatment Facility for SUD	Solano	Mar 2024	62	-
ABC Recovery Center, Inc.	• Adult Residential Treatment Facility for SUD • Intensive Outpatient Treatment	Riverside	Jan 2025	120	400
TOTAL				**1,176**	**126,801**

Round 4 – Children and Youth. Round 4 projects were focused on children and youth-focused behavioral health infrastructure projects. In December 2022, $480.5 million was awarded to support projects to expand program capacity for children and youth ages 25 and younger and pregnant or postpartum women and their children. A total of 53 awards were made, including 16 county projects and four tribal projects, with a total expansion of 498 beds and 74,867 annual program slots. The Round 4 – Children and Youth awards were as follows:

Project Sponsor	Proposed Facility Type(s)	County	Projected Completion	Beds	Annual Slots
Aspiranet	• Outpatient Treatment for SUD • Short-Term Residential Therapeutic Program	Stanislaus	Apr 2025	12	60
Beach Cities Health District	• Community Wellness/Youth Prevention Center	Los Angeles	May 2026	-	3,000
County of Sacramento	• Crisis Stabilization Unit • Psychiatric Health Facility	Sacramento	May 2024	16	9,720
Butte County Dept of Behavioral Health	• Community Mental Health Clinic • Outpatient Treatment for SUD	Butte		-	191
Calaveras County Behavioral Health	• Behavioral Health Integrated School-Linked Health Center	Calaveras	Jul 2024	-	1,216
Casa Pacifica Centers for Children and Families	• Short-Term Residential Therapeutic Program	Ventura	Jun 2023	10	-
Center for Human Services	• Community Mental Health Clinic • Outpatient Treatment for SUD	Stanislaus	Mar 2024	-	205
Community Medical Centers, Inc.	• Behavioral Health Integrated	San Joaquin	Mar 2024	-	3,250

County of Riverside, Riverside University Health System-Behavioral Health	• Children's Crisis Residential Program • Community Mental Health Clinic • Crisis Stabilization Unit • Short-Term Residential Therapeutic Program	Riverside	Mar 2027	8	2,340
County of Santa Barbara Department of Behavioral Wellness	• Community Mental Health Clinic • Outpatient Treatment for SUD	Santa Barbara	Dec 2025	-	255
County of Santa Clara	• Community Mental Health Clinic • Crisis Stabilization Unit • Psychiatric Acute Care Hospital	Santa Clara	Dec 2024	35	2,002
Encompass Community Services	• Adult Residential Treatment Facility for SUD • Outpatient Treatment for SUD	Santa Cruz	Nov 2024	7	106
Fresno American Indian Health Project	• Behavioral Health Integrated	Fresno	Dec 2025	-	2,104
Gateway Mountain Center	• Community Wellness/Youth Prevention Center	Nevada	Feb 2025	-	470
Gateways Hospital and Mental Health Center	• Partial Hospitalization Program Psychiatric Health Facility	Los Angeles	Jul 2025	37	280
Glenn County Health and Human Services Agency, Behavioral Health	• Behavioral Health Integrated	Glenn	Apr 2024	-	438
Good Samaritan Hospital	• Behavioral Health Integrated	Kern	Sep 2023	-	1,500

Good Samaritan Hospital	• Behavioral Health Integrated	Kern	Sep 2024	-	3,000
Imperial County Behavioral Health	• Community Mental Health Clinic	Imperial	Mar 2024	-	10,408
Imperial County Behavioral Health	• Community Wellness/Youth Prevention Center	Imperial	Nov 2023	-	1,180
Inland Valley Recovery Services	• Adolescent Residential Treatment Facility for Youth with SUD	San Bernardino	Sep 2024	16	-
Janus of Santa Cruz	• Outpatient Treatment for SUD • Perinatal Residential SUD Facility	Santa Cruz	Jul 2024	25	244
Kaweah Delta Health Care District	• Psychiatric Acute Care Hospital	Tulare	Feb 2025	22	-
Kedren, Inc.	• Psychiatric Acute Care Hospital	Los Angeles	Aug 2026	36	-
Los Angeles Centers for Alcohol and Drug Abuse	• Adult Residential Treatment Facility for SUD	Los Angeles	Jan 2023	25	-
Los Angeles County	• Behavioral Health Integrated	Los Angeles		-	2,280
Mentis	• Behavioral Health Integrated	Napa	Jan 2024	-	1,950
Merced County Behavioral Health and Recovery Services	• Behavioral Health Integrated	Merced	Jan 2024	-	1,016
Native Directions Inc. and HomeCA Inc.	• Perinatal Residential SUD Facility	El Dorado	Sep 2023	40	-

Orange County Health Care Agency	• Adolescent Residential Treatment Facility for Youth with SUD • Community Mental Health Clinic • Perinatal Residential SUD Facility	Orange	Sep 2025	56	2,626
Orchard Hospital	• Psychiatric Health Facility	Butte	Feb 2024	16	-
Pacific Clinics	• Behavioral Health Integrated	San Bernardino	Jul 2023	-	1,550
Phoenix Houses of Los Angeles, Inc.	• Adult Residential Treatment Facility for SUD • Perinatal Residential SUD Facility	Los Angeles	Aug 2023	33	-
Rancho San Antonio Boys Home Inc.	• Behavioral Health Integrated	Los Angeles	Jan 2024	-	450
Redwood Community Services Inc.	• Perinatal Residential SUD Facility	Lake	Mar 2025	8	-
Safe Passages	• Community Wellness/Youth Prevention Center	Alameda	Jul 2024	-	2,400
San Diego Center for Children	• Children's Crisis Residential Program	San Diego	Mar 2023	16	-
San Diego Center for Children	• Community Mental Health Clinic • Partial Hospitalization Program	San Diego	Feb 2023	-	225
San Francisco Department of Public Health	• Partial Hospitalization Program • Psychiatric Acute Care Hospital	San Francisco	Aug 2025	12	900
Santa Cruz County Behavioral Health Services	• Children's Crisis Residential Program • Crisis Stabilization Unit	Santa Cruz	Feb 2025	16	2,920
Seneca Family of Agencies	• Children's Crisis Residential Program • Crisis Stabilization Unit Psychiatric Health Facility	San Luis Obispo	Oct 2024	4	876

Sierra Vista Child and Family Services	• Wellness/Youth Prevention Center	Stanislaus	Nov 2023	-	4,800
Sorrel Leaf Healing Center/Lost Coast Children's Residential Treatment Center Inc.	• Children's Crisis Residential Program	Humboldt	Feb 2024	12	-
Southern California Alcohol and Drug Programs, Inc.	• Perinatal Residential SUD Facility	Los Angeles	Aug 2023	20	-
St. John's Well Child and Family Center/St. John's Community Health	• Community Wellness/Youth Prevention Center	Los Angeles	Jan 2024	-	3,088
Tarzana Treatment Centers Inc.	• Outpatient Treatment for SUD	Los Angeles		-	100
Tulare County Office of Education Behavioral Health Services	• Community Mental Health Clinic	Tulare	Jan 2024	-	500
Tule River Indian Health Center, Inc.	• Behavioral Health Integrated	Tulare	Jan 2024	-	4,150
Ventura County Behavioral Health	• Community Wellness/Youth Prevention Center	Ventura	Mar 2024	-	390
Vista Del Mar Child and Family Services	• Adolescent Residential Treatment Facility for Youth with SUD	Los Angeles	Dec 2023	16	-

Wellnest Emotional Health and Wellness	• Community Wellness/Youth Prevention Center	Los Angeles	Oct 2024	-	250
YMCA of San Diego County	• Community Wellness/Youth Prevention Center	San Diego	Aug 2025	-	600
Yurok Tribe, Yurok Health and Human Services	• Behavioral Health Integrated School-Linked Health Center	Humboldt	Apr 2024	-	1,827
TOTAL				**498**	**74,867**

Rounds 5 and 6 – Behavioral Health Needs Assessment. Rounds 5 and 6 were expected to be available in October 2022, and December 2022, respectively, and will ultimately award up to $480 million each to qualified entities. These funding rounds are expected to address gaps identified in the department's Behavioral Health Needs Assessment, released in January 2022. The Governor's January Budget delays Round 6 until 2024-25 and 2025-26. (*see "Governor's Proposal" below*)

The assessment evaluated the need for behavioral health services throughout the state and the capacity for providing those services. Among its conclusions, the assessment found the following:

- 9.2 percent of California adults has a substance use disorder
- 4.5 percent of California adults has a serious mental illness
- The rate of serious mental illness in survey data has increased by more than 50 percent between 2008 and 2019.
- One in 13 California children have a serious emotional disturbance, with higher rates for low-income children and those who are Black or Latino.
- Visits to emergency departments due to a mental health crisis have climbed by 24 percent for children between ages five and 11, and 31 percent for children ages 12 to 17.
- Marginalized groups are at higher risk for behavioral health issues, but also less likely to have access to services.
- 30 percent of adults in prison received mental health treatment services in 2017, more than double the rate since 2000.
- 43 percent of Californians seeking mental health services reported it was somewhat or very difficult to secure an appointment with a provider who accepts their insurance.
- Nearly 90 percent of people living with a substance use disorder do not receive treatment.

- There is considerable county-level variation in the prevalence of behavioral health conditions.

GOVERNOR'S PROPOSAL

Governor's Budget Delays Round 6 BHCIP Funding Until 2024-25 and 2025-26. The Governor's January budget maintains funding and timelines for the first five rounds of BHCIP awards, but proposes to delay $480.7 million General Fund allocated to Round 6 and expected to be awarded in 2022-23. Round 6 funding would be delayed as follows: 1) $240.4 million would be awarded in 2024-25, and 2) $240.3 million would be awarded in 2025-26.

In a related action, the Governor's January budget also proposes to delay $250 million of a $1.5 billion total General Fund allocation for Behavioral Health Bridge Housing, a clinically-enriched temporary housing intervention for individuals with serious mental illness experiencing homelessness, until 2024-25. This allocation was authorized by the Legislature in the 2022 Budget Act.

ISSUES FOR CONSIDERATION

New Infrastructure Should Fill Gaps Identified by Needs Assessment. The first four rounds of the Behavioral Health Continuum Infrastructure Program have awarded funding based on project readiness, populations of focus, or specific interventions (e.g. mobile crisis infrastructure). While it is reasonable to proceed with projects in these categories in the initial rounds, as they are the most readily implemented and built, there is not necessarily a clear connection between the behavioral health infrastructure resources a county or region has been awarded to date and the gaps in the behavioral health continuum in that county or region.

As a result, Rounds 5 and 6 of the program, based on a behavioral health needs assessment conducted by DHCS, are significantly consequential to the goal of ensuring a full, comprehensive continuum of care is available across the state. The Legislature should closely monitor the projects funded in Round 5 to ensure they are consistent with filling geographic and service-based gaps in the behavioral health continuum of care. The Legislature should also ensure that Round 6 addresses any deficiencies in filling those gaps that is identified in the funding awarded in Round 5.

New Infrastructure Must Be Available for Public Benefit Program Beneficiaries. While the acute need for behavioral health infrastructure is present across geographic and income boundaries in California, the significant General Fund investment for BHCIP should ensure that low-income and historically underserved populations see improvements as a result of these projects. The Legislature should ensure that Medi-Cal and other public benefit program beneficiaries are able to access the new facilities and services supported by BHCIP.

CalFresh and Food Assistance

BACKGROUND

Hunger in California. Approximately 20 percent of California households are food insecure. Food insecurity is higher for families with children (25.8 percent), Black households (28.9 percent) and Latinx households (29.7 percent).[1] Food insecurity in California remains far higher than pre-pandemic levels as food banks continue to see increased demand and CalFresh enrollment is at its highest in recent history.

CalFresh. CalFresh is California's version of the federal Supplemental Nutrition Assistance Program (SNAP), an entitlement program that provides eligible households with federally funded monthly benefits to purchase food. The California Department of Social Services (CDSS) oversees the CalFresh program and each county is responsible for local administration. The projected CalFresh casaeload for 2022-23 is over 2.7 million households, representing 4.8 million Californians. The average monthly benefit in 2022-2023 is $445.33 per household, or $251.59 per person.[2] The Public Policy Institute of California reports that CalFresh kept one million Californians out of poverty in 2021.[3]

California Food Assistance Program (CFAP). CFAP provides food benefits to approximately 35,000 legal permanent residents who meet CalFresh eligibility criteria but are excluded from SNAP due to federal welfare reform enacted in 1996. Other immigrants, including undocumented immigrants, are not eligible for CFAP benefits. CFAP is funded 100 percent General Fund and benefits are delivered through an Electronic Benefits Transfer (EBT) card identical to CalFresh. The average monthly CFAP benefit in 2022-23 is $491.27 per household or $217.76 per person.

CalFood. The CalFood program allocates funding to California's network of food banks to purchase food primarily sourced from California.

Senior Nutrition Program. The Senior Nutrition program consists of the Congregate Nutrition Program and the Home Delivered Meal Program. These programs are administered by local Area Agencies on Aging (AAAs) and overseen statewide by the California Department of Aging (CDA). The Congregate Nutrition program serves individuals age 60 or older with the greatest economic or social need and served more than 4.2 million meals in 2020-21. The Home Delivered Meal Program serves older adults who are not able to attend congregate programs and served more than 24 million meals in 2020-21. Together these programs served an average of 118,527 meals per day in 2020-21.

PREVIOUS BUDGET ACTIONS

CalFresh Emergency Allotments. In March 2020, California received authority from the federal government to provide emergency allotments to CalFresh households due to the public health emergency. The emergency allotments raised each household's benefit level to the maximum amount allowable based on household size and provided a minimum $95 supplement to all CalFresh households already receiving the maximum allotment. For example, an individual who qualifies for the minimum

[1] US Census Bureau Household Pulse Survey.
[2] Includes average monthly CalFresh benefit plus average monthly federal emergency allotment.
[3] Caroline Danielson, Patricia Malagon, and Sarah Bohn, "Poverty in California," *PPIC*, October 2022.

benefit level of $23 is receiving $281 in monthly benefits with the emergency allotments. The average emergency allotment in California is $166.43 per household. These emergency allotments end in February 2023.

Pandemic EBT (P-EBT). Similar to the emergency allotments, P-EBT is a federal program designed to supplement food assistance for children during the pandemic. P-EBT is administered by CDSS in collaboration with the California Department of Education (CDE). P-EBT benefits are available for families who receive CalFresh and have children who are under six years old, or who have school-age children who are eligible for free- or reduced-price meals at school.

CFAP Expansion. The 2021 budget included $5 million to initiate a targeted expansion of CFAP regardless of immigration status. The 2022 budget includes $35.2 million General Fund, increasing to $113.4 million General Fund annually in 2025-26, to expand the CFAP to Californians age 55 and older regardless of immigration status.

CalFresh Expansion to SSI Recipients. The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides state and federally funded cash assistance to around 1.1 million Californians who are aged 65 or older, are blind, or have disabilities, and meet federal income and resource limits. Prior to 2019, Californians receiving SSI were ineligible for CalFresh, instead receiving an extra $10 monthly payment. Budget action ended this policy and expanded CalFresh to SSI recipients in 2019. The state also implemented the Supplemental Nutrition Benefit (SNB) and Transitional Nutrition Benefit (TNB) Programs in order to "hold harmless" families that may have been negatively affected by this change. The 2021 budget included $26 million over three years for increased outreach to mitigate attrition from the TNB program and to pause recertifications in order to prevent households from permanently losing eligibility.

CalFood and Food Bank Support. CalFood has historically been funded at $8 million per year. The 2022 budget includes $112 million General Fund total for the CalFood program in 2022-23 and an additional $52 million General Fund above the program's baseline budget in 2023-24. Additional food bank investments include:

- *Food Bank Capacity grants*. The 2021 budget included $182 million to support food bank capacity, infrastructure, and disaster resiliency. The 2021 budget also included $110 million to help food banks meet increased demand during the COVID-19 pandemic.

- *Drought Food Assistance Program.* The 2022 budget includes $23 million from the California Emergency Relief Fund to supplement food bank resources in drought-impacted counties.

Tribal Nutrition Assistance Program. The 2022 budget includes $5 million ongoing to increase food access among native California tribes, who are otherwise ineligible for CalFresh.

CalFresh for College Students. In 2021, the federal government temporarily expanded college student eligibility for CalFresh to include students eligible for work study and students with an Expected Family Contribution of zero dollars for financial aid. The 2021 budget included $8.2 million to fund county administration of this expansion. The 2022 budget includes $13.6 million ($6.8 million General Fund) for counties to designate a single point of contact for California Community Colleges, California State Universities, and University of California schools to connect students to human services programs pursuant to AB 1326 (Arambula), Chapter 570, Statutes of 2021. The 2022 budget additionally requires CDSS to publish student-specific data on the CalFresh Data Dashboard.

Senior Nutrition Programs. The 2021 budget included $14.3 million one-time and $35 million ongoing General Fund for Senior Nutrition programs to increase meal service, and $40 million one-time for capacity building and infrastructure needs for these programs, which had switched from largely congregate site meals to home-delivered food during the pandemic. Additionally, the 2021 budget funded the Older Adults Recovery and Resiliency Initiative, which includes $20.7 million for senior nutrition. The 2022 budget modernized the Older Californians Act to restore services and supports that were reduced in the last recession, including increased funding for senior nutrition programs.

Other recent investments in food assistance. In addition to the changes mentioned above, previous budget actions include the following investments, among others:

- *CalFresh administration.* The 2022 budget built on ongoing investments in CalFresh county administration in the 2021 budget by providing $35 million in one-time funds for administrative support; the 2022 budget delays implementation of a new administrative funding methodology until the 2023-24 fiscal year.

- *Restaurant meals program.* The 2021 budget extended the deadline for CDSS to implement a statewide restaurant meals program pursuant to AB 942 (Weber), Chapter 814, Statutes of 2019 to September 1, 2021. This program provides certain CalFresh participants who are over age 60, who have disabilities, or who are homeless with the option to purchase prepared meals at participating restaurants.

- *EBT theft prevention.* The 2022 budget includes $680,000 ($221,000 General Fund) and four positions to monitor, investigate, and support criminal prosecution of EBT theft.

Implementation to Date:

- **CalFresh Emergency Allotments.** Since March 2020, over $11 billion in federal emergency allotments have been issued to Californians. The emergency allotments issued to California for the month of February 2023 totaled over $520 million. The February allotment is the final SNAP emergency allotment.

- **P-EBT.** California's third phase of P-EBT (known as P-EBT 3.0) is currently underway, and EBT cards for families for the 2021-22 school year have been delivered for young children under six. CDSS and CDE are currently developing a plan for P-EBT 4.0. As of December 2022, P-EBT has provided $10.6 billion in benefits to children statewide.

- **CalFresh expansion to SSI Recipients.** 670,450 SSI/SSP recipients are receiving CalFresh benefits as of September 2022, far exceeding initial enrollment projections and representing a historic increase in food access. However, because eligibility for the "hold harmless" programs (SNB and TNB) cannot be regained, thousands of Californians lost their connection to these programs, including over 27,000 SSI recipients who were unable to re-enroll before the state paused discontinuances.[4]

[4] Diana Jensen, "Expanding CalFresh to California's SSI Recipients: Successes & Opportunities," *California Association of Food Banks*, June 2022.

- **Food Bank Support.** CDSS has executed nearly all of the Food Bank Capacity grants, allowing food banks to begin procurement and, in some cases, construction of new facilities. CDSS will procure emergency food boxes for the Drought Food Assistance Program and begin distribution to food banks in 17-25 counties by early 2023.

- **Tribal Nutrition Assistance Program.** CDSS plans to recruit for positions and consult with California tribes to shape the program by the end of 2022 and issue grants by July 2023.

- **Restaurant Meals Program.** CDSS reports that as of September 2022, 23 counties have restaurants actively participating in the program, compared to 12 counties in September 2021.

- **Senior Nutrition Programs.** Under the federal CARES Act, states were allowed to transfer funding from congregate to home-delivered meals programs due to the pandemic. The Congregate Nutrition Program average declined from 36,459 meals a day in 2019-20 to 17,346 meals a day in 2020-21, while the Home Delivered Meals Program average increased significantly from 53,734 meals a day to 101,180 meals a day.

  The $20.7 million for nutrition under the Older Adults Recovery and Resilience Initiative will support intergenerational activities that include meals; initial disbursements were issued in December 2022. Of the $40 million appropriated for nutrition infrastructure grants, $36.7 million has been contracted out through local AAAs; $2.8 million has been disbursed. These items are funded with federal funds through California's Home and Community-Based Services spending plan. CDA recently informed local aging agencies that because California does not intend to exercise a time extension allowed under this spending plan, these programs will end on December 31, 2023.

GOVERNOR'S PROPOSAL

Delay of CFAP Expansion. The Governor's January budget projects a two-year delay in the expansion of CFAP to all Californians age 55 and over regardless of immigration status. According to CDSS, automation is estimated to begin in July 2024 instead of late 2022-23, and benefits will start on January 1, 2027, as opposed to January 1, 2025. CDSS attributes this delay to multiple factors including EBT data infrastructure and protection, federal data reporting, and concurrent automation efforts such as the ongoing data system migration and stabilization.

ISSUES FOR CONSIDERATION

End of federal emergency allotments will cause hunger cliff. California is receiving over $500 million per month in CalFresh emergency allotments. Since March 2020, these emergency allotments have been linked to the federal government's COVID-19 public health emergency declaration; however, Congress moved to end emergency allotments as part of the 2023 Federal Omnibus in December 2022. This means that CalFresh households will receive their last emergency allotment in March 2023, for the month of February 2023. After CalFresh households receive their last emergency allotment, every CalFresh household's benefits will drop significantly. On average, CalFresh households will lose $166.43 per month in benefits. However, Californians who are eligible for the minimum benefit level ($23 for a household size of one), and have been receiving the maximum benefit level since March 2020, will see their benefits drop by over $250. These are disproportionately older adult households. CDSS is executing an extensive outreach effort across multiple languages and communication methods to inform CalFresh households of the end to emergency allotments.

Examples from other states that have opted to forgo emergency allotments demonstrate the negative impact this change will have on the state's poorest residents. In Kentucky, for example, food banks saw an estimated 20-30 percent increase in individuals served when SNAP participants lost their emergency allotments.[5]

Rising cost of food. Grocery prices have increased 13.5 percent in the last year.[6] Rising food prices are likely driving more Californians to seek assistance from food banks. For example, one food bank in Kern County experienced a spike from 35,000 people seeking food in January 2022 to 70,000 in October 2022.[7] The Food Bank of Contra Costa and Solano reports serving 100,000 more people per month than 2021.[8] Los Angeles Regional Food Bank is on track to serve 800,000 people in December 2022, "down from the 1 million people a month who were helped during the peak of the pandemic, but more than double the 300,000 helped during each of the last months of pre-pandemic 2019."[9] Increasing food costs could exacerbate the hunger cliff when emergency allotments end.

CFAP still excludes undocumented immigrants. When CDSS implements the CFAP expansion, now projected to not occur until 2027, California will be one step closer to an inclusive safety net that serves low-income Californians regardless of immigration status. However, undocumented immigrants under age 55, who face high rates of poverty, will still lack access to the state's most effective anti-hunger program.

[5] Jessica Fu, "The US struggle to pay for food: 'No matter how well you budget, you will run out of something,'" *The Guardian*, November 22, 2022.
[6] Danielle Wiener-Bronner, "Food prices are still soaring—here's what's getting more expensive," *CNN*, September 13, 2022.
[7] Joshua Yeager, "High costs, demand keep Valley food pantries busy," *KVPR*, November 23, 2022.
[8] Anser Hassan, "Food Bank of Contra Costa and Solano sees increase of 100k people per month needing food," *ABC 7*, November 11, 2022.
[9] Andrew Mouchard, "Inflation is producing, and hiding, hunger in Southern California," *The Orange County Register*, December 3, 2022.

Children and Youth Behavioral Health Initiative

BACKGROUND AND PREVIOUS BUDGET ACTIONS

The 2021 Budget Act included expenditure authority of $1.4 billion ($1 billion General Fund, $100 million Coronavirus Fiscal Recovery Fund or CFRF, $222 million federal funds, and $105 million Mental Health Services Fund) in 2021-22, $1.3 billion ($769.2 million General Fund, $429 million CFRF, and $124 million federal funds) in 2022-23, $275.2 million ($175.2 million General Fund and $100 million federal funds) in 2023-24, $262.1 million ($156.1 million General Fund and $106 million federal funds) in 2024-25, and $227.1 million ($121.1 million General Fund and $106 million federal funds) in 2025-26, to support the Children and Youth Behavioral Health Initiative and other interventions to support behavioral health services for students. The total investment over five years is $3.5 billion and includes the following components:

- *Mental Health Student Services Act Augmentation.* $205 million ($100 million CFRF and $105 million Mental Health Services Fund) in 2021-22 for the Mental Health Services Oversight and Accountability Commission (MHSOAC) to support grants to school and county mental health partnerships that support the mental health and emotional needs of children and youth as they return to schools and everyday life.

- *School-Linked Behavioral Health Partnerships.* $100 million CFRF in 2021-22 and $450 million in 2022-23 for the Department of Health Care Services (DHCS) to support school-linked behavioral health partnerships. Of the two year funding, $400 million would support county behavioral health department partnerships with schools and $150 million would support behavioral health services in higher education.

- *Medi-Cal Managed Care Plan Student Behavioral Health Incentive Program.* $400 million ($200 million General Fund and $200 million federal funds) for DHCS to support incentives for Medi-Cal managed care plans to provide mild-to-moderate behavioral health services to students in partnership with schools and county behavioral health departments.

- *Evidence-Based Behavioral Health Programs.* $429 million CFRF in 2022-23 for DHCS to develop and expand evidence-based behavioral health programs addressing early psychosis, disproportionately impacted communities and communities of color, youth drop-in wellness centers, intensive outpatient programs for youth, and prevention and early intervention services for youth. DHCS will coordinate with MHSOAC to implement these programs and allocate 10 percent of the funding for administration by the commission.

- *Behavioral Health Workforce Development.* $600 million General Fund in 2021-22, $125 million General Fund in 2022-23, and $75 million General Fund in 2023-24 for the Office of Statewide Health Planning and Development (OSHPD) to support programs to improve the capacity of the behavioral health workforce, including behavioral health counselors and coaches, substance use disorder counselors, psychiatric nurse practitioners, community health workers, psychosocial rehabilitation specialists, peer support specialists, and social workers.

- *Dyadic Services Benefit in Medi-Cal.* $200 million ($100 million General Fund and $100 million federal funds) annually beginning in 2022-23 for DHCS to add dyadic services as a Medi-Cal benefit.

- *Public Education and Change Campaign.* $5 million General Fund in 2021-22, $50 million General Fund in 2022-23, $40 General Fund in 2024-25, and $5 million General Fund in 2025-26 for the Department of Public Health (DPH) to conduct a comprehensive and linguistically proficient public education and change campaign to raise behavioral health literacy to normalize and support the prevention and early intervention of mental health and substance use challenges.

- *ACEs and Toxic Stress Awareness Campaign.* $25.1 million General Fund in 2021-22 and $100,000 General Fund in 2022-23 through 2025-26 for the Office of the Surgeon General (OSG) to conduct a public education campaign to raise awareness about prevention, signs, and self-care strategies for adverse childhood experiences (ACEs) and toxic stress.

- *Coordination, Subject Matter Expertise, and Evaluation.* $10 million General Fund in 2021-22, $20 million General Fund in 2022-23, $10 million General Fund in 2024-25, and $10 million General Fund in 2025-26 for the California Health and Human Services Agency (CHHSA) for coordination, subject matter expertise, and evaluation of the initiative.

- *Continuation of CalHOPE.* $45 million General Fund in 2021-22 for DHCS to continue CalHOPE, a crisis counseling program that includes a media campaign, web-based resources and services, a 24-hour warm line, and student support for social and emotional learning.

- *Planning for Behavioral Health Services and Supports Platform.* $10 million General Fund in 2021-22 for DHCS to support initial planning for implementation of a behavioral health services and supports platform to expand CalHOPE.

- *State Operations and Administration.* $44 million ($22 million General Fund and $22 million federal funds) in 2021-22, $48 million ($24 million General Fund and $24 million federal funds) in 2022-23, $12 million ($6 million General Fund and $6 million federal funds) in 2024-25, and $12 million ($6 million General Fund and $6 million federal funds) in 2025-26, for DHCS to support state operations and administration of the various components of the initiative.

The Legislature also approved trailer bill language to implement the components of the initiative, including requiring DHCS to develop and maintain a school-linked statewide fee schedule for outpatient mental health or substance use disorder treatment provided to a student 25 years of age or younger at a school site. A health care service plan, including a Medi-Cal managed care plan, or an insurer will, commencing January 1, 2024, be required to reimburse school-based services provided to one of its members according to the fee schedule, regardless of whether the provider is within the plan's or insurer's contracted provider network.

Implementation to Date:

- *Mental Health Student Services Act Augmentation.* 57 of 58 counties have received funding for school-mental health partnerships (Alpine County indicates it cannot support a program).

- Phase 1 - Authorized by SB 75 (Committee on Budget and Fiscal Review), Chapter 51, Statutes of 2019, the Mental Health Student Services Act (MHSSA) allocated General Fund expenditure authority of $40 million in 2019-20 and $10 million annually thereafter for school-county mental health partnerships.

  SB 75 limited applicants to counties, cities, or multi-city mental health agencies, or consortiums of those entities, working in partnership with one or more school districts and either a county office of education or a charter school.

  SB 75 made funding available in two categories: funding for counties with existing school mental health partnerships and funding for counties developing new partnerships. Each of these eligibility categories was further subdivided based on county size.

  MHSOAC received 38 grant applications from 40 counties, including two multi-county collaborative efforts. Twenty applications were to support existing partnerships (Category 1), and 18 were to support new and emerging partnerships (Category 2). The first round of funding provided $75 million for 18 grants, including ten for Category 1 and eight for Category 2.

  - Category 1: Fresno, Humboldt, Kern, Mendocino, Orange, Placer, San Luis Obispo, Solano, Tulare, Ventura

  - Category 2: Calaveras, Madera, San Mateo, Santa Barbara, Santa Clara, Tehama, Trinity-Modoc, Yolo

- Phase 2 - The Budget Act of 2021 provided additional General Fund expenditure authority of $95 million to fund applicants who applied to the first round of funding but did not receive a grant. An additional 20 counties were eligible for grants, including ten for Category 1 (existing partnerships) and ten for Category 2 (new and emerging partnerships).

  - Category 1: Glenn, Lake, Los Angeles, Marin, Mariposa, Monterey, Sacramento, San Bernardino, San Diego, San Francisco

  - Category 2: Amador, Contra Costa, Imperial, Nevada, Riverside, Santa Cruz, Shasta, Sonoma, Sutter-Yuba, Tuolumne

- Phase 3 - The Federal American Rescue Plan (ARPA) provided expenditure authority from the State Fiscal Recovery Fund (SFRF) of up to $100 million to support the counties that did not apply for funding in the prior two rounds to establish an MHSSA program. Counties that did not apply were surveyed to understand why they did not initially apply, with many citing a lack of available staff and resources to prepare and submit a proposal. After MHSOAC conducted one-on-one sessions, confidential guidance on plan submission, and a four month planning process, grants were awarded to the remaining counties, with the exception of Alpine.

- <u>County and Local Entity Implementation Status</u> – According to MHSOAC, the COVID-19 pandemic caused delays in implementing many of the grantees' MHSSA programs. In addition, many of the priorities identified in grantees' initial applications changed due to the mental health challenges experienced by students during the pandemic and the subsequent return to in-person classroom instruction. Despite these uncertainties, many programs reported successes in implementing mental health interventions to serve students, including the following local examples:

- *Tulare County* - Training to teachers, staff, and parents on mental health literacy and related topics to increase awareness and access to services.

- *Placer County* – Implementation of school-wide prevention curriculum to support student wellness, aimed particularly at transitional kindergarten and kindergarten students having difficulty transitioning to school during the pandemic.

- *San Luis Obispo County* – Outreach to support the health and wellbeing of students and families, including clothing and school supply giveaways.

- *Kern County* -

- *School-Linked Behavioral Health Partnerships.* As of January 2023, no grant funding for school-linked behavioral health partnerships has been awarded from the $550 million allocation for this purpose. According to CalHHS, DHCS intends to award these grants during the 2023 calendar year. $400 million will be provided to public K-12 institutions and $150 million to institutions of higher education to support readiness for the all-payer fee schedule, expand provider capacity, develop partnerships, and build necessary infrastructure.

- *Medi-Cal Managed Care Plan Student Behavioral Health Incentive Program.* DHCS began implementation of the Student Behavioral Health Incentive Program (SBHIP) in January 2022. The implementation milestones and outcomes are as follows:

  - January 31, 2022 – All Medi-Cal managed care plans were required to submit a letter of intent to participate in SBHIP. 23 of the 24 plans covering all 58 counties submitted letters of intent.

  - March 31, 2022 – All participating plans were required to submit information on partnerships with local educational entities. All 23 of the participating plans submitted partnership information. Plans in 57 of the 58 counties formed a partnership with their County Office of Education (COE). Plans in all 58 counties formed a partnership with their county behavioral health department. Plans in all 58 counties are partnering with at least ten percent of the local educational agencies (LEAs) in the county for a total of 307 LEAs statewide.

  - December 31, 2022 – All participating plans were required to submit a behavioral health needs assessment package in collaboration with LEA and county behavioral health partners. Plans were also required to select one or more targeted interventions and target student populations, along with submission of a project plan. The targeted interventions may include: 1) behavioral health wellness programs; 2) telehealth infrastructure to enable service delivery; 3) behavioral health screenings and referrals; 4) suicide prevention strategies; 5) substance use disorder prevention; 6) partnerships to increase access to Medi-Cal services; 7) culturally appropriate and community-defined interventions; 8) focus on unique or vulnerable populations (e.g. students living in transition, students that are homeless, and those in the child welfare system), 9) behavioral health public dashboards and reporting; 10) technical assistance to support preventive, early intervention, and behavioral health services; 11) expansion of the behavioral health workforce; 12) deployment of care teams to conduct outreach, engagement, home visits, and linkage to social services; 13) information technology enhancements for behavioral health services; 14) access to behavioral health services for prenatal and postnatal teen parents; and 15) evidence-based parenting and family services.

- Calendar years 2023 and 2024 – All participating plans are required to submit bi-quarterly reports, with the first report due on June 30, 2023. Bi-quarterly reports are required to include information about progress, challenges, successes, and modifications to the interventions selected by the plan and implemented in partnership with LEAs and county behavioral health departments.

Of the $389 million local assistance funding allocated to SBHIP over the three year period, approximately $39 million is allocated for plans to perform assessments and $350 million is allocated for plan interventions.

- *Evidence-Based Behavioral Health Programs.* DHCS reports between April and October 2022, it convened a series of meetings with leading experts from academia, government, industry, as well as youth and community members. DHCS also established a workgroup of additional experts to advise the department on the selection of evidence-based practices (EBPs) and community-defined evidence practices (CDEPs) for support through program grants. According to DHCS, these efforts resulted in a tentative schedule of six funding rounds, as follows:

  - Round 1: Parent/caregiver support programs and practices – The first grant round will support effective prevention and early intervention programs focused on parents and caregivers of children and youth with behavioral health needs and those who would benefit most from preventative strategies. This round was scheduled to be released in December 2022.

  - Round 2: Trauma-informed programs and practices – The second grant round will support trauma informed programs and practices to increase access to services that address behavioral health needs and impacts of adverse childhood experiences (ACEs). This round is scheduled to be released in January 2023.

  - Round 3: Early childhood wraparound services – The third grant round will support early childhood wraparound services to build family strength and overall well-being. These services include home visiting, consultation, and coordination of services between pregnant and parenting/caregiving people and their support systems. This round is scheduled to be released in February 2023.

  - Round 4: Youth-driven programs – The fourth grant round will support youth-driven programs to provide children and youth the opportunity to shape their behavioral health services, including peer-to-peer support and youth drop-in centers. This round is scheduled to be released in March 2023.

  - Round 5: Early intervention programs and practices – The fifth grant round will support early intervention programs to address behavioral health needs more effectively earlier, reduce reliance on more intensive services, and may include early psychosis programs and youth crisis peer mobile response. This round is scheduled to be released in March or April 2023.

  - Round 6: Community-defined evidence programs and practices – The sixth round will support community-defined evidence programs and practices to provide culturally competent prevention and early intervention services, with a priority focus on populations identified by the California Reducing Disparities Project. This round is schedule to be released in April 2023.

- *Behavioral Health Workforce Development.* The behavioral health workforce development programs administered by HCAI as part of CYBHI are in various stages of implementation:

  - Psychiatric Education Capacity Grant (PECE) – This grant program supports psychiatric mental health nurse practitioner (PMHNP) training programs and psychiatry residency or fellowship programs. In October 2022, HCAI approved $37.6 million in grant awards for 15 organizations to support the training of 703 PMHNP students, 26 psychiatry residents, 13 child and adolescent fellows, and 6 addiction fellows.

  - Scholarship and Loan Repayment Programs – This program supports scholarships and loan repayment awards to increase the number of behavioral health professionals providing direct care in health profession shortage areas. According to HCAI, 302 people have received a total of $10.3 million in scholarships and loan repayments in three rounds of funding. A fourth round of awards is scheduled for January 2023, with a fifth application cycle beginning in Spring 2023.

  - Peer Personnel Training and Placement – This program supports the development of the peer workforce trained to address the needs of child and youth consumers. According to HCAI, $11.5 million has been awarded, $9.5 million through CYBHI, to twelve organizations to recruit, train, and place 2,515 peer support specialists in 37 counties.

  - Health Professions Pathway Program (HPPP) – This program supports career pipeline programs, summer undergraduate internships, and post-baccalaureate fellowships for students from underrepresented regions and backgrounds who are interested in behavioral health careers. According to HCAI, more than $40 million in grants have been awarded, with $23 million funded through CYBHI. In its Spring 2023 grant cycle, HCAI plans to focus on supporting foster care and justice system-involved youth and youth who are unhoused. This focus will include providing comprehensive wraparound supports, including income and rent support, academic enrichment, career development, mentorship, and advising to support students in attaining behavioral health careers.

  - Substance Use Disorder (SUD) Earn and Learn Grant Program – This program supports universities, colleges, and other organizations to create or expand earn and learn programs for students seeking a certification to provide SUD services including paid internships or work experience, incentive programs for educational instructors and mentors, and career placement bonuses. The first grant cycle to award a total of $23 million was released in December 2022 and closes at the end of February 2023.

  - Community-Based Organization (CBO) Behavioral Health Workforce Grant Program – This program supports CBOs that provide behavioral health services to expand, retain, and train the behavioral health workforce. Up to $100 million will be awarded to support scholarships, stipends, loan repayments, retention bonuses, recruitment bonuses, and recruitment activities. The first application cycle closed at the end of November 2022. Awards will be announced in early 2023.

- Social Work Education Capacity Expansion (SWECE) – This program supports increasing the supply of social workers trained to provide behavioral healthcare to children, youth, and adults served in public and non-profit settings. Approximately $60 million is available to increase the number of Master of Social Work (MSW) students in existing programs and to establish new MSW, Bachelor of Arts in Social Work (BASW), and Bachelor of Social Work (BSW) programs. The first application cycle closed in November 2022, with awards to be announced in early 2023. According to HCAI, the first cycle received 16 applications for MSW expansion, four applications for new MSW programs, and three applications for new BASW programs.

- Wellness Coach Workforce (formerly Behavioral Health Coach) – This program will train a new certified position, the Wellness Coach (formerly known as the Behavioral Health Coach), to support young people in schools, community-based organizations and other environments. After extensive stakeholder and expert discussions, HCAI released the framework for the position in September 2022. HCAI reports it is currently working with the California State University and Community College systems to develop an education and training program for wellness coaches. Training is expected to begin in 2024 with coaches delivering services in the field in 2025.

- *Dyadic Services Benefit in Medi-Cal.* DHCS was scheduled to add dyadic services as a covered outpatient benefit in the Medi-Cal program beginning January 1, 2023. DHCS estimates costs of $45.5 million ($17.2 million General Fund) in 2022-23 and $138.6 million ($55.5 million General Fund) in 2023-24 for the benefit.

- *Public Education and Change Campaign.* On January 24, 2023, DPH announced a Request for Proposal (RFP) for trusted local partners to execute its Stigma and Public Awareness campaign for youth behavioral health. $33 million is available in this RFP, with $15 million available in the coming months, and the remaining $52 million available in the next few years. According to DPH, the campaign, which is expected to launch in the summer of 2023, will educate the public and raise awareness to normalize and support the prevention and early intervention of mental, emotional, and behavioral health issues and help tackle disparities and inequities by empowering diverse communities to build upon their own cultural best practices without stigma.

- *ACEs and Toxic Stress Awareness Campaign.* In November, 2022, the OSG released an RFP to seek a partner to develop the ACEs and toxic stress awareness campaign. The campaign, which is expected to launch in spring of 2023, will primarily target economically disadvantaged, LGBTQ+ and rural communities, and communities of color, immigrants, refugees, and justice- and welfare-involved youth.

- *Planning for Behavioral Health Services and Supports Platform.* DHCS began planning and development activities for the Behavioral Health Services and Supports Platform in 2021-22. The 2022 Budget Act included additional General Fund expenditure authority of $230 million in 2022-23 to support stakeholder engagement, project implementation planning, building out service components, implementing e-Consult capabilities, and provider training. DHCS released a Request for Information (RFI) in July 2022, with a due date of August 2022 for vendors to submit information about potential elements of the design, development, and launch of the platform. DHCS expects to launch the platform on January 1, 2024.

GOVERNOR'S PROPOSAL

Governor's Budget Makes No Changes to the Children and Youth Behavioral Health Initiative. The Governor's January budget does not make any changes to the programs funded by the Children and Youth Behavioral Health Initiative in the 2021 and 2022 Budget Acts. The Governor has indicated, both through public comments and maintaining funding in the budget, that the initiative is a priority for the Administration. Because much of the initiative's components were one-time expenditures authorized in the 2021-22 and 2022-23 fiscal years, year-over-year General Fund expenditures declined significantly for the affected departments and agencies as the state moves into the 2023-24 fiscal year.

The 2022 Budget Act also included General Fund expenditure authority of $120.5 million in 2022-23, $25.5 million in 2023-24, and $29 million in 2024-25 to support the urgent needs and emergent issues in children's behavioral health including wellness and resilience supports, a School-Based Peer Mental Health Demonstration Project, a video series to provide parents with resources and skills to support their children's mental health, and next generation digital supports for remote mental health assessment and intervention. The Governor's January budget also does not make any changes to these allocations and maintains the $25.5 million authority for this purpose for 2023-24.

ISSUES FOR CONSIDERATION

Continued Oversight to Ensure Investments Improve the Continuum of Care. The Children and Youth Behavioral Health Initiative is a wide-ranging, multi-departmental effort to improve the continuum of behavioral health care for children and youth ages zero to 25. The focus on youth behavioral health has been a priority of the Legislature since it approved the Mental Health Student Services Act (MHSSA) in the 2019 Budget Act, an effort to forge partnerships between schools and county behavioral health departments to streamline the service delivery system on and around school campuses. Many of the components of the CYBHI are incentive programs and grants intended to make additional progress in improving access to behavioral health services for children and youth through partnerships between Medi-Cal managed care plans and schools, workforce development programs, implementation of a behavioral health services platform, and other efforts. For example, Medi-Cal managed care plans receive incentive payments to forge partnerships with schools and county behavioral health departments to implement targeted behavioral health interventions. In addition, many of these components are in the process of implementing programs or awarding grants. The Legislature should continue to monitor these programs and request metrics and outcomes data that can demonstrate whether these significant investments are having an impact on the state of youth behavioral health. In addition, because many of these are one-time expenditures, the Legislature should also work to ensure these expenditures are making lasting improvements that will not dissipate when the one-time funding expires.

Early Childhood Development Programs

BACKGROUND

Generally, programs in the early care and education system have two objectives: to support parental work participation and to support child development. Children, from birth to age five, are cared for and instructed in child care programs, State Preschool, transitional kindergarten, and the federal Head Start program.

Commencing July 1, 2021, the administration of state child care programs, with the exception of the California State Preschool Program, has transitioned from the Department of Education (CDE) to the Department of Social Services (DSS).

Child Care. California provides child care subsidies to some low-income families, including families participating in CalWORKs. Families who have participated in CalWORKs are statutorily guaranteed child care during "Stage One" (when a family first enters CalWORKs) and "Stage Two" (once a county deems a family "stable," defined differently by each county). In the past, the state has funded "Stage Three" (two years after a family stops receiving cash aid) entirely while it is not a statutorily guaranteed entitlement program. Families remain in Stage Three until their income surpasses a specified threshold or their child ages out of the program. For low-income families who do not participate in CalWORKs, the state prioritizes based on income, with lowest-income families served first. To qualify for subsidized child care: (1) parents demonstrate need for care (parents working, or participating in an education or training program); (2) family income must be below 85 percent of the most recent state median income (SMI) calculation; and (3) children must be under the age of 13.

California State Preschool Program. State Preschool provides both part-day and full-day services with developmentally appropriate curriculum, and the programs are administered by local educational agencies (LEAs), colleges, community-action agencies, and private nonprofits. State preschool can be offered at a child care center, a family child care network home, a school district, or a county office of education (COE). The State Preschool program serves eligible three- and four-year old children, with priority given to four-year-olds whose family is either on aid, is income eligible (family income may not exceed 100 percent of the SMI), is homeless, or the child is a recipient of protective services or has been identified as being abused, neglected, or exploited, or at risk of being abused, neglected or exploited.

Funding. California provides child care and development programs through vouchers and contracts.

- **Vouchers.** The three stages of CalWORKs child care and the Alternative Payment Program are reimbursed through vouchers. Parents are offered vouchers to purchase care from licensed or license-exempt caregivers, such as friends or relatives who provide in-home care. Families can also use these vouchers at any licensed child care provider in the state, and the value of child care vouchers is capped. The state will only pay up to the regional market rate (RMR) — a different amount in each county and based on regional surveys of the cost of child care. Beginning in 2022, the RMR was set to the 75th percentile of the 2018 RMR survey. If a family chooses a child care provider who charges more than the maximum amount of the voucher, then a family must pay the difference. Typically, a Title 22 program – referring to the state Title 22 health and safety regulations that a licensed provider must meet — serves families who receive vouchers. The Department of Social Services (DSS) funds Alternative Payment agencies for most voucher programs and county welfare departments who locally administer the CalWORKs Stage 1 program. Alternative Payment agencies (APs), which issue vouchers to eligible families, are paid through the "administrative rate," which provides them with 17.5 percent of total contract amounts.

- **Contracts.** Providers of General Child Care, Migrant Child Care, and State Preschool – known as Title 5 programs for their compliance with Title 5 of the California Code of Regulations — must meet additional requirements, such as development assessments for children, rating scales, and staff development. Title 5 programs contract with, and receive payments directly from, DSS or CDE, depending on the type of program. Prior to 2022, these programs received the same reimbursement rate (depending on the age of the child), regardless of where in the state the program was located, known as the Standard Reimbursement Rate. The rate was increased by a statutory adjustment factor for infants, toddlers, children with exceptional needs, severe disabilities, cases of neglect, and English learners. Beginning in 2022, these programs receive the higher of the current RMR or the Standard Reimbursement Rate (SRR) as part of an effort to transition providers to one rate system. All Title 5 programs also operate through family child care home education networks, which serve children in those programs through family child care homes that are members of the network.

Child care and early childhood education programs are generally capped programs, meaning that funding is provided for a fixed amount of vouchers and fixed funding amount for slots, not for every qualifying family or child. The exception is the CalWORKs child care program (Stages One and Two), which are entitlement programs in statute.

Subsidized child care programs are funded by non-Proposition 98 state General Fund and funding from the federal Child Care and Development Fund (CCDF), which is comprised of federal funding for child care under the Child Care and Development Block Grant (CCDBG) Act and the Social Security Act and from federal TANF funds.

Collective Bargaining. In 2019, Governor Newsom signed legislation granting collective-bargaining rights to child care providers in California, allowing them to negotiate with the state over matters related to the recruitment, retention, and training of family childcare providers. In 2021, Child Care Providers United - California (CCPU) and the state negotiated their first Master Contract Agreement. The CCPU represents both voucher and direct contract providers that are family child care homes, or license-exempt home providers. The 2021-22 budget included ratification of the CCPU - California bargaining contracts, which included rate increases, provider stipends, hold harmless policies, and a variety of other supports. In addition, the contracts included a process for continuing conversations through Joint Labor Management Committees on a single reimbursement rate system, and other provider needs such as retirement, and healthcare, among other topics. The CCPU is currently in negotiations with the Administration for a contract beginning in Fiscal Year 2023-24.

Recent Rate Reform Efforts. Pursuant to the 2021-22 budget, DSS, in consultation with CDE, convened a Rate Reform and Quality Workgroup to assess the methodology for establishing reimbursement rates and the existing quality standards for child care and development and preschool programs, informed by evidence-based elements that best support child development and positive child outcomes. This workgroup included CCPU, teacher and administrator representatives of state-funded center-based contractors for both preschool and infant-toddler settings, child development experts, parent representatives, a Head Start representative, an alternative payment program agency representative, and representatives of the Administration. The workgroup produced their final report with recommendations on August 15, 2022.

PREVIOUS BUDGET ACTIONS

The 2021-22 budget package included significant investments in early care and early education:

- **Additional Slots.** The budget package included approximately $783 million in 2021-22 ($1.6 billion ongoing) across state and federal fund sources to provide additional 120,000 slots for child care (inclusive of essential worker slots). Slots are to be spread across the Alternative Payment Program, General Child Care, and Migrant Child Care. The budget package included a multi-year agreement to add 80,000 child care slots by 2025-26 for a total of 200,000 additional child care slots. Slots added in 2021-22 included Alternative Payment slots scheduled to be released in October 2021 (actual release was late November 2021) and General Child Care slots added in April 2022, with the full-year costs to be annualized in the 2022-23 Budget Act.

- **Increased Rates for Child Care and Preschool Programs.** The budget package provided $604 million in 2021-22 ($1.1 billion ongoing) across several fund sources to increase rates for child care and preschool providers. Starting July 1, 2021, direct contract providers received a 4.05 percent cost-of-living adjustment. Effective January 1, 2022, all child care and preschool provider rates were adjusted to the higher of their current rate or the equivalent of the 75th percentile of the 2018 regional market rate survey rate as determined by the DSS (or by CDE for California State Preschool Programs.)

- **Supplemental Rate Funding for Providers.** The budget package included one-time funding available to allocate temporary supplemental rates to providers from January 1, 2022 through December 31, 2023. The funding methodology and other implementation details are to be determined by DSS and Child Care Providers United–California (the union representing family child care home and license-exempt providers). This package includes:

    - $289 million in one-time funds for CCPU providers.

    - $188 million in one-time funding for center-based providers.

    - $27.5 million in one-time funding for administrative costs for providing supplemental payments. (Added in SB 116, (Committee on Budget and Fiscal Review), Chapter 5, Statutes of 2022).

    - $47.7 million in one-time funding (including administrative costs) for non-CCPU voucher providers. (Added in SB 115 (Skinner), Chapter 2, Statutes of 2022).

- **Infrastructure Grants.** The budget package included $250 million one-time funding for the Child Care and Development Infrastructure Grants Program to expand access to child care and development and preschool opportunities for children up to five years of age by providing resources to build new facilities or retrofit, renovate, repair, or expand existing facilities, with a focus on child care deserts.

- **Universal Transitional Kindergarten.** The budget expanded the Transitional Kindergarten

Program beginning in the 2022-23 school year, and achieves Universal Transitional Kindergarten eligibility by 2025-26. For each school year during the period of 2022-23 through 2025-26, the Transitional Kindergarten Program enrollment date is extended two months later, with the final year extending the enrollment date by three months such that a child who has their fourth birthday by September 1st shall be admitted to a Transitional Kindergarten Program. The budget specifies that age eligibility for a transitional kindergarten program does not impact family eligibility for other child care and preschool programs, and authorizes California State Preschool Programs to offer wraparound childcare services for eligible transitional kindergarten and kindergarten programs. Funding to support the transition to Universal Transitional Kindergarten includes:

- $490 million in one-time General Fund for the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program. Grant funds may be used to construct new school facilities or retrofit existing school facilities for the purpose of providing transitional kindergarten classrooms, full-day kindergarten classrooms, or preschool classrooms.

- $300 million in one-time Proposition 98 for the California Pre-Kindergarten Planning and Implementation Grant Program. Of the total, $200 million is for costs associated with creating or expanding California state preschool programs or transitional kindergarten programs and $100 million is provided to increase the number of highly qualified teachers and administrators available to serve California state preschool programs and transitional kindergarten pupils.

The 2022-23 budget included the following investments in child care and early education:

- **Child Care Rates and Slots**. The budget implemented the 2021-22 budget agreement and included an increase of $1.09 billion to annualize the 2021-22 Budget Act's 120,000 new slots and further increase child care program access to 145,000 slots, with the continued goal from the 2021-22 Budget Act to serve 200,000 more children by 2025-26. In addition, the budget included $413 million to annualize current year increases in child care funding rates, from the 2021-22 Budget Act. The budget included cost-of-living adjustments to the Standard Reimbursement Rate of $136 million General Fund for child care programs.

- **Additional Child Care Investments:**

    - $100.2 million General Fund for CCPU agreements for providing health care and other benefits.

    - $100.5 million Federal Funds for child care facility renovation and repair.

    - $136 million one-time federal funds to extend family fee waivers through 2022-23 and extend hold harmless policies.

    - $354 million in remaining federal funds for child care stipends.

    - $20 million in one-time General Fund for Alternative Payment Program administrative needs.

  - $2 million General Fund for alternative care and 16 additional non-operative days for state subsidized child care programs.

- **California State Preschool Program (CSPP).** The budget provided $172.34 million ongoing General Fund, and $314 million ongoing Proposition 98, for increases in rates for the CSPP to provide a 1.8 adjustment factor for three year olds, a 2.4 factor for students with exceptional needs, and 1.1 factor for mental health services. In addition, the following adjustments were included for preschool:

  - $33.2 million General Fund and $67 million Proposition 98 General Fund for CSPP for an SRR COLA.

  - $21.6 million one-time ($10.8 million General Fund and $10.8 million Proposition 98 General Fund) for the cost of family fee waivers for 2022-23.

  - $250 million one-time, to the Inclusive Early Education Expansion Program at the Department of Education.

  - Adds 10 percent California State Preschool set-aside for inclusive education, beginning in 2024. The inclusive preschool set-aside will begin at five percent in 2022-23 and phase in through 2024-25.

  - Trailer bill language expands eligibility for California State Preschool to families at the state median income.

  - $18.3 million General Fund for the first year of a three-year planning process to support Universal Preschool.

- **Universal Transitional Kindergarten.** Consistent with the 2021-22 Budget Act, the expansion of the Transitional Kindergarten Program began in the 2022-23 school year with the extension of enrollment data by two additional months. The budget rebenched the Proposition 98 Guarantee to accommodate enrollment increases, which is estimated to be $611 million Proposition 98 General Fund. The budget also reduced the adult-to-student ratio for transitional kindergarten consistent with the 2021 Budget Act, at an estimated cost of $383 million Proposition 98 General Fund. Additionally, the budget included the following additional investments to support transitional kindergarten:

  - $300 million additional one-time Proposition 98 General Fund for additional Pre-Kindergarten Planning and Implementation Grants.

  - $650 million General Fund more for the Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facility Program.

Implementation to Date:

Expansion of slots continues, through efforts from CDE and DSS. The below graphic shows the most recent summary of slots, or full time enrollment in various programs. Children may be duplicated in the count if they attend more than one program. Note that the expansion of childcare slots has been slower than anticipated with some providers not receiving expansion funds until nearly one year after initial application. For voucher based slots, the typical time to roll-out slots is 3 months, while for direct contract slots, it typically takes up to nine months.

Source: Legislative Analyst's Office

GOVERNOR'S PROPOSAL

Child Care. The Governor's proposed 2023-24 budget includes $6.6 billion ($2.7 billion General Fund) for child care programs, which annualizes ongoing investments in rates made in past budget acts, but makes no new investments in rate increases.

- **Cost-of-Living Adjustment (COLA).** The proposed budget includes $301.7 million General Fund for Child Care and Development Programs and $1.5 million for the Child and Adult Care Food Program to support an 8.13 percent COLA.

- **Child Care Slots.** The Governor proposed to delay the implementation of 20,000 child care slots, slowing California's progress towards the goal of 200,000 new subsidized child care slots.

- **Child Care Rates.** The January proposal expresses intent to develop a single rate reimbursement structure for child care programs. This rate structure will be informed by recommendations of the Joint Labor Management Committee (JLMC), consisting of the state and Child Care Providers United (CCPU), and the Rate and Quality Workgroup convened by DSS. The budget also expresses intent to continue to work with CCPU to negotiate a successor agreement to the current agreement expiring June 30, 2023.

State Preschool Program. Consistent with the 2022 Budget Act, the budget proposes $64.5 million Proposition 98 General Fund and $51.8 million General Fund to continue a multi-year plan to ramp up the inclusivity adjustments for the State Preschool Program. 2023-24 will be the second year of the three-year ramp up process, and students with disabilities will be required to make up at least 7.5 percent of State Preschool Program providers' enrollment.

Transitional Kindergarten. The 2022 Budget Act provided $614 million to support the first year of expanded eligibility for transitional kindergarten, in addition to $383 million to add one additional certificated or classified staff person to transitional kindergarten classrooms to meet ratio requirements. The budget revises these estimates from $614 million to $604 million for expanded access, and $383 million to $337 million for the additional certificated or classified staff. The budget also proposes to include $690 million to implement the second year of transitional kindergarten, and $165 million to support the addition of certificated or classified staff in transitional kindergarten classrooms. These funds will increase the Proposition 98 Guarantee through the process of rebenching.

ISSUES FOR CONSIDERATION

Interconnected Child Care Issues. While child care primarily impacts the family receiving care and the provider serving that family, the issue crosses over into many other policy areas. For example, for many women, entering the workforce is dependent on child care options that allow them to work outside of the home at a cost that makes the choice to work economically and socially feasible for that family. Child care may also offer other benefits that impact society at large, allowing parents to pursue education or career training, or support other, often elderly family members in need. In many cases, child care options may offer additional education and health benefits for a child's development and can connect families to additional supports and services that they may need. Unlike traditional K-12 education, child care is often relied upon to be flexible to meet family needs – offering care during non-traditional hours or on a part-time basis. The Legislature may wish to consider the impact of a stable child care system across multiple policy areas.

Child Care Rates. The top issue for child care providers continues to be reimbursement rates. Stakeholders note that while many providers saw increases in rates as of January 1, 2022, as a result of the 2021-22 budget, the actual costs of providing care and the rising impacts of inflation continue to outstrip reimbursement rate funding across much of the state. Higher rates allow providers to retain and pay their workforce, cover administrative and other fixed costs, increase quality of care, and support expansion to meet family and state needs. In order to continue stabilizing providers in the face of rising costs, one-time stipends were provided using federal American Rescue Plan Act funds. Rates are an issue currently subject to CCPU collective bargaining; however, for the stability of the system, rates need to support non-CCPU providers as well. Without continued stipends, rate increases are necessary to maintain progress in funding providers.

Workforce Issues. Child care providers, similar to various other low-wage industries, report continued issues with staffing. Providers note difficulties hiring and retaining qualified staff, making it more difficult for the industry to recover from the pandemic. The child care industry faces additional pressures due to significant expansions in the K-12 education space – the expansion of transitional kindergarten to all four-year-olds and the creation of the Education Learning Opportunity Program (ELOP), a statewide afterschool program. Both of these expansions require significant increases in staff that require similar or related experience as the child care workforce. The Legislature may wish to continue to monitor the ability of providers to hire staff and consider ways to streamline requirements and the impact of other policies such as rate increases, to allow for higher wages.

Family Fees. As part of the ongoing pandemic response, the state waived family fees through the 2021-22 fiscal year and again through 2022-23 and backfilled the cost to providers. This policy provided additional support to low-income families as pandemic-related health and economic costs impacted families. Stakeholders have been requesting changes to the family fee structure for some time to limit the impact to low-income families. Families enrolled in child care will face an increase in costs when family fees return in 2023-24. The Legislature may wish to consider whether changes are needed in the family fee structure before the reinstatement that will otherwise take place July 1, 2023.

SUBCOMMITTEE NO. 4

STATE ADMINISTRATION and GENERAL GOVERNMENT

State Administration and General Government and Housing

California Earned Income Tax Credit (EITC) and Young Child Tax Credit (YCTC)

BACKGROUND

CalEITC. The California EITC is a state personal income tax provision that benefits individuals and families who earn less than $30,000. The amount of the credit depends on taxpayers "earned income" (which primarily includes wages and self-employment income), filing status, and the number of qualifying dependent children. The amount of the EITC initially rises with earnings, such that the greater the filer's earnings, the larger the credit. The credit peaks at a certain income and then gradually phases out for higher levels of earnings. The tax credit is fully refundable. This means that if the amount of a taxpayer's EITC is greater than his or her liability before applying the credit, then the state pays the taxpayer that difference. The Franchise Tax Board (FTB) annually adjusts the income thresholds and credit amounts for inflation, similar to the adjustment made at the federal level (although the state uses a California-specific inflation index).

In 2015, when California created the state EITC, it was designed to supplement the federal EITC for those working individuals and families whose incomes were relatively low. As the state EITC is based on the federal EITC, it also shares certain restrictions on eligibility. Specifically, eligible filers must be a U.S. citizen or resident alien. In addition, if they do not have a qualifying child, eligible filers must be at least age 25 and younger than age 65. Restrictions for the state credit were adjusted in future budget actions, as detailed below.

2022 CalEITC Credit

Number of qualifying children	California maximum income	CalEITC (up to)	IRS EITC (up to)
None	$30,000	$275	$560
1	$30,000	$1,843	$3,733
2	$30,000	$3,037	$6,164
3 or more	$30,000	$3,417	$6,935

Source: Franchise Tax Board

YCTC. The CalEITC was expanded in the 2019 Budget Act to include a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year for taxpayers with qualifying children up to age 6. The YCTC is a refundable credit, this means that if the amount of a taxpayer's EITC is greater than his or her liability before applying the credit, then the state pays the taxpayer that difference. The YCTC begins to phase out for taxpayers with incomes over $25,000.

PREVIOUS BUDGET ACTIONS

CalEITC Changes Over Time. California adopted the CalEITC in 2015 to build upon and amplify the impact of similar federal tax credits and increased benefits and access over multiple years as follows:

2015-2018 Budget Act. The budget included a state EITC for the first time, which provided a refundable tax credit for wage income for households with incomes of less than $6,580 if there are no dependents, and up to $13,870 if there are three or more dependents. For tax year 2015, the program matched 85 percent of the federal credits, up to half of the federal phase-in range, and then begin to taper off relative to these maximum wage amounts. The credit was expected to benefit an estimated 825,000 families and two million individuals. The estimated average (mean) household benefit was $460 per year, with a maximum credit of over $2,600 for a household with three or more dependents. The FTB was tasked with administering the EITC program. Budget bill language was adopted to allow for the 85 percent to be adjusted depending upon the state fiscal position. Future actions expanded the EITC to support more working families, including self-employed parents and working individuals who were aged 18 to 24 or over age 65. In addition, the budget adjusts the qualifying income range for the credit so that employees working up to fulltime at the 2019 minimum wage of $12 per hour would qualify for the credit.

2019 Budget Act. The budget more than doubled the EITC by investing $1 billion in a new expanded EITC (up from $400 million). Specifically, the EITC was expanded by raising the annual income recomputation floor from 3.1 percent to 3.5 percent, revising the calculation factors to increase the credit amount for certain taxpayers, raising the maximum income to $30,000, and providing a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year. These changes increase the estimated cost of the state EITC from approximately $400 million to approximately $1 billion. In 2019, California spent $1.1 billion on the state's two largest tax credits targeted to Californians with low incomes — the California Earned Income Tax Credit (CalEITC) and the Young Child Tax Credit (YCTC).

2020 Budget Act. The budget included trailer bill language to extend the EITC and Young Child Tax Credit (YCTC) eligibility to Individual Tax Identification Number (ITIN) filers. An estimated 200,000 or more families with ITINs qualify for this state EITC expansion.

2022 Budget Act. The budget included a new refundable credit within the EITC for young adults who have been in the foster care program. This proposal provides an additional $1,000 credit for individuals who have been in the foster care system at some point at age 13 or older and who are now at least 18 but 25 or younger, and who otherwise qualify for the CalEITC. This proposal is expected to cost roughly $20 million ongoing General Fund.

In addition, the budget expanded the YCTC to families that file returns without income, but otherwise quality for this credit, and indexed the credit to inflation starting in the 2022 tax year, which will prevent the erosion of its value. This expansion of the YCTC is expected to cost about $55 million ongoing General Fund. The cost of indexing will depend on the level of inflation and will compound over time, for the 2022 tax year, the cost of indexing is estimated at $19 million.

Implementation to Date:

- **2021 Tax Year:** According to the most recent data from the Franchise Tax Board, as of December 31, 2022, for the 2021 tax year, 3.6 million claims were filed, for a total credit amount of $1.05 billion ($706 million in EITC and $347 million in YCTC).
  - In comparison to 2020 tax filings, roughly 600 less eligible claims were filed for 2021, resulting in $153 million less in tax credits provided year over year. The reasons for this change are unclear, according to the FTB, roughly 50 percent of claimants turn over each year – meaning that fifty percent of claimants did not receive the credit the year before. This may be due to filers whose incomes increase and are no longer eligible, or those who no longer have income or choose not to file taxes. Likely some of the increase in filing in 2020 was driven by eligibility for rebate funds.

- **2022 Tax Year:** Data from the 2022 tax year will not be available until mid-late 2023.
  - Uptake of the EITC in the 2022 tax year, may see an increase over 2021 given continued outreach funding, new outreach efforts, and an increase in tax eligibility including the YCTC for zero income filers and the foster youth credit.

GOVERNOR'S PROPOSAL

Header. The January Budget proposes no additional changes to the CalETIC and YCTC.

ISSUES FOR CONSIDERATION

Value of Credits. According to the data from the Franchise Tax Board, the vast majority (79 percent in 2021) of EITC claimants receive less than $200 from the credit, and about 43 percent received less than $100. CalEITC is designed to help reduce poverty for very-low income working individuals and families. However, for many individual filers, the credit amount may not be worth the cost to file taxes, and may not have a meaningful impact for filers. The Legislature has recently considered a variety of ways to increase the credit, including setting a minimum credit amount, to ensure that a meaningful credit amount is reaching the lowest-income individuals. This concept was included last year through the budget process and in policy bills, such as AB 2589 (Santiago) in 2022, but was ultimately not adopted due to cost pressures. The Legislature may wish to continue to consider changes to the structure and value of the credits.

Uptake of Credits. As mentioned above, not all eligible filers claim the EITC, for example in a recent report, the FTB identified almost one million returns, where the filer appeared eligible for the EITC, but did not claim the credit. This is distinct from the case where an individual has not filed taxes, but would have been eligible. While the FTB did not confirm that each of these filers met all of the eligibility requirements, it appears likely that many of these individuals missed receiving a credit they were due.

Outreach. SB 1409 (Caballero), Chapter 114, Statutes of 2020 required the FTB to report by January 1, 2022, to the Legislature, an analysis and plan, to increase the number of claims of the CalEITC allowed pursuant to Section 17052 of the Revenue and Taxation Code, and the federal EITC, including alternative filing systems. The state has continued to provide $10 million annually for state outreach grants to promote the California EITC and free tax preparation. For 2022-23 and 2023-24, this amount was increased to $20 million. Grantees will carry out statewide and local outreach efforts aimed at reaching eligible families. However there are a variety of other actions that may be considered to increase uptake in future years, including continued efforts to simplify the tax filing process, such as pre-population of returns, continuing to simplify the filing portal, and expanded outreach and education. The Legislature may wish to continue working with the FTB to research and pursue these options.

Lessons from Other States. Several other states that have state-level EITC programs, vary from California in that they calculate their EITC as a percentage of the federal EITC and align eligibility requirements with the federal requirements. This approach allows the state to rely on federal return data when ensuring that the state EITC is provided to eligible individuals, simplifying the outreach process and the issues of uptake. The FTB notes that the CalEITC requires a separate income calculation and age test resulting in an inability of the FTB to rely heavily on federal data to ensure uptake. The Legislature may wish to consider any structural changes to the CalEITC in the future in conjunction with ensuring the ease of claiming the credit.

Cannabis Tax Reform, Licensing and Equity

BACKGROUND

Cannabis Taxes. Proposition 64 established two state excise taxes on cannabis: 1) 15 percent excise tax on retail gross receipts, and 2) a cultivation tax on harvested plants based on weight. The California Department of Tax and Fee Administration (CDTFA), is responsible for administering cannabis taxes, and was statutorily required to annually adjust the cultivation tax rates for inflation. Proposition 64 eliminated the standard sales tax on medical marijuana patients with a state ID card; but recreational cannabis is subject to existing state and local sales tax. Lastly, locals have discretion on setting additional taxes on cannabis activity. In some jurisdictions, local taxes on cannabis products can be as high as ten percent. Prior to the 2022 budget, both the retail excise tax and cultivation tax were collected by distributors.

Cannabis Provisional Licensing. Pursuant to Senate Bill 94 (Committee on Budget), Chapter 27, Statutes of 2017, beginning in January, 2018, the state's three licensing authorities began issuing licenses for medicinal and adult-use cannabis activities for cultivation, manufacturing, retail, distribution, microbusinesses, testing laboratories and temporary cannabis events. To assist licensees in obtaining an annual license, SB 94 created a "temporary license" program, with a sunset of January 1, 2019, intended as a bridge for legacy operators to enter into the legal market and continue to operate while coming into compliance with the environmental requirements pursuant to Prop 64. In August 2018, it became apparent that licensees required additional time to transition to an annual license. As a result, the "provisional licensing" program was created pursuant to SB 1459 (Cannella), Chapter 857, Statutes of 2018, which included a sunset in 2020.

In 2019, due to a significant backlog of provisional license applications that would not be processed by the sunset deadline, the timeline for the "provisional licensing" program was extended to January 1, 2022; including that a licensee must show evidence that compliance with environmental requirements was underway (pursuant to AB 97 (Committee on Budget), Chapter 40, Statutes of 2019).

Cannabis Equity Programs. The burdens of cannabis prohibition in California, including arrests, convictions, and long-term collateral consequences fell disproportionately on Black and Latinx communities, despite the fact that people of all races use and sold cannabis at nearly identical rates. The California Department of Justice data shows that from 2006 to 2015, inclusive, Black Californians were two times more likely to be arrested for cannabis misdemeanors and five times more likely to be arrested for cannabis felonies than White Californians. During the same period, Latinx Californians were 35 percent more likely to be arrested for cannabis crimes than White Californians.

In response to the disproportionate impacts of cannabis prohibition on disadvantaged communities in California, some local jurisdictions established equity programs that assist those impacted by cannabis prohibition in overcoming longstanding barriers to entry into the legal cannabis market. These local efforts included application assistance, microloans for businesses, or technical assistance. In 2018, the Legislature passed SB 1294 (Bradford), Chapter 794, Statutes of 2018, the California Cannabis Equity Act, which provides state resources to local equity applicants. Pursuant to SB 1294, the budget provided resources for local equity programs, with the 2018 budget providing $10 million, and the 2019 budget providing nearly $30 million, of which $15 million is ongoing from the Cannabis Tax Fund administered by the Administration. In 2019, the Legislature passed SB 595 (Bradford), Chapter 852, Statutes of 2019, that requires cannabis licensing entities to develop and implement a program that provides a fee deferral or fee waiver to obtain or renew a license for a needs-based applicant or licensee, as specified, contingent upon an appropriation in the annual Budget Act or another statute.

PREVIOUS BUDGET ACTIONS

Budget Act of 2022. The budget made several statutory changes to the tax structure related to cannabis taxes and the cannabis regulatory framework. Most significantly, the budget: 1) suspended the state's cannabis cultivation tax; 2) maintains a 15 percent cannabis excise tax, as required by Proposition 64 – and allows cannabis equity operators to collect an amount equivalent to 12 percent cannabis excise tax until June 30, 2025; 3) moved collection of the excise tax from the distributor to the point-of-sale; and, 4) set the baseline of new cannabis tax revenue for Allocation 3 entities (these entities use cannabis revenues to operate youth programs related to substance use education, prevention, and treatment, environmental programs, and law enforcement), at $670 million in 2022-23, 2023-24, and 2024-25, which can be satisfied with tax revenues, or with up to $150 million one-time General Fund backfill if needed. According to the Legislative Analyst's Office's Supplemental Report of the 2022-23 Budget Act, the Department of Finance will annually submit an expenditure report related to the Cannabis Control Fund beginning March 1, 2023 through 2025.

The budget also includes additional tax credits that 1) allows high-road cannabis employers to claim tax credits of up to $250,000 beginning in the 2023 taxable year, for a program total of $20 million; and, 2) allows cannabis equity operators to claim tax credits of up to $10,000 beginning in the 2023 taxable year, for a program total of $20 million.

Budget Act of 2021. While most non-equity operators face a deadline of June 30, 2022, the budget extended the deadline for first-time equity applicants to June 30, 2023 (pursuant to SB 160 (Committee on Budget) Chapter 87, Statutes of 2021). The budget also extended the timeline for the entire "provisional licensing" program to a final sunset of January 1, 2026, with various filing deadlines for first-time applications (pursuant to SB 160 (Committee on Budget) Chapter 87, Statutes of 2021 & AB 141 (Committee on Budget) Chapter 70, Statutes of 2021). Provisional licensees are required to provide evidence of continuous progress towards the environmental compliance requirements for annual licensees. Additionally, the budget shifted $154 million in Cannabis Control Fund from various cannabis licensing entities to administer the new Department of Cannabis Control (DCC), and also included trailer bill language that makes the necessary statutory changes to consolidate the state's licensing authorities into the DCC. The budget also included $100 million General Fund for the Cannabis Local Jurisdiction Assistance Grant Program, to be spent over three years, to assist local jurisdictions in expediting their environmental review processes and transition provisional licenses to annual licensure.

As part of the establishment of the DCC, the budget included a newly-created Deputy Director of Equity and two additional positions, of which one is an attorney. The budget also included one-time $30 million General Fund to allow the Department to issue fee waivers and deferrals for cannabis equity licensees and applicants. This funding was accompanied with trailer bill language that created a statewide definition for equity. The budget also included $20 million General Fund, in addition to $15 million from the Cannabis Tax Fund, for the Cannabis Local Equity Grant program.

Budget Act of 2019. The budget re-appropriated a one-time $10 million General Fund augmentation for the Bureau of Cannabis Control to provide grants to local equity programs from the 2018 Budget Act. Funding to recipients had been delayed, and the re-appropriation was needed to ensure grants were distributed as intended. The budget also included $15 million General Fund for cannabis equity programs; administered by the Governor's Office of Business and Economic Development.

Budget Act of 2018. The budget included a one-time $10 million General Fund augmentation for the Bureau of Cannabis Control to provide grants to local equity programs and $483,000 (Cannabis Control Fund) to provide technical assistance to local equity applicants and licensees.

Implementation to Date:

- **Provisional Licensing.** Key dates for the "**provisional license**" program.
    - **January 1, 2023 –** Last day DCC can renew provisional cultivation licenses that would result in an operation equivalent to a Type 5, 5A, or 5B license.
    - **March 31, 2023 –** Deadline for local equity applicants to submit a license application and be considered for a provisional license.
    - **June 30, 2023 –** Last day for DCC to issue provisional licenses to local equity applicants.
    - **July 1, 2023 –** Provisional renewals become subject to additional requirements.
    - **January 1, 2024 –** Last day for provisional cultivation licenses that would result in an operation equivalent to a Type 5, 5A, or 5B license to be in effect.
    - **January 1, 2025 –** Last day for DCC to renew provisional licenses.
    - **January 1, 2026 –** Last day for any provisional license to be in effect.
- **Cannabis Tax Credits.** Data from the 2023 taxable year will not be available until mid-2024.
- **Cannabis Equity Programs.** On October 3, 2022, GO-Biz opened the grant solicitation process for the Cannabis Equity Grants Program for Local Jurisdictions for the 2022-23 fiscal year. Key dates are as follows:

Activity	Date
Grant Solicitation Release	October 3, 2022
Application Due Date	December 14, 2022 at 11:59 pm
Grant Evaluation and Award Announcement	December 15, 2022 – January 20, 2023
Grant Agreements Executed No Later Than	March 31, 2023
Grant Term	April 1, 2023 – October 31, 2024

GOVERNOR'S PROPOSAL

Allocation of the Cannabis Tax Fund. The January budget proposes the following related to the Cannabis Tax Fund. In 2016, voters approved Proposition 64. Under Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities as defined. The remaining funds are allocated under what is known as "Allocation 3," and go towards youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities.

AB 195 (Chapter 56, Statutes of 2022) requires that these Allocation 3 programs be funded at a baseline of approximately $670 million. The proposed budget includes $95.4 million General Fund, from the $150 million one-time General Fund made available in the 2022-23 Budget Act, to backfill the estimated decline in revenues that fund the program as follows:

- **Education, prevention, and treatment of youth substance use disorders and school retention**—60 percent ($401.8 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent ($133.9 million)
- **Public safety-related activities**—20 percent ($133.9 million)

Below are the estimated revenues and expenditure allocations for the California Cannabis Tax Fund:

	2021-22*	2022-23*	2023-24*
REVENUES:			
Beginning Balance	$669,610	$696,933	$574,233
Cannabis Tax	812,980	642,013	714,690
Total Revenues	**$1,482,590**	**$1,338,946**	**$1,288,923**
Allocation 1: Regulatory and Administrative			
Governor's Office of Business and Economic Development (Equity Program)	15,573	15,684	15,681
Department of Cannabis Control	-	-	-
Department of Fish and Wildlife	9,084	-	-
Department of Pesticide Regulation	2,726	-	-
State Water Resources Control Board	10,728	-	-
Employment Development Department	3,630	-	-
Department of Tax and Fee Administration	9,347	-	-
State Controller's Office	-	-	-
Department of Finance	440	-	-
Statewide General Administration	9,519	14,419	13,181
Total Allocation 1	**$61,047**	**$30,103**	**$28,862**
Allocation 2: Specified Allocations for Research and Other Programs			
Public University/Universities in California	10,000	10,000	10,000
California Highway Patrol	3,000	3,000	-
Governor's Office of Business and Economic Development	40,000	50,000	50,000
University of San Diego Center for Medicinal Cannabis Research	2,000	2,000	2,000
Total Allocation 2	**$55,000**	**$65,000**	**$62,000**
Allocation 3: Percentage of Remaining Revenue Collection			
Youth Education Prevention, Early Intervention and Treatment Account	401,766	401,766	401,766
Environmental Restoration and Protection Account	133,922	133,922	133,922
State and Local Government Law Enforcement Account	133,922	133,922	133,922
Total Allocation 3	**$669,610**	**$669,610**	**$669,610**
Based on prior year actual tax collection			
Less Funding Provided by General Fund per RTC 34019.1	-	-	-95,377
Total Expenditures	**$785,657**	**$764,713**	**$665,095**
Balance of Tax Receipts	**$669,610**	**$574,233**	**$623,828**

Note: Cannabis Tax Revenue includes an estimated reduction of $2.1 million in 2022-23 and $4.5 million in 2023-24 related to equity retailer relief.

Homelessness

BACKGROUND

California's Homelessness Crisis. Homelessness in California is not confined to urban corridors. It pervades both urban and rural communities across the state and puts stress on local resources, from emergency rooms to mental health and social services programs to jails. The 2022 Point in Time (PIT) count, a one-time snapshot of homelessness in the state, showed an increase of at least 22,000 over the last two years, to 173,800 homeless individuals across the state. Nearly 70 percent of these individuals were unsheltered. While certain populations, including veterans, families, and unaccompanied youth, often face higher rates of homelessness compared to the population at large, the conditions and circumstances of homelessness can vary for each of these groups, as can the services and supports that are most useful to them.

State Efforts to Combat Homelessness Have Accelerated. Most of the work of combating homelessness is done at the local level - with cities, counties, and federally-identified Continuums of Care, a regional or local planning body that coordinates housing and services funding for homeless families and individuals. There are 44 continuums of care in California. Historically, the state's involvement has been fairly limited - both in terms of policy direction and in terms of budgetary resources.

However, this has changed in recent years with the increase in visibility and impacts of the state's homeless crisis. The state has created several funding programs to provide flexible financial aid to local jurisdictions for combating homelessness, including the Homeless Emergency Aid Program (HEAP) and Homeless Housing, Assistance, and Prevention Program (HHAPP, which replaced HEAP in 2019). The state has also created and funded programs aimed at aiding specific homeless populations, including populations in encampments, victims of domestic violence, and homeless youth. Lastly, the state has allocated funding to programs intended to either pay for housing for homeless individuals, such as the pandemic-driven Project Roomkey, or for the acquisition of new housing for homeless individuals, such as Project Homekey. There has also been an increasing recognition of the role social service programs play in combating homelessness, leading to an increase in the use of these funds for homeless populations. This variety of programs recognizes the reality that homelessness is a complex problem with many causes, and with a variety of solutions - though the continued housing affordability crisis remains a primary driver.

PREVIOUS BUDGET ACTIONS

Homeless Program Spending. The state has made major investments in combating homelessness over the last several years.

The 2019-20 budget included $650 million in one-time funding via HHAPP to cities, counties, and Continuums of Care (COCs) to help them combat homelessness, as well as a variety of investments in affordable housing.

The 2020-21 budget included $300 million in General Fund resources for HHAPP, as well as nearly $1.8 billion in federal funds for cities and counties to homelessness, public safety, and public health issues related to the COVID-19 pandemic.

The 2021-22 budget represented a large increase in the depth and breadth of the state's investments in combating homelessness. Specifically, the 2021-22 budget included $7.3 billion in 2021-22, and $11.9 billion through 2022-23, in investments to combat homelessness statewide. These include:

- $1.45 billion in 2021-22 and $1.3 billion in 2022-23 for additional investments through the Department of Housing and Community Development's (HCD) Project Homekey.
- $1 billion in 2021-22 for flexible aid to local governments through the Homeless Housing, Assistance, and Prevention Program (HHAPP) through the Business, Consumer Services, and Housing Agency.
- $5 million for Foster Youth Navigators through California Office of Emergency Services (CalOES).
- $8 million for the Transitional Housing Program through HCD.
- $2 million per year for additional staff resources at the Homeless Coordinating and Financing Council (HCFC).
- $5.6 million through HCFC for a comprehensive statewide homeless landscape assessment.
- $50.3 million through HCFC for Homeless Encampment Resolution Grants.
- $40 million through HCFC for a new Family Homelessness Challenge Grant program.
- $1.2 million over two years through CalOES for a Youth Emergency Telephone Network.
- $805 million over two years for the Department of Social Services (DSS) to administer a Community Care Expansion program.
- $190 million per year for two years for the CalWORKs Housing Support Program.
- $150 million per year for two years for the Housing and Disability Advocacy Program.
- $92.5 million per year for two years for the Bringing Families Home program at DSS.
- $92.5 million per year for two years for the Home Safe program at DSS.
- $150 million in 2021-22 to wind down Project Roomkey.
- $1.005 billion in 2021-22 through the Department of Health Care Services (DHCS) for the Behavioral Health Continuum Infrastructure program.
- $8.8 million in 2021-22 through DHCS for the Project for Assistance in the Transition from Homelessness.
- $25 million in 2021-222 for Supportive Services for Formerly Homeless Veterans, administered through California Department of Veterans Affairs (CalVet).
- $20 million in 2021-22 for the West LA Medical Center, administered through CalVet.
- $2.7 million per year for two years for Encampment Relocation and Homeless Services Liaisons at California Department of Transportation (Caltrans).
- $45.6 million in 2021-22 for hazardous material removal services at homeless encampments, administered through Caltrans.
- Funding for student hunger and homelessness throughout California universities, including:
    - $100 million per year for two years at California Community Colleges.
    - $15 million per year for two years in the California State University system.
    - $15 million per year for two years in the University of California system.
- Funding for student rapid rehousing through California universities, including:
    - $9 million per year for two years for the California Community Colleges.
    - $6.5 million per year for two years for the California State University system.
    - $3.5 million per year for two years for the University of California system.

The 2022-23 budget included $1.55 billion in 2022-23, and $1.5 billion in 2023-24, in investments to provide affordable housing and combat homelessness statewide, including but not limited to:

- $300 million in 2022-23 and $400 million in 2023-24 for Encampment Resolution grants, to help local governments with resolving critical encampments and transitioning individuals into permanent housing.
- $400 million over two years for Adaptive Reuse of non-residential structures and parcels for residential purposes.
- $425 million over two years for the Infill Infrastructure Grant Program.
- $350 million over two years for the CalHOME program.
- $250 million for the Housing Accelerator Program.
- $325 million over two years for the Multifamily Housing Program.

The budget also included an additional $1 billion in 2023-24 for the Homeless Housing, Assistance, and Prevention Program (HHAPP).

Implementation to Date. Funds appropriated in past years have either already been encumbered by departments and program recipients, or are in the process of being allocated.

$1 billion per year was provided for flexible aid to local governments via the HHAPP program in both the 2021-22 and 2022-23 budgets. Beginning in the 2021-22 program, local jurisdictions were required to submit a plan for the use of their share of the funding, as well as quantitative goals for their jurisdiction that would determine the jurisdictions eligibility for “bonus” funding in future years. For the 2021-22 allocation, local jurisdictions were required to submit their plans and goals by June 30, 2022. This was followed by a 90 day working period for the California Interagency Homelessness Council (Cal ICH) to work with potential grantees on their plans and goals. In aggregate the local plans targeted a two percent reduction in statewide homelessness over the three year funding timeline, though the targets for individual jurisdictions ranged from a 64 percent decrease to a 70 percent increase.

On November 2nd, Governor Newsom announced that the administration would not be releasing the allocated funds until jurisdictions had provided more information on their plans and targets. Following a meeting between the Governor and local elected officials, as well as more detailed conversations between jurisdictions and Cal ICH, the administration began releasing funding on November 21.

For the $1 billion in funding provided for HHAPP in the 2022-23 budget, local plans and goals were due on November 30, 2022. Funds should begin being released by April of 2023. Project Homekey funds, which fund capital acquisition and rehabilitation costs, are awarded on a rolling basis as projects apply for funding. An additional $1.3 billion was made available in 2022-23.

The various public health and health care funds that were made available in the 2021-22 and 2022-23 budgets are in the process of being implemented. The largest component, the Behavioral Health Continuum Infrastructure funding, functions in a similar manner to Project Homekey. The roughly $800 million in Community Care Pilot expansion funding administered by the Department of Social Services is also in-progress, and CDSS has begun working with local jurisdictions and health plans to implement the expansion.

GOVERNOR'S PROPOSAL

The January budget includes $3.4 billion General Fund in 2023-24 to maintain the state's efforts to address homelessness, as committed to in prior budgets. This includes:

- $400 million for a third round of encampment resolution grants.
- $1 billion for a fifth round of HHAP grants, conditional on proposed statutory changes requiring greater accountability in the planning and expenditure of these critical homelessness resources.
- The proposed budget also includes funding to allow up to six months of rent or temporary housing to eligible individuals experiencing homelessness or at risk of homelessness and maintains funding for the Behavioral Health Bridge Housing Program. For more information see the Health and Human Services section.

In addition, the Administration will seek to condition eligibility for any future homeless-related grants and competitive programs through the Business, Consumer Services and Housing Agency and the Health and Human Services Agency, on compliance with state housing law.

ISSUES FOR CONSIDERATION

Homelessness is a complex issue with many causes - and many solutions. As noted above, the California homeless population is made up of many distinct sub-populations. These sub-populations may differ significantly in their causes of homelessness and the services they need to secure and maintain housing. For example, a homeless family has significantly different needs than an individual who is homeless due to severe mental illness or substance abuse issues, and will require different interventions from service providers. Additionally, the same sub-population may have access to different services, depending on where in the state they are located. As such, the homelessness crisis should not be considered as a single monolithic crisis but as an amalgamation of numerous interconnected and long-running crises.

Because of this, the state cannot take a "one-size fits all" approach. A variety of approaches, and flexibility in those approaches, will be key to making progress. The breadth of the state's investments to date have spoken to this. However, the state cannot simply throw money at the problem and hope for progress. The Legislature may want to consider taking a deeper dive into the various programs that have been funded, to assess what has worked, what hasn't, and what gaps remain. This oversight may help inform future funding decisions.

More money has had a mixed impact. While the state's homeless population increased significantly between 2020 and 2022, the increase was not as large as some had feared. State and federal investments in housing and the social safety net during the COVID-19 pandemic prevented the massive increase in homelessness that some had forecasted. However, the population did increase significantly, and the state cannot claim progress because the homeless population only increased by 22,000.

That said, some of the state's past investments in homelessness have begun to bear fruit. California created more than 14,000 shelter beds between 2019 and 2021, federal data shows. And local organizations reported this year the number of people staying in emergency and longer-stay shelters ballooned by nearly the same amount, from 42,800 to 57,200 people — a 33 percent increase since 2019. Additionally, even with shelters decompressing their sites as a result of public health guidance, communities more than made up for those losses with Project Roomkey, Project Homekey, HHAP funding, and local efforts driving the number of sheltered people in California up by 18 percent since 2020. Still, the bulk of people experiencing homelessness in California remain unsheltered. This makes it clear that significant work remains to be done. The Legislature should consider what additional investments need to be made, or how to better target existing investments, to ensure progress continues to be made.

Many actors, requiring more coordination. As the work of combating homelessness mostly falls on local jurisdictions, there is a large number of actors involved. For example, HHAPP provides formula funding to the 13 largest cities in the state, all 58 counties, and the 44 Continuums of Care in the state. Other programs provide funding to other actors, including local nonprofits, housing developers, and healthcare providers. Because homelessness has a multitude of complex causes, and does not respect jurisdictional boundaries, actors must coordinate carefully to ensure their efforts are effective. The state has taken action to attempt to drive this coordination - for example by incentivizing HHAPP grantees to partner and submit joint applications. Despite these issues, coordination remains a major issue that has hampered efforts to combat homelessness to date. The Legislature may want to review existing state programs and identify opportunities to drive - or require - greater coordination in the delivery of services to combat homelessness.

SUBCOMMITTEE NO. 5

CORRECTIONS, PUBLIC SAFETY, THE JUDICIARY, LABOR AND TRANSPORTATION

Corrections, Public Safety, the Judiciary, Labor and Transportation

Firearm Violence

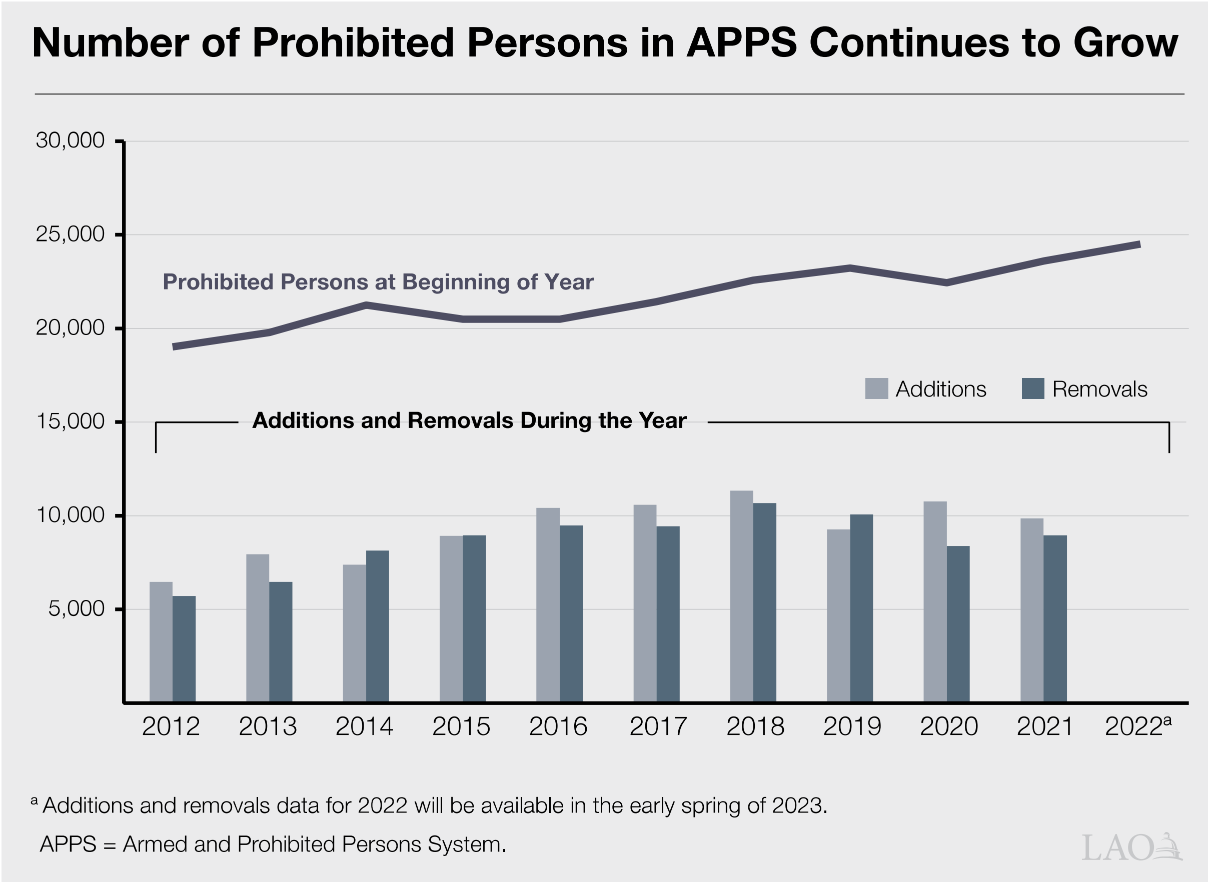
BACKGROUND

Firearm ownership. According to a 2018 survey from the Firearm Violence Research Center at UC Davis, around 4.2 million people in California own a total of 20 million firearms, including 9 million handguns[1]. Most California gun owners own one or two guns, but ten percent of gun owners own ten or more guns, accounting for roughly half of the guns in the state. California has a lower rate of gun ownership than the national average and has the ninth lowest state gun ownership rate[2]. California also has lower rates of firearm mortality than other states[3].

However, firearm ownership in California and the United States has increased since the beginning of the pandemic. Firearm sales in the United States surged by an estimated 64 percent between March and May of 2020[4]. Researchers at the Firearm Violence Research Center at UC Davis estimated that 110,000 new guns were purchased in California between March and July 2020. People with ready access to a firearm are almost twice as likely to be killed and three times more likely to commit suicide than those without such access[5].

Increase in Number of Armed and Prohibited Persons. The state's Armed and Prohibited Persons System (APPS) identifies individuals who legally purchased or registered firearms, but subsequently became prohibited from owning or possessing them. These "armed and prohibited persons" include those convicted of felonies and some misdemeanors, found by a court to be a danger to themselves or others due to mental illness, or have a restraining order against them. From 2008 to 2021, the number of such persons more than doubled—from 10,266 to 23,598 individuals. In 2021, 9,848 individuals were added to the APPS list, but only 8,937 were removed. Of those, 60 percent were removed because they were no longer prohibited, 36 percent were removed due to firearm relinquishment, and four percent were deceased. Individuals are generally removed from this list when law enforcement reports they no longer possess their firearms (such as if a police department seized them).

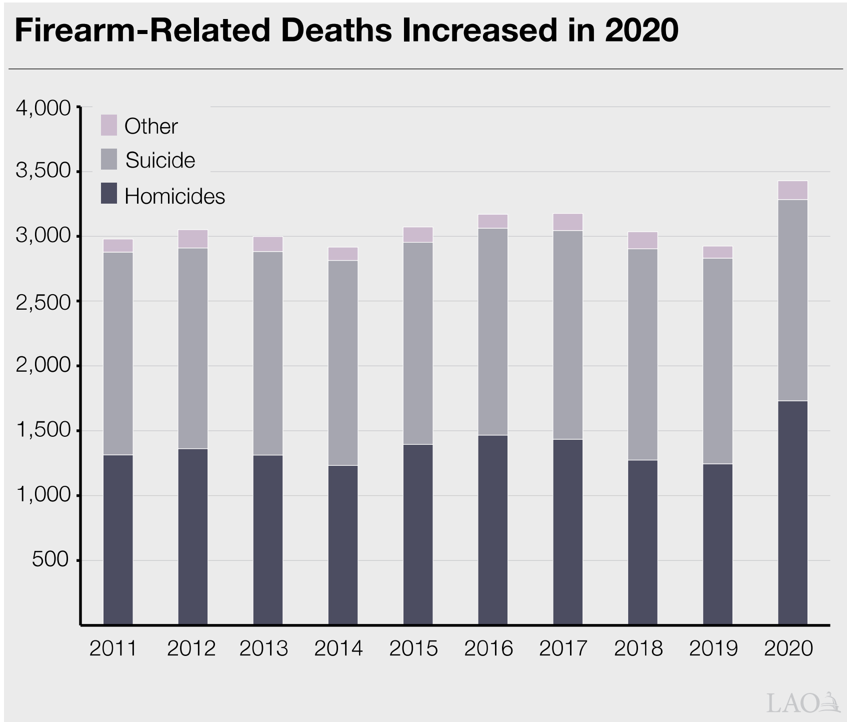
[1] https://health.ucdavis.edu/vprp/UCFC/Fact_Sheets/CSaWSBrief_InjPrev_Kravitz-Wirtz.pdf
[2] https://journalistsresource.org/health/gun-buybacks-what-the-research-says/
[3] https://www.cdc.gov/nchs/pressroom/sosmap/firearm_mortality/firearm.htm; https://www.ppic.org/blog/mass-shootings-in-california/;
[4] https://www.medrxiv.org/content/10.1101/2020.10.03.20206367v1.full.pdf; https://www.latimes.com/science/story/2020-10-17/about-110-000-californians-have-bought-a-gun-since-the-coronavirus-arrived-study-says
[5] https://www.nejm.org/doi/full/10.1056/NEJMsa1916744; https://www.latimes.com/science/la-sci-guns-20140121-story.html



Source: LAO

Increased Role of Firearms in Crime and in Firearm Deaths. California experienced a concerning 31 percent increase in homicides and a 9 percent increase in aggravated assaults between 2019 and 2020. In a July 2021 analysis of violent crime in large California counties, PPIC found that the share of crimes involving guns increased for homicides, aggravated assaults, and robberies. These increases mirror nationwide trends. Preliminary statistics from 2021 indicate that these may be increasing again from 2020 to 2021. However, the 2020 homicide rate is 62 percent lower than its peak in 1980, and the 2020 aggravated assault rate is 55 percent lower than its peak in 1992.

As shown below, total firearm-related deaths increased from 2,925 deaths in 2019 to 3,428 deaths in 2020—an increase of 503 deaths (or 17 percent). Of this amount, homicide firearm deaths increased from 1,246 deaths in 2019 to 1,731 deaths in 2020—an increase of 485 deaths (or 39 percent). In contrast, while there are slight fluctuations over the past decade, suicide firearm deaths were roughly the same in 2019 (1,586 deaths) and 2020 (1,552 deaths).



Source: LAO

Court-Ordered Firearm Prohibitions. Individuals can be prohibited from possessing firearms due to criminal convictions or certain civil orders.

In criminal cases, courts are required to inform individuals upon conviction of a felony or certain misdemeanors that they must: (1) turn over their firearms to local law enforcement, (2) sell the firearms to a licensed firearm dealer, or (3) give the firearms to a licensed firearm dealer for storage. Courts are also required to assign probation officers to report on what offenders have done with their firearms. Probation officers are required to report to DOJ if any firearms are relinquished to ensure APPS is updated.

Courts can also order firearm prohibitions unrelated to criminal convictions, such as through a domestic violence restraining order (DVRO) or a gun violence restraining order (GVRO), although the enforcement process is less standardized than on the criminal side. In addition, most Californians are not aware of red flag laws and their ability to petition the court for a GVRO[6]. There were about 1400 GVROs issued in 34 counties in 2021.

Regardless of the source, it can be difficult to enforce relinquishment orders[7]. This is particularly true if individuals possess firearms that are unregistered and unknown to the state, such as ghost guns, which are built at home from precursor parts, or older guns that were purchased before certain tracking laws took effect.

[6] https://jamanetwork.com/journals/jama-health-forum/fullarticle/2780806;
https://www.nytimes.com/2023/01/29/us/california-gun-laws-mass-shootings.html
[7] https://calmatters.org/justice/2021/07/california-gun-law-failing/?series=outgunned

PREVIOUS BUDGET ACTIONS

DOJ Bureau of Firearms (BOF) Overall Funding. The BOF is responsible for most firearm regulation and enforcement and is largely supported by fees related to firearm or ammunition ownership, sales, and licensing (see below). The BOF was entirely supported by these fees until 2019-20.

Summary of Funding for Department of Justice Bureau of Firearms
(In Millions)

	2018-19	2019-20	2020-21	2021-22	2022-23
General Fund	—	$18.6	$17.2	$28.9[a]	$22.0
Dealers Record of Sale Special Account	$20.0	14.5	14.6	15.8	20.6
Firearms Safety and Enforcement Special Fund	10.3	7.4	8.5	9.1	11.3
Ammunition Safety and Enforcement Special Fund	2.2	1.1	0.8	1.4	1.0
Firearm Safety Account	0.3	0.3	0.3	0.3	0.4
Reimbursements	—	—	—	—	0.3
Totals	**$32.8**	**$41.9**	**$41.5**	**$55.5**	**$55.7**

[a] Includes one-time $10 million for grants to county sheriff offices for the removal of firearms and ammunition from prohibited persons.

Source: LAO

APPS Enforcement. The Department of Justice (DOJ) has received $17.5 million annually since 2019-20 for APPS enforcement. The 2021-22 budget also included $10.3 million one-time for competitive grants to county sheriffs to assist in relinquishment.

Data Tracking. The DOJ has 17 firearms-related data systems. These systems support the education, regulation, and enforcement actions regarding the manufacturing, sale, ownership, safety training, and transfer of firearms, parts, and ammunitions. The DOJ has begun planning to update and consolidate its firearm data systems into two systems: one external and publicly accessible and one internal DOJ-only. The DOJ received $2.4 million in 2020-21 and $5.2 million in 2022-23 for this effort.

California Violence Intervention and Prevention (CalVIP). The 2021-22 budget included $200 million across three years for CalVIP at the Board of State and Community Corrections (BSCC), in addition to a $9 million ongoing allocation. This program provides grants aimed at violence reduction (in general, not limited to guns), such as hospital-based violence intervention programs and other community efforts to address violence. CalVIP provides competitive grants to cities and community-based organizations to support services such as community education, diversion programs, outreach to at-risk transitional age youth, and violence reduction models.

UC Firearm Violence Research Center. The 2022-23 budget included $2 million ongoing for the UC Firearm Violence Research Center, in addition to $1 million ongoing provided in the previous year. This center provides the state with data and evidence-based policy recommendations related to firearm violence.

GVROs. The 2021-22 budget included $11 million one-time for the Office of Emergency Services (Cal OES) to facilitate education and training efforts related to gun violence restraining orders. This funding included[8]:

[8] https://www.gov.ca.gov/2022/07/14/california-announces-new-details-on-efforts-to-promote-nation-leading-red-flag-laws/

- $5 million for Cal OES to conduct a public awareness campaign, which was awarded to the Hope and Heal Fund for statewide outreach to communities most at risk of gun violence including education efforts, research, and multilingual outreach.

- $5 million for grants to domestic violence groups to conduct outreach, which was awarded to the California Partnership to End Domestic Violence in grants to local community-based domestic violence groups for community outreach.

- $1 million to the City of San Diego for the city attorney to provide temporary gun violence restraining order trainings to entities statewide. San Diego had previously received small allocations ($50,000 in 2018-19; $250,000 in 2019-20) for this purpose[9].

Gun Buyback Program. The 2022-23 budget included $25 million General Fund one-time for BSCC to administer matching grants to local law enforcement agencies for gun buyback programs, providing safe-disposal opportunities to remove guns from the streets and raising awareness of gun violence.

Firearm Relinquishment Grant. The 2022-23 budget included $40 million General Fund one-time available over three years for the Judicial Council to support court-ordered firearm relinquishment efforts. The funding will help ensure the consistent and safe removal of firearms from individuals who become prohibited from owning or possessing firearms and ammunition pursuant to court order, focused on civil court orders including DVROs and GVROs. As of February 8, 2023, $18.5 million had been awarded to seven counties (Los Angeles, Modoc, San Diego, Santa Clara, San Francisco, San Mateo and Ventura), and Judicial Council was in the process of a second award cycle for the remaining funds.

Office of Gun Violence Prevention. On September 20, 2022, the state established the Office of Gun Violence Prevention (OGVP) within the Department of Justice[10]. The stated mission of the OGVP is to "reduce and prevent gun violence, firearm injury, and related trauma", but the specific activities of the office are unclear.

GOVERNOR'S PROPOSAL

The Governor's budget proposes the following resources at DOJ related to firearms:

- **Implementation of Legislation.** $5.7 million in 2023-24 reducing to $2.7 million in 2025-26 and ongoing to implement firearm-related legislation, including SB 1384 (Min), Chapter 995, Statutes of 2022, AB 2552 (McCarty), Chapter 696, Statutes of 2022, AB 1621 (Gipson), Chapter 76, Statutes of 2022, AB 1594 (Ting), Chapter 98, Statutes of 2022, AB 2156 (Wicks), Chapter 142, Statutes of 2022, and AB 228 (Rodriguez), Chapter 138, Statutes of 2022.

- **Firearm Compliance Support Section.** $342,000 in 2023-24 and $307,000 in 2024-25 and ongoing for the Compliance Support Section within BOF. This funding will help with firearm tracking, Carry Concealed Weapon licensing, and other firearm-related workloads.

- **Microstamping and Law Enforcement Transfer.** $1.5 million in 2023-24 reducing to $1.1 million ongoing for firearm identification number and microstamp tracking.

[9] https://www.sandiego.gov/sites/default/files/nr190628a.pdf
[10] https://oag.ca.gov/ogvp

ISSUES FOR CONSIDERATION

Multiple avenues to address gun violence. There are many approaches the state can take to address gun violence: addressing root causes through community-based prevention and access to mental health care, additional prohibitions on certain individuals from possessing firearms or certain types of guns or parts from being sold, public awareness efforts around gun safety and red flag laws, gun buyback programs or taxes that incentivize individuals to reduce gun ownership rates, and many more. There is limited data on the effectiveness of these various approaches. The state has taken a multi-pronged approach, providing some resources to a variety of these efforts.

Statewide coordination. These efforts are spread across multiple departments (DOJ, BSCC, Cal OES, Judicial Council, local law enforcement), and the Legislature should ensure that these programs are working together efficiently. OGVP in DOJ is likely intended to help coordinate these efforts, but it is not clear what role that office will take, and there has been no official budget action on it.

Juvenile Justice Realignment

BACKGROUND

The 2020-21 budget included a plan to close the Division of Juvenile Justice (DJJ) at the California Department of Corrections and Rehabilitation (CDCR). While most juvenile offenders were already housed or supervised locally, counties could choose to send juveniles who had committed violent, serious, or sex offenses to state facilities operated by DJJ. There were typically about 650 youth statewide in DJJ facilities. The closure of DJJ means that the juvenile justice system is now completely realigned to the county level.

Youth housed in DJJ facilities largely did not have access to the types of rehabilitative programming and community connections that are necessary for a humane and successful juvenile justice system[1]. First, the location of DJJ facilities means that many youth offenders were moved far from home, making it difficult to maintain ties with their families and communities. Second, DJJ facilities were notorious for violence and had high recidivism rates[2]. Overall, the facilities operated more like adult prisons than as spaces where young offenders could develop and prepare for adult life outside the criminal justice system. In addition, due to decades of declining juvenile crime rates, both DJJ and county juvenile facilities are operating under capacity, so there is opportunity for consolidation.

Realignment is intended to move juvenile justice in California toward a rehabilitative, trauma-informed, and developmentally appropriate system. The plans for realignment are outlined in SB 823 (Committee on Budget and Fiscal Review), Chapter 337, Statutes of 2020 and SB 92 (Committee on Budget and Fiscal Review), Chapter 18, Statutes of 2021. Per the realignment timeline, DJJ stopped accepting most transfers from counties on July 1, 2021, and will completely shut down by June 30, 2023. As a result, counties will be responsible for caring for youth with more serious needs and who have committed more serious offenses. To support counties in this transition, the realignment plan included the creation of the Office of Youth and Community Restoration (OYCR) to provide statewide assistance, coordination, and oversight. This new office is under the Health and Human Services Agency (HHS) rather than under CDCR or Board of State and Community Corrections (BSCC), reflecting the shift away from corrections towards services and treatment. The plan also outlined a process for counties to establish Secure Youth Treatment Facilities (SYTFs) for high-level offenders who would have previously been housed at DJJ.

However, counties are concerned about their ability to care for the youth who would have gone to DJJ. While there is plenty of physical capacity at the county level, the facilities are not necessarily well-suited to provide the types of programming envisioned in the realignment. In addition, the population of youth at the county levels is changing; while the population is decreasing, the youth being served have more complicated cases, longer sentences, and high security and programming needs. For example, offering appropriate educational opportunities is challenging for counties, as they increasingly need to provide educational programming beyond high school for older youth. Providing a range of placements, including both SYTF and step-down facilities, and a variety of specialized programming is also challenging given the small numbers of youth in each county. Multiple counties may coordinate to create

[1] http://www.cjcj.org/uploads/cjcj/documents/unmet_promises_continued_violence_and_neglect_in_california_division_of_juvenile_justice.pdf, https://jjie.org/2020/05/19/californias-closure-of-djj-is-victory-with-significant-challenges/

[2] https://www.latimes.com/california/story/2021-02-15/california-youth-prisons-closing-criminal-justice-reform, https://www.mercurynews.com/2007/02/27/report-finds-cya-prison-still-fails-inmates/, https://www.latimes.com/archives/la-xpm-1999-dec-24-mn-47028-story.html

regional programs, but this may result in youth being sent to programs far from their homes, rather than staying local and building community ties as was intended with realignment.

PREVIOUS BUDGET ACTIONS

Facilities. The 2020-21 budget included $9.6 million General Fund for planning and facilities, and the gradual implementation of block grants to counties at a rate of $225,000 per realigned youth per year. This will amount to $209 million statewide per year after full realignment. This funding is currently administered by BSCC but will transition to OYCR by 2025.

The 2022-23 budget included $100 million one-time General Fund for counties to invest in their juvenile facilities, in anticipation of the closure of DJJ. The funding could be used to support modifications, renovations, repairs, and maintenance for existing county-operated juvenile facilities, with a focus on providing therapeutic, youth-centered, trauma-informed, and developmentally appropriate rehabilitative programming for youth. This was not a competitive grant, and every county received some funding.

The state has also provided resources to counties for juvenile justice several times throughout the years, corresponding with changes in alignment and totaling over $200 million annually. These include:

- *Youth Offender Block Grants*. This provided counties with $117,000 per ward for lower-level offenders that were realigned to the county level in 2007, per SB 81 (Committee on Budget and Fiscal Review), Chapter 175, Statutes of 2007.

- *Local Youthful Offender Rehabilitative Facility Construction.* SB 81 also provided counties with lease-revenue funding to construct or renovate juvenile facilities. A total of $300 million was allocated.

- *Juvenile Re-entry Grants*. The state provided funding to the counties after juvenile parolees released from DJJ were realigned to the county level as part of the 2010-11 budget.

OYCR Funding. The 2021-22 budget included $27.6 million in 2021-22 and $7 million ongoing for the Office of Youth and Community Restoration. The 2021-22 funding included $20 million for technical assistance, disseminating best practices, and grants. The 2022-23 budget included an additional $10 million ongoing for the office, and language detailing the duties and responsibilities of the Ombudsperson within OYCR.

GOVERNOR'S PROPOSAL

DJJ Population Projections. The Governor's budget estimates an average daily population of 465 youth in 2022-23, with 360 youth remaining at the time of DJJ's closure, based on historical discharge rates. As of January 27, 2023, there were 399 youth at DJJ. Of those youth, 172 are potentially eligible for discharge before the closure date. The remaining youth, who are not eligible for discharge or are not discharged, will be returned to their counties over the next few months.

DJJ Closure. The Governor's budget includes savings of $95.6 million ($93.2 million General Fund and $2.4 million other funds) and 603.1 positions in 2023-24, $98.9 million ($96.1 million General Fund and $2.8 million other funds) and 631.4 positions in 2024-25, and $95.8 million ($93 million General Fund and $2.8 million other funds) in 2025-26 and ongoing to reflect the closure of DJJ in June 2023.

Retention of some DJJ-affiliated resources. The Governor's budget proposes to retain $29.1 million in 2023-24 and $26.6 million in 2024-25 and ongoing that was previously designated for DJJ-workload. The proposed budget includes the following:

1. 124 temporary positions to ramp down DJJ operations and facilitate the transition of youth to county care, with these positions terminating throughout the fiscal year.

2. $4.7 million ongoing and 25 permanent positions to maintain DJJ facilities in warm shutdown, manage ongoing DJJ-specific activities and workload, such as processing workers' compensation claims, and continue management of an automotive facility.

3. $6.9 million ongoing and 27.6 permanent positions to continue operations of Pine Grove Youth Conservation Camp.

4. $15 million annually to cover open workers' compensation costs.

ISSUES FOR CONSIDERATION

Capacity of Counties to Deliver a Wide Range of Programming for a Small Number of Youth. The needs of justice-involved youth are diverse, with individuals at different educational levels, desiring different vocational programs, and requiring different levels of security. For example, a county may only have one or a few girls in their custody, and may not be able to offer any gender-specific programming for that population. They may only have one secure track youth at the college level, requiring nearly individual teaching. It will be a challenge for the state to balance the desire to consolidate programs across counties with the original goals of realignment, namely bringing youth closer to home. The state should consider how to support the counties as they implement realignment.

Oversight of County Programs. OYCR was established to provide technical assistance and statewide coordination over the juvenile justice system. However, OYCR has not had enough time to hire staff and play the guiding role that the Legislature envisioned in planning realignment. For example, OYCR could help counties develop specialized programming for youth and help facilitate inter-county agreements and coordination.

In addition, oversight of juvenile facilities is provided by BSCC, but new regulations around secure track placements are still in progress. BSCC is required to provide guidelines by July 2023, but recently indicated that they may need to submit emergency regulations and would need longer to develop permanent regulations.

The combination of the realignment timeline and the fact that neither of these entities have significant investigatory power means that the state may not have the ability to provide effective oversight of realignment. There is no equivalent to the Inspector General for youth facilities (although individual counties may have additional local oversight mechanisms). The state also has very little data about the use of secure track commitments.

As a result, it has largely been left to the county probation offices to design their secure track programs and figure out how to accommodate the realigned youth. This has been extremely challenging for the probation departments and risks a situation where the juvenile justice system functions vastly different in different areas of the state ("justice by geography").

Recruitment and Retention of Probation Officers. Like many areas of law enforcement, probation departments have reported difficulties recruiting and retaining staff, particularly to work in the juvenile facilities. As the responsibilities of county probation departments shift, the Legislature should consider how to support their staff needs, including training and professional development, to ensure the best possible outcomes for the youth in their care.

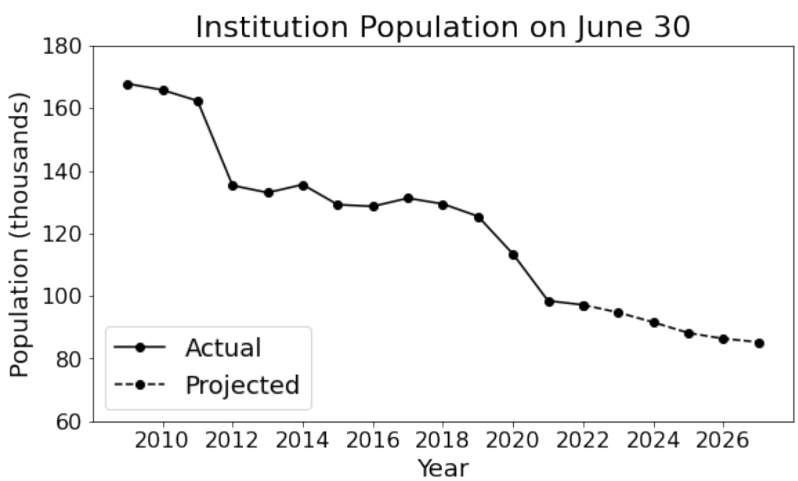
Prison Population and Infrastructure

BACKGROUND

The California Department of Corrections and Rehabilitation (CDCR) operates 33 state-owned prisons, one leased prison, and a handful of other facilities such as conservation camps and reentry centers. Together these facilities house roughly one hundred thousand incarcerated individuals. However, the prison population has been steadily declining since 2007, and sharply declined during the COVID-19 pandemic. In response, the state phased out the use of out-of-state placements and private prisons, and has begun closing state-owned facilities. Many state-owned prisons have significant maintenance and capital outlay costs, putting additional pressure on the state to stop maintaining extra facilities if they are not needed.

Declining Prison Population

The prison population is undergoing significant changes in response to litigation, policy reforms, the COVID-19 pandemic, and other factors. As of September 14, 2022, the state's adult prison population was 91,638. This represents a nearly 50 percent reduction from the peak population of 173,479 in 2006.



Data from CDCR

Prison Overcrowding and the Three-Judge Panel. In October 2006, at the height of prison overcrowding, CDCR's population was 173,479, with prisons operating at more than 200 percent design capacity[1]. In January 2010, a special three-judge court ordered California to reduce its prison population to 137.5 percent of design capacity within two years[2]. The ruling was part of a consolidated proceeding that included the plaintiffs of two major class action lawsuits related to access to healthcare: *Coleman v. Newsom*, which was filed in 1990 on behalf of all California state prisoners with serious mental illness, and *Plata v. Newsom*, which was filed in 2001 on behalf of all prisoners. Both of these lawsuits are still active today, and have resulted in significant federal oversight of CDCR's healthcare system. The

[1] https://www.cdcr.ca.gov/news/2019/06/25/california-department-of-corrections-and-rehabilitation-exits-last-out-of-state-prison/

[2] https://rbgg.com/news/coleman-plata-supreme-court/

plaintiffs of those two cases believed that a remedy for unconstitutional medical and mental health care could not be achieved without reducing overcrowding. They had moved their respective District Courts to convene a three-judge court empowered by the Prison Litigation Reform Act of 1995 to order reductions in the prison population. This decision was upheld by the Supreme Court of the United States in 2011.

In response, the state took steps to expand capacity and reduce the population, and reached the 137.5 percent milestone in 2015. The state's response included:

- *Expanding Capacity*. CDCR expanded capacity in their health care facilities and utilized out-of-state, private, and local facilities. However, as the population declined, the state ended its use of these placements.

- *Public Safety Realignment.* In 2011, the responsibility for some offenders, primarily newly-convicted, low-level offenders without current or prior serious or violent offenses, was shifted from the state to counties, meaning those individuals served their sentences in county jails rather than state prisons.

- *Policy Reforms*. The state expanded credit-earning opportunities, created a parole consideration process for nonviolent, determinately-sentenced incarcerated persons who have served the full term of their primary offense in state prison, expanded medical and elderly parole, and made other significant sentencing reforms to reduce the amount of time individuals spend in state prison. Some of these were court-ordered changes and were enacted as part of Proposition 57 in 2016.

COVID-19 Impact. The COVID-19 pandemic led to a sharp decrease in the prison population over the past few years. This decline has been attributed to halted intake from county jails and expedited release and community supervision programs for individuals with non-violent offenses. CDCR also released people deemed at high risk medically for COVID-19 on a case-by-case basis.

The Administration projected a short-term increase in population as the effects of the pandemic subsided, and a long-term decline consistent with the prevailing trend pre-pandemic. However, as intake resumed and the other programs ended, the population has not returned to expected levels. This may reflect changes in crime trends during the pandemic, more time served at the county level than anticipated, or other unknown factors.

Current Population Levels, Projections, and Capacity. As of September 14, 2022, the state's adult prison population was 91,638, occupying 111.8 percent of design capacity[3]. This represents a decline of roughly 30,000 individuals compared to pre-pandemic levels. The population is projected to continue to decline, reaching 85,297 in 2027.

CDCR currently has a buffer of over 20,000 beds below the 137.5 percent limit. Prior to the pandemic, CDCR typically maintained a roughly 2,000 bed buffer to account for fluctuations in the population and needs. While the capacity is decreasing due to prison closures (described in the next section), it is unlikely to decrease the bed buffer due to the concurrent population declines.

[3] https://www.cdcr.ca.gov/3-judge-court-update/

Other Changes to the Population. Although the overall prison population is declining, the population is aging, leading to an increase in incarcerated persons with disabilities and accessibility issues. As of August 2021, over 11,000 people in CDCR's facilities required disability accommodations. CDCR also has reported increasing numbers of individuals requiring treatment for substance use disorder and the Hepatitis C Virus, as well as other physical, mental, and behavioral health needs.

Infrastructure

Aging Facilities and Delayed Maintenance. The average age of CDCR's correctional facility portfolio exceeds 45 years, with approximately 35 percent of the portfolio exceeding 50 years of age. Historically, the resources necessary to maintain, repair, and replace aging equipment and structures have not been available, leading to a backlog of infrastructure needs and deteriorating buildings. CDCR releases a Master Plan Annual Report (MPAR) each year summarizing any anticipated infrastructure projects over $5 million needed over the next ten years. The 2021 MPAR, released in February 2022, identified 45 future projects at 25 institutions with an approximate value of $1.8 billion ($1.1 billion capital outlay and $700 million Deferred Maintenance). Major ongoing capital outlay projects include improvements to healthcare spaces, roof replacements, accessibility improvements, general maintenance funding, expanding programming spaces, and improving energy efficiency. Many of these improvements are court-ordered and/or critical safety improvements.

Matching Facility Portfolio to Changing Population. As the population has declined in the wake of the Three-Judge Panel ruling, the state has correspondingly reduced capacity. Initially, the state did this by discontinuing contract placements, including in out-of-state and private prisons. The state is now in the position to close state-owned and -operated facilities, saving hundreds of millions to billions of dollars in operation, maintenance, repair and other infrastructure costs. The state closed one prison in 2021 and has announced the closure of three more over the next few years. In addition, the state has tried to downsize prisons by closing yards, and has announced six more yard closures in 2023. However, continued declines in the population, particularly the lack of a post-COVID rebound in population, may warrant additional closures[4].

As described above, capacity is not the only factor affecting facility needs, and CDCR must ensure that it is still able to meet the needs of its broad and changing population without maintaining extra facilities. Many institutions serve specialized functions or sectors of CDCR's population, including women's prisons, institutions that focus on health care or contain specialized mental health facilities or programs, different security levels and housing types, accessible facilities, etc.

*Site Selection**.*** The process of choosing prisons for closure has been difficult and controversial. There are many factors that could be considered in choosing which prisons to close, and they may weigh more or less heavily for different stakeholders.

CDCR indicated that they would consider the following factors in a potential closure or consolidation decision:

- Facility condition and needed improvements.
- Continuity of services for the incarcerated population.

[4] https://lao.ca.gov/Publications/Report/4304; https://lao.ca.gov/Publications/Report/4186; https://www.curbprisonspending.org/wp-content/uploads/2021/04/Peoples-Plan-for-Prison-Closure.pdf

- Ability to recruit and retain employees, particularly specialized medical professionals.
- Annual operating costs.
- Need for secure housing, medical and mental health care, and accessibility to programming.

Other factors that could be considered include the location of the institution and its effect on visitation, engagement with the community and volunteer organizations, and recruitment and retention of custody and medical staff; the existence of rehabilitative programming and other opportunities such as college degree programs; environmental concerns including valley fever or asbestos or other hazards present in the facility or in the water supply; the ability of the local economy to absorb the closure; and many more. For example, the rapid spread of COVID-19 within CDCR raised questions about the optimal type of housing, and how CDCR can prepare its facilities for future pandemics. Given the number of aspects to consider, it is likely that all of CDCR's institutions have at least some factors in their favor and some against.

PREVIOUS BUDGET ACTIONS

The state closed Dueul Vocational Institution (DVI) in Tracy, California on September 30, 2021. DVI was chosen for multiple reasons, including the cost of operation, estimated at $182 million per year. CDCR also announced plans to close a second prison, the California Correctional Center (CCC) in Susanville, which will close by the end of June 2023. CCC was originally slated to close in 2022 but was delayed a year due to litigation around the selection process and the environmental impact of the closure[5].

On December 6, 2022, CDCR announced the closure of two more prisons: California City Correctional Facility (CAC; the leased facility) in March 2024 and Chuckawalla Valley State Prison (CVSP) in March 2025[6]. They also announced the closure of six yards at facilities across the state over the next year. According to CDCR, "The two prisons were chosen pursuant to criteria set forth by the Legislature in Penal Code Section 2067. CDCR's leadership carefully evaluated the options for prison closures, pursuant to the 2022-23 budget and Penal Code requirements, and took into account several factors including cost to operate, impact of closure on the surrounding communities and the workforce; housing needs for all populations; long-term investments in state-owned and operated correctional facilities; public safety and rehabilitation; and durability of the state's solution to prison overcrowding." The state is estimated to save $135 million per year by closing CAC[7], and $150 million per year by closing CVSP.

GOVERNOR'S PROPOSAL

The proposed budget reflects savings from the following facility closures and deactivations:

- DVI - $150.3 million in 2022-23 and ongoing.
- CCC - $43.6 million in 2022-23, $131.5 million in 23-24, and $131.9 million in 2024-25 and ongoing.
- CAC - $33.2 million in 2023-24 and $135.3 million ongoing.

[5] https://www.latimes.com/california/story/2022-09-09/la-me-rural-california-prison-closure-lawsuit
[6] https://www.cdcr.ca.gov/news/2022/12/06/california-department-of-corrections-and-rehabilitation-announces-the-planned-closure-of-chuckaw/alla-valley-state-prison/
[7] https://esd.dof.ca.gov/Documents/bcp/2324/FY2324_ORG5225_BCP6515.pdf

- Yard closures - $150 million ongoing.
- Unspecified future savings from the closure of CVSP in March 2025, likely a small amount in 2024-25 and $125-150 million in 2025-26 and ongoing.

ISSUES FOR CONSIDERATION

Capital Investments. The Legislature should consider new capital outlay and infrastructure investments at prisons carefully given the continued decline in the prison population. In the past, the state made significant infrastructure investments at prisons that were shortly thereafter slated for closure, and it is not clear how CDCR plans to match its infrastructure portfolio to the current needs and size of the prison population.

The 2022-23 budget included $1.1 million in funding for the working plans stage of a project to build two new groundwater wells at CVSP, now slated for closure. The wells would supply potable water to both CVSP and the nearby Ironwood State Prison (ISP). However, it is not clear if the demand from ISP alone is enough to require new wells, or if the project should be adjusted.

In addition, the state was in the process of installing new technology, such as surveillance cameras and cellular interdiction systems, and it is not clear whether those timelines are being considered alongside closure plans. For example, the state was in the process of installing new surveillance cameras at CVSP.

Leased vs. Owned Prisons. California City Correctional Facility is the only active prison that is not owned by the state, although it is still operated by CDCR. The state is not responsible for capital outlay, and it has lower than average operating costs, so the state may save less money by closing it. In addition, it can easily be reactivated. On the other hand, the lease is coming to an end, and it make sense to maintain state-owned facilities rather than to renew the lease.

What Does Capacity Mean and What is a Reasonable Buffer? CDCR operates within the court-ordered capacity limit of 137.5 percent of design capacity. However, the rapid spread of COVID-19 within prisons showed that operating at an even lower percent of design capacity may be desirable in certain circumstances. Many prisons also struggle to find enough space for educational, vocational, and other types of programming. On the other hand, design capacity is a technical term, and it is not clear how well that reflects operational capacity, or what population or density would be comfortably housed in any given institution.

In addition to these questions about the optimal capacity, it is not clear how much buffer is needed between the maximum capacity and the population size. The Legislature should consider whether returning to roughly 2,000 people shy of the court-ordered maximum population should be the goal, or if there is another target that balances the need to accommodate short-term fluctuations, the operational capacities of the institutions, and the costs of maintaining extra space.

Whole Prison vs. Individual Yard Closures. In addition to the four whole prison closures, CDCR has announced individual yard closures. While closing a yard can save the state money, there are many prison-wide costs that will only be saved by closing entire institutions. Yards can also be relatively easily reactivated, and the state will continue to maintain the yards even if they are deactivated. The Legislature may want to request additional information from CDCR about their decision making process when considering yards and prisons for closure.

Local Economic Impacts and Future Plans for the Facilities. Closing a prison can have a significant impact on local economies. In December, the Administration announced additional economic supports for the town of Susanville, where the next prison to close is located[8]. They have indicated that similar support will be forthcoming for towns and cities that face future closures[9], but the Legislature should consider whether more investment is needed.

It is also not clear what the state will do with the physical facilities after the closures. CDCR indicated that DVI will become surplus property and can be sold, but that CCC and CVSP are interconnected with neighboring institutions and would be difficult to separate. In addition, yards that are closed cannot be individually parceled off and sold. In these cases, CDCR plans to maintain them in a "warm shutdown" mode indefinitely. A similar situation is developing with the properties that housed the Division of Juvenile Justice, which is closing this year. The Legislature should consider whether there are alternate uses for these properties.

New York State, which has closed more than twenty prisons over the last fifteen years, provided economic redevelopment grants and recently formed a Prison Redevelopment Commission to discuss similar questions[10].

[8] https://www.labor.ca.gov/2022/12/01/california-supports-workers-and-fosters-bottom-up-economic-resilience-in-lassen-county/

[9] https://www.cdcr.ca.gov/news/2022/12/06/california-department-of-corrections-and-rehabilitation-announces-the-planned-closure-of-chuckawalla-valley-state-prison/

[10] https://esd.ny.gov/2014-economic-transformation-program; https://esd.ny.gov/prison-redevelopment-commission

Supplemental Paid Sick Leave
COVID-19

BACKGROUND

COVID-19 Pandemic. On March 4, 2020, Governor Gavin Newsom declared a state of emergency in response to the COVID-19 pandemic, triggering a disaster response effort unlike any other in California's history. The surge of COVID-19 cases and increased community transmission negatively affected workplace safety, employee safety, and employer outcomes. Workers lacked protection to isolate or quarantine, endangering themselves, co-workers, and families without sufficient policy action. Declaring the state of emergency paved the way for the expenditure of an unprecedented amount of disaster-related funding and policy creation by federal, state and local governments to mitigate the spread of COVID-19 in the community and workplace.

In response to the COVID-19 pandemic and in an effort to slow the spread of COVID-19, California took significant action to assist workers and employers across multiple industries. These actions included, but were not limited to; grant programs, leveraging federal appropriations, public awareness media campaigns, community engagement, and worker and employer trainings. Notably, the federal and state government took policy action to protect workers in the form of a dedicated supplemental paid sick leave program (SPSL) attributed to COVID-19. California's COVID-19 SPSL program had multiple iterations with different requirements for hiring entities and changes for leave hours granted due to lessons learned over the course of the COVID-19 pandemic.

The ongoing health crisis enters its fourth year but with significant changes from the prior three years. The 2022 iteration of the COVID-19 SPSL program expired on December 31, 2022, and California's State of Emergency expires on February 28, 2023. Now, the state faces decisions about whether it should extend this program provide relief to employers who provided COVID-19 SPSL in 2022, and integrate policies from this program into the state's general non-COVID-19 paid sick leave program.

PREVIOUS BUDGET ACTIONS

Previous Federal Law

The Families First Coronavirus Response Act (FFCRA). The FFCRA provided up to two weeks of paid sick leave to all employees of employers of 500 employees or less for specified reasons related to COVID-19 with specified rate of pay. The FFCRA authorized a health care or emergency responder employer to exclude certain health care providers and emergency responders from these provisions. Additionally, the FFCRA authorized the Secretary of Labor to issue regulations to exclude certain health care providers and emergency responders from this, including allowing an employer of these workers to opt out. The FFCRA sunsets on December 31, 2020. The FFCRA provided payroll tax credits to qualified employers who provided paid sick leave through December 31, 2020. The Coronavirus Response and Relief Supplemental Appropriations Act extended the FFCRA tax credit through March 31, 2021.

The American Rescue Plan (ARP) extended the FFCRA tax credit from April 1, 2021 through September 30, 2021. The ARP reset the two weeks of FFCRA tax credit on April 1, 2021, and allowed supplemental paid sick leave to be taken for COVID-19 vaccine related reasons and seeking or awaiting diagnostic test results for COVID-19.

Previous State Laws

State Executive Order. Executive Order N-51-20 required a hiring entity with 500 employees or more to provide an eligible food sector worker supplemental paid sick leave related to COVID-19, as specified. The executive order also permitted employees working in any food facility to wash their hands every 30 minutes and additionally if needed.

COVID-19 Food Sector Supplemental Paid Sick Leave (SPSL, 2020). AB 1867 (Committee on Budget), Chapter 45, Statutes of 2020, established the COVID-19 food sector SPSL which required up to two weeks of COVID-19 SPSL for food sector workers at hiring entities with 500 or more workers. The COVID-19 food sector SPSL was retroactive to April 16, 2020 and sunset on December 31, 2020. The bill also required the Labor Commissioner to enforce the bill provisions as if its COVID-19 food sector SPSL provisions were paid sick days, paid sick leave, or sick leave under provisions of existing law and authorized a food sector worker to file a complaint with the Labor Commissioner.

COVID-19 SPSL Extension (2020). AB 1867 established the COVID-19 SPSL, which required a hiring entity with 500 or more employees and those employed by a health care provider or emergency responder to provide up to two weeks of supplemental paid sick leave. This requirement sunset on December 31, 2020. AB 1867 also required the Labor Commissioner to enforce the COVID-19 SPSL as paid sick days, paid sick leave or sick leave under existing law.

COVID-19 SPSL Extension (2021). SB 95 (Committee on Budget and Fiscal Review), Chapter 13, Statutes of 2021, reestablished the COVID-19 supplemental sick leave for employers, as defined under existing law, who have more than 25 employees. The bill specified that employees were entitled to up to 80 hours of supplemental sick leave due to quarantine or isolation related to COVID-19, attending an appointment or experiencing symptoms related to COVID-19 vaccine, experiencing COVID-19 symptoms, caring for a family member who is subject to quarantine, or caring for a child whose school or place of care is closed due to COVID-19. The bill provided $100,000 from the General Fund to the Labor Commissioner for resources to implement and enforce the provisions of the bill. This supplemental leave was available through September 30, 2021.

COVID-19 SPSL Extension (2022). The Budget Act of 2022 included two trailer bills related to COVID-19 Supplemental Paid Sick Leave. The first bill is the early action trailer bill SB 114 (Committee on Budget and Fiscal Review), Chapter 4, Statutes of 2022. SB 114 re-established COVID-19 supplemental paid sick leave provisions that were part of the 2021 Budget Act early action but expired on September 30, 2021. SB 114 required employers with more than 25 employees to provide up to 40 hours for workers in the public and private sector as specified. The law also entitles a covered employee, in addition to the 40 hours of COVID-19 supplemental paid sick leave, to take up to 40 more hours of COVID-19 supplemental paid sick leave if the covered employee, or a family member for whom the covered employee is providing care, tests positive for COVID-19. This law applied retroactively to January 1, 2022, and remained in effect until September 30, 2022. Finally, SB 114 appropriated $100,000 from the General Fund to the Labor Commissioner to implement the provisions related to the COVID-19 supplemental paid sick leave.

The second trailer bill, AB 152 (Committee on Budget), Chapter 736, Statutes of 2022 extended the expiration date for the provisions of 2022 COVID-19 Supplemental Paid Sick Leave program contained in SB 114 from September 30, 2022 to December 31, 2022. AB 152 also established the California Small Business and Nonprofit COVID-19 Supplemental Paid Sick Leave Relief Grant Program within California Office of Small Business Advocate (CalOSBA) to assist qualified small businesses and nonprofits, with between 26 to 49 employees, for incurring costs for COVID-19 supplemental paid sick leave pursuant to Sections 248.6 and 248.7 of the Labor Code, through administration of grants. The budget included $250 million for small businesses and non-profits to offset costs associated with Supplemental Paid Sick Leave program and authorized DOF to increase the appropriation for the grants by an additional $70 million if General Fund savings are achieved due to increases in federal funds.

GOVERNOR'S PROPOSAL

The Governor's Budget includes no new related investments or changes in this program area.

ISSUES FOR CONSIDERATION

What happens after the 2022 SPSL program and the Governor's State of Emergency ends? California's COVID-19 SPSL program expired on December 31, 2022 and Governor Gavin Newsom announced that the COVID-19 State of Emergency ends on February 28, 2023. Given these recent developments, the Legislature may wish to consider renewing the program or returning to its existing non-COVID-19 paid sick leave program. Either choice carries significant implications in 2023 for workers and employers.

There are three paths that the state could take: 1) The state could adopt new measures into the state's permanent paid sick leave structure, foregoing any further extension of COVID-19 SPSL but rather integrating policies and lessons from this COVID-19 SPSL program in perpetuity. 2) The state could take no further action, moving forward with its current paid sick leave program and refraining from a further extension to the COVID-19 SPSL program. 3) The state could extend its COVID-19 SPSL program for a third consecutive year. Before weighing the implications of each path, the next section is a refresher on the most recent changes to the state's non-COVID-19 paid sick leave law.

Healthy Workplaces, Healthy Families Act of 2014. The state's COVID-19 SPSL laws are intertwined with the larger, ongoing debate about the state's non-COVID-19 paid sick leave policy. AB 1522 (Gonzalez), Chapter, Statutes of 2014, enacted the Healthy Workplaces, Healthy Families Act of 2014. The law states that an employee who, on or after July 1, 2015, works in California for 30 or more days within a year from the beginning of employment, is entitled to paid sick leave. Employees, including part-time and temporary employees, will earn at least one hour of paid leave for every 30 hours worked.

An employee may use accrued paid sick days beginning on the 90th day of employment, may request paid sick days in writing or verbally, cannot be required to find a replacement as a condition for using paid sick days and can take paid leave for employee's own or a family member for the diagnosis, care or treatment of an existing health condition or preventive care or for specified purposes for an employee who is a victim of domestic violence, sexual assault or stalking.

Accrual begins on the first day of employment or July 1, 2015, whichever is later. An employer may limit the amount of paid sick leave an employee can use in one year to 24 hours or three days. Accrued paid sick leave may be carried over to the next year, but it may be capped at 48 hours or six days.

Factors to Consider When Deciding the Next Steps. The absence of an extension exposes employee to the possibility of using their general paid sick leave hours to cover for COVID-19 related illness. The state's COVID-19 SPSL program therefore enabled workers to have two separate groups of paid leave depending on the circumstance. This was particularly important for workers in "blue-collar" sectors—food-service and hospitality for example—that have inequitable access to non-COVID-19 paid leave compared to counterparts in private sectors.

There are health and productivity benefits from providing sick days. Studies have found that providing sick days to workers saves money for businesses by reducing turnover, reducing the spread of illness in the workplace and improving workers' morale and productivity. Moreover, generally, the Department of Public Health and Centers for Disease Control generally encourage workers to avoid close contact with people who are sick and stay home from work and school if a worker feels ill. Without COVID-19 SPSL, most California workers will only have three paid sick days per calendar year, not nearly enough to isolate or quarantine. Cost is a significant factor in the ultimate path chosen.

If the state chooses to extend the COVID-19 SPSL program, then there will be significant cost pressures on employers. Although up to $320 million was included in the 2022 Budget Act for a grant program to offset employer costs for implementing paid sick leave for COVID-19, stakeholders estimated costs that varied between $250- $700 million—an amount that could also reflect costs in 2023. This wide range reflects the uncertainty about the trajectory of COVID-19 cases and illnesses. If cases and the severity of cases are at lower levels, statewide costs could be toward the lower end of the range. If cases and severity are higher, costs could be toward the higher end of the range.

The costs of implementation is a difficult consideration as the state begins to face recession-like conditions. In its November 2022 economic outlook for California, the LAO assessed that the Legislature would face a budget problem of $24 billion in 2023-24. The budget problem is mainly attributable to lower revenue estimates, which are lower than budget act projections from 2021-22 through 2023-24 by $41 billion. Revenue losses are typically offset by lower spending in certain areas, which could be aided by pauses or delays in recent appropriations that have not yet been distributed. The Legislature should consider the costs, health benefits, productivity outcomes, employee wellness, and employer constraints while is decides the future of paid sick leave for Californians.

Overall, the Legislature may wish to consider whether it should provide some form of COVID-19 SPSL in 2023, integrate policies from this program into the state's general non-COVID-19 paid sick leave program, and appropriate funding to relieve employers of its costs to implement any 2023 extension of the COVID-19 SPSL program.

Transportation Infrastructure

BACKGROUND

California Transportation System. California has a robust and expansive transportation system that helps to move people and goods around and through the state. This system is made up of multiple interlinking components, including state highways, local streets and roads, public transit networks (including intercity rail lines), freight rail lines, airports, and water ports. This system serves many millions of travelers per year, and costs many billions of dollars to operate and maintain.

California's mass transportation infrastructure consists of approximately 22,000 transit vehicles serving more than 700 transit passenger stations. The state's ten largest transit systems based on ridership accounted for 81 percent of all transit trips in 2016. However, over the past decade, annual transit trips have fluctuated. Transit ridership declined—likely due to the recession—from 2008 through 2010 and then increased afterward for the next four years. Since 2014 the number of passenger trips has declined by more than 100 million, or 7.7 percent. This decline is somewhat similar to trends across the nation, particularly in many of the nation's largest cities such as New York, Washington, and Chicago. The decline accelerated during the COVID-19 pandemic that began in 2020, and ridership levels remain well below their 2019 levels on most transit systems.

Unprecedented state and federal funds. The federal government typically provides roughly $1.5 billion per year to transit operators in formula funds, with additional funding available via competitive grants. The 2021 Infrastructure Investment and Jobs Act (IIJA) increased transit funding to California by roughly $400 million per year. All told, the IIJA will increase federal transportation funding to California by roughly $14 billion over five years.

Additionally, as discussed below, the 2022-23 budget included significant investments in transit, active transportation, and other transportation capital projects. This includes $3.6 billion in one-time funding for transit capital projects in 2021-22, plus $2 billion per year in formula funds for capital projects in both 2023-24 and 2024-25.

PREVIOUS BUDGET ACTIONS

2022-23 Infrastructure Package. The 2022-23 budget included a $14.8 billion multiyear transportation package, including funding for transit, freight, active transportation, climate adaptation, and other purposes across the state. This included:

- $3.65 billion for transit investments through the California State Transportation Agency (CalSTA) Transit and Intercity Rail Capital Program as follows:
    - $1.5 billion for Northern California.
    - $1.8 billion for Southern California.
    - $300 million for adapting certain rail lines to sea level rise.
    - Sets aside a minimum of $900 million in each regional allocation for priority projects for which additional state funding would help maintain or secure additional federal or local funds.

  - Includes up to $150 million for the development of future projects that could eventually compete for additional funding.
  - $2 billion allocated by formula per year for 2023-24 and 2024-25. Allocates a minimum of $300,000 to each eligible entity and the remaining funds distributed by population to each eligible entity.

- Includes $350 million through CalSTA and Caltrans for high-priority grade-separation projects.

- Includes $1.2 billion over two years through CalSTA for freight-related infrastructure at and around the state's ports.

- Includes $1 billion in the current year for the Active Transportation Program and $150 million at Caltrans for a pilot program for planning and delivery of projects that will inform the future conversion of underutilized highways into multimodal corridors that serve existing communities.

- Includes $200 million at the California Transportation Commission in funding for local climate adaptation planning and projects and $200 million in federal funds at Caltrans for adaptation projects on the state highway system.

- Includes $100 million in the out years for the Clean California program.

- Appropriates the remaining $4.2 billion in Proposition 1A funds for the High Speed Rail Authority – and provides that $2.2 billion will be available when specified conditions are met by the Authority.

Implementation to Date. The funding described above will be implemented on the following schedule:

Transit Capital: The California State Transportation Agency (CalSTA) completed the guidelines process for the $3.6 billion in 2022 transit capital funds in November 2022. Final applications for projects are due by February 10, 2023, with award announcements anticipated by April 2023.

Grade Separations: The $350 million provided in the 2022 budget will mostly be awarded within the framework and timing followed by the transit capital funds, described above. However, a portion of these funds may be awarded to projects seeking the port and freight funding, described below.

Ports and Freight Infrastructure: CalSTA completed the guidelines process for the $1.2 billion in port and freight funding in October 2022. Project applications are due January 13, 2023, with awards anticipated in March 2023.

Active Transportation Program. The $1 billion in additional funding provided in the 2022 budget was folded into Cycle 6 of the existing ATP. The CTC completed the guideline process in the summer of 2022, and provided funding recommendations in November 2022. Final funding decisions were adopted by the CTC in their December meeting.

Climate Adaptation. The CTC is currently in the process of developing program guidelines for the $200 million for the local climate adaptation program. CTC aims to finalize program guidelines by January 2023, with project applications due by March 2023 and adoption of a program of projects by June 2023.

Caltrans is likely to adopt the $200 million in federal funding for the state adaptation program as part of the State Highway Operations and Protection Program (SHOPP). The 2022 SHOPP was adopted in March 2022, so Caltrans will be programming these funds to additional projects as federal funds are made available.

Clean California. Caltrans is currently in the process of updating guidelines for Cycle 2 of the Clean California Local Grant Program. The department aims to issue a new call for projects in January 2023, with an application deadline in April 2023. The department anticipates making awards in August or September of 2023.

The funding for state beautification projects is programmed through an annual Caltrans process for Caltrans-specific projects.

High Speed Rail. The California High Speed Rail Authority was authorized to use half of the remaining $4.2 billion in bond funds upon passage of the 2022 budget. However, approval for the remaining funds is dependent upon the hiring of an Inspector General and the completion of a Business Plan Update or Project Update Report that meets certain criteria. The Joint Legislative Audit Committee is currently working on identifying candidates for the Inspector General position, and the Authority is required to deliver a Project Update Report by March of 2023.

GOVERNOR'S PROPOSAL

The January budget includes $2.7 billion in General Fund reductions, partially offset by an additional $500 million from state transportation funds, across various transportation programs. If there is sufficient General Fund in January 2024, $2 billion of these reductions will be restored. This lowers the funding for the transportation package provided in the 2022 Budget Act from $13.8 billion to $11.6 billion. Key changes to the funding include:

- **Transit Intercity Rail Capital Program:** A reduction of planned funding in 2023 and 2024 from $2 billion each year to $1 billion in 2023-24 and $500 million in each of 2024-25 and 2025-26. These funds are set to be allocated proportionally, by region, based on population. This maintains approximately $5.7 billion (74 percent) of the original $7.7 billion planned additional funds for local transit capital infrastructure projects. If there is sufficient General Fund in January 2024, this reduction will be restored.

- **Active Transportation Program:** A reduction of $500 million General Fund, offset by $300 million from the State Highway Account, for a net reduction of $200 million. This maintains approximately $850 million (81 percent) of the original $1.05 billion of additional funds for the program.

- **Climate Adaptation Program:** A reduction of $200 million General Fund offset by $200 million from the State Highway Account for the program.

- **Safety Grade Separations:** A delay of $350 million of funding originally planned to be available in 2023-24, which will instead be made available in 2025-26.

- **Ports and Goods Movement.** The budget includes a delay of $600 million General Fund, originally planned to be available in 2023-24, to be spread out over three years at $200 million annually from 2023-24 to 2025-26.

ISSUES FOR CONSIDERATION

Leveraging federal and local funds. As noted above, the IIJA creates several significant new discretionary funding programs that will be administered as competitive grants. These programs will provide additional funding for major transportation projects, including intercity rail capital projects, significant bridge replacement, climate adaptation work, or other statewide priorities. Most federal grants require some form of matching funding from state or local grant recipients. Significant state investments in these priority areas, if allocated strategically, could allow the state to more effectively compete for additional federal funds, further increasing the funding available for priority investments.

The Legislature may want to provide oversight of recently-enacted transportation capital funds to ensure that the state is maximizing the amount of federal funding flowing to priority projects across the state.

Investments are significant but not a cure-all. The significant state investment, combined with the large influx of federal funds, allows for historically large investments into transit and other transportation infrastructure across the state. However, transit agencies have identified billions of dollars in new projects to expand service and increase ridership, and a portion of the state's bridges are in need of expensive replacement. Additionally, the state has identified billions worth of potential grade separation and climate adaptation projects. The major investments made in 2022-23, combined with the multiyear influx of federal funds from the IIJA, are an important down payment on these needs, but the Legislature should be open to other opportunities to continue to make these types of investments when budget conditions allow.

Challenges in transit operations. As stated above, transit ridership fell off dramatically during the depths of the COVID-19 pandemic, falling by as much as 80 or 90 percent in some places. Because many transit agencies rely on fares to recover at least a portion of their operating costs, this decline in ridership has created significant financial pressures on transit agencies across the state. Additionally, as transit operators were heavily used by essential workers during the pandemic, transit agencies implemented a variety of stringent health and sanitation measures to protect workers and riders. This increased costs while fare recovery remained low.

To help address this, the American Rescue Plan Act of 2021 included more than $30 billion in funding for transit agencies across the country, including $26.6 billion in formula funding for transit operators. Much of this funding was used to cover operating costs for transit agencies. Most agencies anticipate fully spending down this support in the next several years.

Despite the state's continued recovery from the pandemic transit ridership has remained low, and is likely to do so into the foreseeable future, with most transit agencies planning for ridership in the near term to remain below pre-pandemic peaks. This has created a situation in which transit agencies costs have remained high, revenues are likely to remain low, and temporary operating support is beginning to expire. As such, many transit operators are facing a "fiscal cliff" in the coming years.

Given the fiscal difficulties transit operators are facing in the coming years, and the importance of the transit system in meeting the state's climate goals, the Legislature may want to consider ways to support transit operators. However, the state's current system of support for transit agencies is largely not aligned with climate goals, focused instead on specific metrics of operational efficiency. When considering additional support for transit operators, the Legislature may want to consider whether changes to existing policy are in order.

APPENDIX

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW

BUDGET SCHEDULE

2023-24 BUDGET BILL

Tuesday	January 10	Governor submitted State Budget to the Legislature.
Tuesday	January 10	Committee released *Summary of Governor's Proposed 2023-24 Budget.*
Friday	January 13	Legislative Analyst released *Overview of the Governor's Budget.*
Wednesday	January 18	Committee conducted overview hearing of the Governor's Proposed 2023-24 Budget.
Monday	February 6	Full Budget Committee hearing – Review of Housing and Homelessness Programs in California.
Monday	February 13	Full Budget Committee hearing – California's Early Care and Education Landscape.
Wednesday	February 22	Full Budget Committee hearing – California Advancing and Innovating Medi-Cal: Implementation, Evaluation, and Future Challanges.
Thursday	March 2	Budget Subcommittees begin (meet every Thursday)
Thursday	March 30 April 10	Spring Recess begins.
Friday	May 12 (est.)	Legislature reconvenes from Spring Recess.
Monday	May 15 – June 7	Governor delivers May Revision to the Legislature.
		Subcommittees close down, Conference Committee convenes,
		Full Budget Committee takes action on final budget.
Thursday	June 15	Legislature passes budget to meet constitutional deadline.
Friday	June 30	Governor signs 2023-24 Budget.

Senate Committee on Budget and Fiscal Review

Staff Assignments

Overall Budget	Elisa Wynne Scott Ogus
Corrections and Public Safety	Dr. Nora Brackbill
Education	
K-12 Education	Yong Salas
Higher Education	Dr. Christopher Francis
Early Childhood Education	Elizabeth Schmitt
Energy	Eunice Roh
Environmental Protection	Joanne Roy
Housing and Community Development	Elisa Wynne
Judiciary	Dr. Nora Brackbill
Labor and Employee Compensation	Dr. Christopher Frances
General and Local Government	Diego Emilio J. Lopez
Health	Scott Ogus
Human Services	Elizabeth Schmitt
Resources	Joanne Roy
Taxes and Revenues	Elisa Wynne
State Administration	Diego Emilio J. Lopez
Transportation	Eunice Roh
Veterans Affairs and Cannabis	Diego Emilio J. Lopez
Committee Secretary	Sandy Perez
Committee Assistant	Samuel Lanchester

CALIFORNIA STATE BUDGET HISTORY

Fiscal Year	Bill and Chapter No.	Date Passed and Chaptered		Total Budget ($ Billions)
1965-66	AB 500/757	6-18	6-30	4.0
1966-67[a]	SB 1XX/2	6-30	6-30	4.7
1967-68	AB 303/500	6-29	6-30	5.0
1968-69	SB 240/430	6-28	6-29	5.7
1969-70	SB 255/355	7-3	7-3	6.3
1970-71	AB 525/303	7-4	7-4	6.6
1971-72[b]	SB 207/266	7-2	7-3	6.7
1972-73[c]	SB 50/156	6-15	6-22	7.4
1973-74	AB 110/129	6-28	6-30	9.3
1974-75	SB 1525/375	6-28	6-30	10.3
1975-76	SB 199/176	6-26	7-1	11.5
1976-77	SB 1410/320	7-1	7-2	12.6
1977-78	AB 184/219	6-24	6-30	14.0
1978-79	AB 2190/359	7-5	7-6	18.8
1979-80	SB 190/259	7-12	7-13	21.5
1980-81	AB 2020/510	7-16	7-16	24.5
1981-82c	SB 110/99	6-15	6-28	25.0
1982-83	AB 21/326	6-30	6-30	25.3
1983-84	SB 123/324	7-19	7-21	26.8
1984-85c	AB 2313/258	6-15	6-27	31.0
1985-86c	SB 150/111	6-13	6-28	35.0
1986-87c	AB 3217/186	6-12	6-25	38.1
1987-88	SB 152/135	7-1	7-7	40.5
1988-89	AB 224/313	6-30	7-8	44.6
1989-90	SB 165/93	6-29	7-7	48.6
1990-91	SB 899/467	7-28	7-31	51.4
1991-92	AB 222/118	6-20/7-4	7-16	55.7
1992-93	AB 979/587	8-29	9-2	57.0
1993-94	SB 80/55	6-22	6-30	52.1
1994-95	SB 2120/139	7-4	7-8	57.5
1995-96	AB 903/303	8-2	8-3	56.8
1996-97	SB 1393/162	7-8	7-15	61.5
1997-98	AB 107/282	8-11	8/18	67.2
1998-99	AB 1656/324	8-11	8-21	71.9
1999-00	SB 160/50	6/16	6/29	81.3
2000-01	AB 1740/52	6/22	6/30	99.4
2001-02	SB 739/106	7/21	7/26	103.3
2002-03	AB 425/379	9/1	9/5	98.9
2003-04	AB 1765/157	7/29	8/2	98.9
2004-05	SB 1113/208	7/29	7/31	105.3
2005-06	SB 77/38	7/7	7/11	117.3
2006-07	AB 1801/47	6/27	6/30	131.4
2007-08	SB 77/171	8/21	8/24	146.5
2008-09	AB 1781/268 & AB 88/269	9/16	9/23	144.5
2009-10	SBx3 1/1 & ABx4 1/1	2/20 – 7/23	2/19 - 7/28	119.2
2010-11	SB 870/712	10/7	10/8	125.3
2011-12	SB 87/ 33	6/28	6/30	129.5
2012-13c	AB 1464/21 & AB 1497/29	6/15	6/27	142.4
2013-14c	AB 110/20	6/14	7/1	145.3
2014-15c	SB 852/25	6/15	6/20	156.4
2015-16c	AB 93/10, SB 97/11, SB 101/321	6/15, 6/19 9/11	6/19, 6/24 and 9/22	167.6
2016-17c	SB 826/23, AB 1622/44, AB 1623/318, AB 1613/370	6/15, 6/30, 8/24, /31	6/27, 7/1, 9/13, and 9/14	170.9
2017-18c	AB 97/14, AB 120/22, SB 108/54, AB 98/12 SB 107/53	6/15,6/15, 6/26, 6/15, 6/26	6/21, 6/27 and 7/10	183.3
2018-19c	SB 840/29, SB 841/31, SB 856/30 SB 862/449	6/14, 6/14, 6/25, 8/30	6/27, 6/27, 6/27 9/17	201.4

[a] *1966 Second Extraordinary Session.*
[b] *First year budget was to be enacted by June 15.*
[c] *June 15 constitutional deadline met.*

CALIFORNIA STATE BUDGET HISTORY

Fiscal Year	Bill and Chapter No.	Date Passed and Chaptered		Total Budget ($ Billions)
2019-20c	**AB 74/23, AB 72/1, AB 91/39, AB 110/80, SB 106/55, SB 109/363**	**6/15, 2/13, 6/20, 7/11, 9/13 6/24,**	**6/27, 2/13, 7/1, 7/12, 7/1, 9/27**	**214.8**
2020-21c	**SB 74/6, AB 89/7, SB 115/40**	**6/15, 6/26, 8/31**	**6/29, 6/29, 9/9**	**202.1**
2021-22c	**AB 85/4, AB 128/21, AB 161/43, AB 164/84, SB 85/14, SB 89/1, SB 129/69, SB 170/240**	**2/22, 6/14, 7/8, 7/15, 4/12, 1/28, 6/28, 9/9**	**2/23, 6/28, 7/9, 7/16, 4/13, 1/29, 7/12, 9/23,**	**262.6**
2022-23c	**SB 154/43, AB 178/45, AB 179/249, SB 115/2, SB 119/9, AB 180/44**	**6/15, 6/29, 8/31, 2/7, 3/14, 6/29**	**6/27, 6/30, 9/6, 2/9, 3/14, 6/30**	**307.9**