



**GOVERNOR'S PROPOSED BUDGET FOR 2024-25  
JANUARY 10, 2024**

**TO:** CSAC Board of Directors  
County Administrative Officers

**FROM:** Graham Knaus, CSAC Chief Executive Officer  
Jacqueline Wong-Hernandez, CSAC Chief Policy Officer

**RE:** **Governor's Budget Proposal for 2024-25**

Governor Newsom unveiled his \$291.5 billion 2024-25 state budget proposal but spent considerable energy on a different number: \$37.9 billion. After much anticipation and hand-wringing over the size of the state's fiscal condition, the other shoe has dropped. The Administration is tagging the projected budget shortfall at \$37.9 billion and has a variety of budget-balancing proposals to address that shortfall. While an uncomfortable number, it is \$30 billion less than the \$68 billion deficit estimated by the Legislative Analyst's Office and widely reported in the media.

The size of a deficit (or surplus) always depends on the assumptions one makes about revenues and expenditures. Compared to the Legislative Analyst's Office projections, this budget assumes lower expenditures (largely within the Administration's control) and higher revenues (much of which is not in the Administration's direct control). For example, the proposal relies on reducing K-12 Proposition 98 education funding previously approved in 2022-23 and 2023-24, which would require agreement and action from the Legislature. That agreement is uncertain, and alternative reduction proposals are likely to be considered.

The Governor's Budget proposes to draw upon \$13.1 billion from the state's reserves to address part of the \$37.9 billion deficit. The remaining \$24.8 billion gap is bridged with a "kitchen sink" approach of deferrals, borrowing, claw backs, and fund shifts. As the dust from the 2024-25 Governor's Budget press conference settles, many minds turn to consider the year ahead and the tough decisions the Legislature and Governor will need to make. In an uncertain budget, your county voice is more important than ever. Counties are on the frontlines of meeting the needs of California's communities, and the state will need county expertise and ground truth in making those difficult decisions.

As required by the State Constitution, the budget chair in each house of the California Legislature (Assembly Member Jesse Gabriel, Chair, Assembly Committee on Budget and Senator Nancy Skinner, Chair, Senate Budget and Fiscal Review Committee) introduced the Governor's proposed budget bill. For the Governor's Budget proposal for 2024-25, those bills are [Assembly Bill \(AB\) 1812](#) and [Senate Bill \(SB\) 917](#).

The following pages provide statewide revenue and expenditure summary charts as well as

specific budget proposals by policy area. For more detail on these and other items of importance, see the following policy sections below or contact [CSAC legislative staff](#).

***If you would like to receive the Budget Action Bulletin electronically, please e-mail Michaela Schunk, CSAC Legislative Coordinator at [mschunk@counties.org](mailto:mschunk@counties.org).***

**2024-25 Total State Expenditures by Agency**  
(\$ in Millions)

	<b>General Fund</b>	<b>Special Funds</b>	<b>Bond Funds</b>	<b>Total</b>
<b>Legislative, Judicial, Executive</b>	\$7,514	\$5,414	\$262	\$13,191
<b>Business, Consumer Services &amp; Housing</b>	654	1,315	538	2,507
<b>Transportation</b>	726	16,448	86	17,260
<b>Natural Resources</b>	5,468	2,599	466	8,533
<b>Environmental Protection</b>	715	4,111	11	4,837
<b>Health and Human Services</b>	73,588	38,006	-	111,594
<b>Corrections and Rehabilitation</b>	14,314	3,803	-	18,117
<b>K-12 Education</b>	76,177	115	16	76,308
<b>Higher Education</b>	22,126	188	610	22,924
<b>Labor and Workforce Development</b>	771	1,147	-	1,918
<b>Government Operations</b>	3,239	385	-	3,624
<b>General Government</b>				
<i>Non-Agency Departments</i>	1,553	1,980	2	3,534
<i>Tax Relief/Local Government</i>	579	3,546	-	4,126
<i>Statewide Expenditures</i>	1,295	1,720	3	3,018
<b>TOTAL</b>	<b>\$208,718</b>	<b>\$80,777</b>	<b>\$1,994</b>	<b>\$291,490</b>

**2024-25 Revenue Sources**  
(\$ in Millions)

<b>Revenue Source</b>	<b>General Fund</b>	<b>Special Funds</b>	<b>Total</b>	<b>Change from 2022-23</b>
<b>Personal Income Tax</b>	\$114,826	\$2,596	\$117,422	\$1,262
<b>Sales and Use Tax</b>	35,148	15,993	51,141	917
<b>Corporation Tax</b>	38,336	-	38,336	1,423
<b>Highway Users Taxes</b>	-	9,309	9,309	164
<b>Insurance Tax</b>	4,021	-	4,021	127
<b>Alcoholic Beverage Taxes and Fees</b>	433	-	433	6
<b>Cigarette Tax</b>	42	1,394	1,436	-41
<b>Motor Vehicle Fees</b>	46	12,185	12,231	380
<b>Other</b>	9,821	35,776	45,597	-350
Subtotal	<b>\$202,673</b>	<b>\$77,253</b>	<b>\$279,926</b>	<b>\$3,888</b>
<b>Transfer from the Budget Stabilization/ Rainy Day Fund</b>	12,026	-12,026		
<b>TOTAL</b>	<b>\$214,699</b>	<b>\$65,227</b>	<b>\$279,926</b>	<b>\$3,888</b>

## HEALTH AND HUMAN SERVICES

The Governor's Budget proposal includes \$253.4 billion (\$73.9 billion General Fund – over 35% of the state's overall General Fund budget expenditures) for all health and human services programs in 2024-25. Significant investments have been made in health and human services programs in the last few years, with a focus on the state's most vulnerable communities, to expand access to care and benefits; advance health care affordability and the Master Plan for Aging; and strengthen the behavioral health continuum, health and human services workforce, and public health infrastructure.

While the Governor's Budget proposal largely maintains funding for critical investments made in recent years, it does include delays, deferrals, and reductions that impact county programs that are detailed in the following sections. In addition, the Governor's Budget proposes to withdraw \$900 million from the Safety Net Reserve to fund existing benefits and services within Medi-Cal and CalWORKs.

### Realignment

The Governor's Budget proposal includes revenue assumptions for 1991 Realignment and 2011 Realignment. The projections for 2023-24 and 2024-25 indicate continued revenue growth for both Realignments. The Realignment revenue tables, including specific projections by subaccount, are included in the appendix at the end of this Budget Action Bulletin.

## HEALTH

### Proposed Health and Behavioral Health Budget Solutions

To address the projected budget shortfall, in addition to the Safety Net Reserve withdrawal noted above, the Governor's Budget includes the following proposals around health and behavioral health:

- *Behavioral Health Continuum Infrastructure Program (BHCIP) Delay* – The Governor's Budget proposes to delay of \$140.4 million General Fund from 2024-25 to 2025-26, for a total of \$380.7 million for the final round (Round 6) of BHCIP grants in 2025-26. The Governor's Budget maintains \$300 million General Fund in 2023-24 and \$239.6 million General Fund in 2024-25 to support BHCIP.
- *Behavioral Health Bridge Housing (BHBH) Funding Shift and Delay* – The Governor's Budget proposes to shift \$265 million from the Mental Health Services Fund (MHSF) appropriated in the 2023 Budget Act to General Fund in 2024-25 to support the BHBH Program due to lower projected Mental Health Services Act (MHSA) revenues. In addition, the Governor's Budget delays \$235 million General Fund originally planned for 2024-25 to 2025-26. The Governor's Budget maintains the total \$1.5 billion in funding for this program to address the immediate housing and treatment needs of individuals experiencing unsheltered homelessness who have serious behavioral health conditions.
- *Clinic Workforce Stabilization Payment Reversion* – The Governor's Budget proposes to revert \$14.9 million in unexpended General Fund from the one-time \$70 million General

Fund included in the 2022 Budget Act for the Clinic Workforce Stabilization and Retention Payment Program that was planned to be transferred to the Department of Health Care Access and Information for workforce development programs.

- *Healthcare Workforce Investment Delays* – The Governor’s Budget proposes to delay \$140.1 million General Fund to 2025-26 for the nursing and social work initiatives administered by the Department of Health Care Access and Information. Given lower projected MHSF revenue, the Governor’s Budget also proposes to delay \$189.4 million MHSF to 2025-26 for the social work initiative, addiction psychiatry fellowships, university and college grants for behavioral health professionals, expanding Master of Social Work slots, and the local psychiatry behavioral health program. The Governor’s Budget maintains \$974.4 million (General Fund and MHSF) for these initiatives; however, the funding will be distributed later than initially planned.

### **Community Assistance, Recovery and Empowerment (CARE) Act**

The Governor’s Budget proposal continues to support statewide implementation of the CARE Act. General Fund support for state and county activities consists of \$116.3 million in 2023-24, \$217.5 million in 2024-25, \$284 million in 2025-26, and nearly \$292 million in 2026-27 and annually thereafter.

Compared to the 2023 Budget Act, the Governor’s Budget proposal reflects decreases of \$12.7 million General Fund in 2023-24, \$16.5 million General Fund in 2024-25, and \$6.6 million General Fund in 2025-26, and an increase of \$1.1 million in 2026-27 and annually thereafter primarily to account for revised assumptions based on applying cash lags for county behavioral health departments’ claiming, partially offset by a minor augmentation to support added notification requirements for county behavioral health departments due to the enactment of SB 35 (Chapter 283, Statutes of 2023).

### **California Advancing and Innovating Medi-Cal (CalAIM)**

The Governor’s Budget proposal maintains the multi-billion-dollar commitment to continue efforts to transform the healthcare delivery system through CalAIM, to strengthen the Medi-Cal program by offering Californians more equitable, coordinated, and person-centered care.

#### *Behavioral Health Community-Based Continuum Demonstration Renamed “BH-CONNECT”*

The Governor’s Budget maintains \$7.6 billion (\$350.4 million General Fund, \$87.5 million Mental Health Services Fund, \$2.6 billion Medi-Cal County Behavioral Health Fund, and \$4.6 billion federal funds) through the term of the waiver over five years for the Department of Health Care Services (DHCS) and the Department of Social Services (DSS) to implement the BH-CONNECT Demonstration proposal, effective January 1, 2025.

DHCS submitted the BH-CONNECT Demonstration proposal for federal approval in the Fall of 2023. The Demonstration includes statewide and county opt-in components to expand behavioral health services and strengthen the continuum of mental health services for Medi-Cal beneficiaries living with serious mental illness and serious emotional disturbance, including federal financial participation for short-term stays in Institutions for Mental Diseases (IMD), with

a focus on children and youth, individuals experiencing or at risk of homelessness, and justice-involved individuals.

The BH-CONNECT Demonstration proposal also includes a behavioral health workforce initiative, which may potentially be funded through a component of Proposition 1, the Governor's proposed reform to California's behavioral health system, which will be considered by voters in March 2024.

Of note, the Governor's Budget maintains \$24.7 million (\$8.6 million General Fund) in 2025-26 increasing to \$197.9 million (\$69.3 million General Fund) at full implementation to allow up to six months of rent or temporary housing to eligible individuals experiencing homelessness or at risk of homelessness. Counties will have the option to implement this benefit as part of the BH-CONNECT Demonstration.

### **Medi-Cal**

The Medi-Cal budget includes \$157.5 billion (\$37.3 billion General Fund) in 2023-24 and \$156.6 billion (\$35.9 billion General Fund) in 2024-25. Medi-Cal is projected to cover approximately 14.8 million Californians in 2023-24 and 13.8 million in 2024-25—more than one-third of the state's population. The Governor's Budget proposal reflects lower Medi-Cal expenditures of about \$200 million General Fund in 2023-24 compared to the 2023 Budget Act. The decrease is due primarily to additional support from the MCO tax and revised programmatic timelines for various behavioral health initiatives, offset by increases from a one-time retroactive state-only claiming repayment, and increased caseload costs.

The Governor's Budget proposal continues to support implementation of significant investments made to date in the Medi-Cal program, including fully funding the expansion of benefits to adults regardless of immigration status. The Governor's Budget maintains \$1.4 billion (\$1.2 billion General Fund) in 2023-24, \$3.4 billion (\$2.9 billion General Fund) in 2024-25, and approximately \$3.7 billion (\$3.2 billion General Fund) ongoing to fully implement the expansion to income eligible adults aged 26-49 regardless of immigration status, which took effect on January 1, 2024.

### *Managed Care Organization (MCO) Provider Tax*

The 2023 Budget Act specified the renewal of an enrollment-based tax on managed care organizations effective April 1, 2023, through December 31, 2026. The federal government approved California's application in December 2023. The approved MCO tax is estimated to generate a net General Fund benefit of \$19.4 billion over the tax period to be used to maintain the Medi-Cal program and support increased investments, including specified provider rate increases.

The Governor's Budget proposal seeks early action by the Legislature to request the federal government approve an amendment to increase the MCO tax to achieve \$20.9 billion in total funding, an increase of \$1.5 billion compared to the approved MCO tax. The Governor's Budget proposes to use \$12.9 billion as a General Fund backfill to support the Medi-Cal program (an increase over the \$8.3 billion included in the 2023 Budget Act), and \$8 billion for targeted

provider rate increases and other investments (a decrease from the \$11.1 billion included in the 2023 Budget Act).

The Governor's Budget proposes \$2.8 billion (\$1.2 billion Medi-Cal Provider Payment Reserve Fund) in 2024-25 and approximately \$6.5 billion (\$2.7 billion Medi-Cal Provider Payment Reserve Fund) in 2025-26 for targeted rate increases and investments consistent with the 2023 Budget Act, of which \$727 million (\$291 million Medi-Cal Provider Payment Reserve Fund) annually is for Medi-Cal provider rate increases effective January 1, 2024.

The 2023 Budget Act specified increases to provider reimbursement rates to at least 87.5% of Medicare for primary care, obstetric care, doula services and non-specialty mental health services. The 2023 Budget Act also authorized the transfer of up to \$150 million from the Medi-Cal Provider Payment Reserve Fund to the Distressed Hospital Loan Program in 2023-24.

#### *Health Care Worker Minimum Wage (SB 525)*

The Governor's Budget reflects no increased costs for implementation of SB 525 (Chapter 890, Statutes of 2023), which increases the minimum wage incrementally to \$25 an hour for specified health care workers. The Administration is seeking early action in January by the Legislature to amend SB 525 to add an annual trigger mechanism to make the wage increases subject to a determination of sufficient General Fund revenues, clarify the exemption for state facilities, and make other implementation clarifications. Please see the Government Finance and Administration section for more details.

### **Public Health**

#### *Local Public Health Infrastructure Investment Maintained*

The Governor's Budget proposal maintains the full \$200 million in ongoing General Fund to local health jurisdictions that is critically needed to address vital public health priorities such as modernizing local public health infrastructure and bolstering public health staffing. The Governor's Budget proposal also maintains the \$100 million in ongoing General Fund to the Department of Public Health to support increased state public health capacity in foundational areas such as emergency preparedness and response and workforce development and training.

### **HUMAN SERVICES**

#### **California Work Opportunity and Responsibility to Kids (CalWORKs) program**

The CalWORKs program is California's version of the federal Temporary Assistance for Needy Families (TANF) program, which provides temporary cash assistance to low-income families with children to meet basic needs as well as welfare-to-work services to help families become self-sufficient. The Governor's Budget proposal assumes \$9.4 billion in total state, local, and federal TANF expenditures in 2024-25. Of this, \$7 billion is included for CalWORKs program expenditures. For 2024-25, the average monthly CalWORKs caseload is estimated to be 354,117 families.

### *CalWORKs Reductions and Delays*

To address the projected budget shortfall, the Governor's Budget proposal includes several reversions and reductions for CalWORKs programs. Reversions are "claw backs" of unspent funds allocated for 2022-23 (past year), 2023-24 (current year), and reductions apply to previously approved multi-year investments.

CSAC will work with counties and the County Welfare Directors Association (CWDA) to assess the impacts of these proposals on county operations and services provided to families. These include:

- **CalWORKs Single Allocation** – The CalWORKs Single Allocation is the funding that the state provides to counties to administer the CalWORKs program and funds local eligibility activities, employment and supportive services for CalWORKs recipients. The Governor's Budget proposal includes a reversion of \$336 million General Fund from 2022-23, a reversion of \$40.8 million General Fund in 2023-24, and a reduction of \$40.8 million General Fund in 2024-25 and ongoing which was previously approved as part of ongoing augmentation for this program.
- **Family Stabilization** – The Governor's Budget proposal includes a reversion of \$55 million in 2023-24 and a reduction of \$71 million beginning in 2024-25 and ongoing for this program.
- **Employment Services Intensive Case Management** – The Governor's Budget proposal includes a reduction of \$47 million beginning in 2024-25 and ongoing for this program.
- **Expanded Subsidized Employment** – The Governor's Budget proposal includes a reversion of \$134.1 million in 2023-24 and reduction of \$134.1 million in 2024-25 and ongoing for this program.

### *Projected CalWORKs Grant Increase*

The Governor's Budget proposal includes an approximate 0.8% increase to CalWORKs Maximum Aid Payment levels, projected to begin October 1, 2024, with an estimated cost of \$26.7 million. However, a determination and update of the projected grant increase will be made in the May Revision. The projected increased costs would be funded by the Child Poverty and Family Supplemental Support Subaccount within 1991 Realignment and would be in addition to the 3.6% statutory increase in 2023-24.

### *Work Participation Rate Pilot*

The Governor's Budget proposal states intent to participate in a federal pilot to promote accountability and test alternative benchmarks for work and family outcomes in lieu of the Work Participation Rate, as authorized by the federal Fiscal Responsibility Act of 2023.

### **Child Welfare and Foster Care**

Child welfare services and foster care provide a range of services for children who are at risk of or have been victims of abuse and neglect. The Governor's Budget proposal includes \$690.3 million General Fund for services to children and families. Total funding for children's programs



is more than \$9.4 billion when federal funding and 1991 and 2011 Realignment revenues are included.

#### *Family Urgent Response System (FURS)*

The FURS program provides foster youth and their caregivers with the immediate support they need during times of emotional crisis, and links youth and families to needed supports and services to help stabilize the situation. CSAC supported the legislation and funding to establish this program. The Governor's Budget proposal would reduce funding by \$30 million in 2024-25 and ongoing. This proposed reduction would essentially eliminate funding for the program.

#### *Child Welfare Services-California Automated Response and Engagement System (CWS-CARES) Project*

The CWS-CARES Project will replace the existing case management system to assist child welfare agencies and align with state and federal requirements. For project development and implementation, the Governor's Budget proposal includes \$173.4 million (\$88.1 million General Fund) in 2024-25 and one-time provisional authority of \$52 million (\$26 million General Fund).

#### *Foster Care Rate Reform*

The Governor's Budget proposal includes \$12 million General Fund in 2024-25 for automation changes related to a reformed foster care payment structure that may be fully implemented as early as 2026-27. This reformed rate for foster care placements will focus on the individual level of strengths and needs of children.

### **In-Home Supportive Services**

The In-Home Supportive Services (IHSS) program provides assistance and services to eligible older or disabled individuals to help them remain safely in their homes. For 2024-25, the Governor's Budget proposal includes \$24.3 billion for IHSS, (\$9 billion General Fund). This includes funding for implementation of the back-up provider system and expansion of full-scope Medi-Cal recipients regardless of immigration status. The Governor's Budget proposal estimates that average monthly caseload will be 691,075 recipients in 2024-25.

### **Child Care**

The Governor's Budget proposal includes \$6.6 billion for child care and development programs administered by the California Department of Social Services (CDSS). The Governor's Budget proposal maintains the \$723.8 million in funding to implement the current memorandum of understanding (MOU) between the state and Child Care Providers United—California and the parity provisions for non-represented providers. As required by the MOU and current law, work towards a single rate structure and an alternative methodology for estimating the cost of care will continue. The State will submit a state plan to the federal Administration for Children and Families for approval of an alternative methodology by July 2024.

The Governor's Budget proposal maintains previous commitments made through the 2021 Budget Act to expand access to subsidized child care slots, including \$2.1 billion for CDSS to fund roughly 146,000 new subsidized child care slots expected to be filled by 2024-25. This is part of the multiyear effort to create over 200,000 new slots by 2026-27.

### **Supplemental Security Income (SSI)/State Supplementary Payment (SSP)**

The federal Social Security Administration administers monthly SSI payments to eligible aged, blind and disabled persons. California has augmented SSI payments with an SSP. The state also provides state-only funded monthly payments to the aged, blind, and disabled legal immigrants who do not qualify for SSI/SSP, through the Cash Assistance Program for Immigrants (CAPI). The Governor's Budget proposal includes \$3.7 billion in 2024-25 for these programs, for which the average monthly caseload is estimated to be 1.1 million recipients in 2024-25. Following a 3.2% federal SSI cost-of-living adjustment and 9.2% SSP increase that took effect January 1, 2024, the maximum SSI/SSP grant levels are now \$1,183 per month for individuals and \$2,023 per month for couples.

## **HOMELESSNESS**

The Governor's Budget proposal maintains certain homelessness funding commitments, delays funding for some programs, and outlines that negotiations about new investments will occur in the coming months. CSAC will continue to be fully engaged on this issue as a top CSAC advocacy priority consistent with the AT HOME plan.

### **Homeless Housing, Assistance and Prevention (HHAP) Program**

The Governor's Budget proposal maintains the \$1.1 billion commitment for HHAP Round 5 and describes it as an investment across 2023-24 and 2024-25. The \$260 million in supplemental HHAP funding included in the 2023 Budget Act is proposed to be delayed until 2025-26. The Governor's Budget proposal includes the previously planned transition of the administration of homelessness grant programs from the California Interagency Council on Homelessness (Cal ICH) to the Department of Housing and Community Development (HCD).

For new HHAP investments, the Governor proposes to defer discussion about additional funding until the Spring once more information is known about actual revenues and to continue the conversation about accountability. The Governor's Budget proposal outlines a commitment from the Administration to work with the Legislature on additional funding to support the efforts of local governments to address the homelessness crisis. In addition, it details that this new funding is dependent upon funded entities achieving performance commitments made for HHAP Round 3 and HHAP Round 4 and completing the regional planning and collaboration requirements of HHAP Round 5.

### **Homelessness Funding Delays/Reductions**

The Governor's Budget proposal includes several delays or reductions to homelessness and housing related investments within human services programs. These include:

- Bringing Families Home – This program provides housing-related supports to child-welfare involved families and those at risk of homelessness. The Governor's Budget proposal would delay \$80 million General Fund to 2025-26.
- Home Safe – This program helps prevent homelessness for victims of elder and dependent adult abuse and neglect served by Adult Protective Services (APS). The Governor's Budget proposal would delay \$65 million General Fund to 2025-26.

- Housing and Disability Advocacy Program – This program serves people who are homeless or at risk of homelessness and are likely eligible for disability benefits and housing supports. The Governor’s Budget proposal would delay \$50 million to 2025-26.
- Housing Navigators – This program helps young adults between 18 to 21 years secure and maintain housing, with a priority given to young adults in the foster care system. The Governor’s Budget proposal includes an ongoing \$13.7 million General Fund Reduction for this program.
- Housing Supplemental for Foster Youth in Supervised Independent Living Placements (SILP) – The 2023 Budget Act created a housing supplement to the basic rate paid for a nonminor dependent placed in a SILP. The monthly housing supplement payment would be added to the rate paid to a nonminor dependent. The Governor’s Budget proposal would reduce funding by \$195,000 in 2024-25 and \$25.5 million (\$18.8 million General Fund) in 2025-26 and ongoing.

## HOUSING, LAND USE, AND TRANSPORTATION

### Housing and Land Use

The 2021 Budget Act and 2022 Budget Act appropriated a combined \$21.5 billion over several fiscal years to advance housing throughout the state. The 2023 Budget Act largely maintained these commitments and included a housing package of \$14.7 billion in 2023-24. The Governor’s Budget proposal reduces funding for various housing programs by \$1.2 billion General Fund in 2023-24 and 2024-25.

#### *Infill Infrastructure Grant (IIG) Program*

The Governor’s Budget proposal reduces funding for the IIG program by \$200 million General Fund. The 2023 Budget Act included an investment of \$225 million General Fund, leaving the program with \$25 million in resources for 2023-24. The goal of the IIG program is to promote infill housing development by providing financial assistance for Capital Improvement Projects that are integral to, or necessary to facilitate, the development of affordable and mixed income housing.

#### *Multifamily Housing Program*

The Governor’s Budget proposal reduces funding for the Multifamily Housing Program by \$250 million General Fund. The 2023 Budget Act included an investment of \$325 million General Fund for the Multifamily Housing Program, which, with the current reduction, results in a total of \$75 million in 2023-24. The Multifamily Housing Program provides low-interest, long-term deferred-payment loans for new construction, rehabilitation, and preservation of permanent and transitional rental housing for lower-income households.

#### *Foreclosure Intervention Housing Preservation Program (FIHPP)*

The Governor’s Budget proposes to eliminate all previous commitments for the Foreclosure Intervention Housing Preservation Program, which helped preserve affordable housing and promoted resident or nonprofit organization ownership of residential real property. Specifically,

this includes a removal of \$247.5 million General Fund for FIHPP over the next three years (\$85 million in 2024-25, \$100 million in 2025-26, and \$62.5 million in 2026-27).

#### *CalHome Program*

Of the \$300 million appropriated in the 2023 Budget Act for the CalHome program, the Governor's Budget proposes to remove \$152.5 million General Fund. The CalHome Program provides local agencies and nonprofit agencies with grants to assist low- and very-low-income first-time homebuyers with housing assistance, counseling, and technical assistance.

#### *Veteran Housing and Homelessness Prevention Program*

The Governor's Budget proposes the elimination of the Veteran Housing and Homelessness Prevention Program. The 2023 Budget Act provided \$50 million of General Fund resources to this program.

#### *Regional Early Action Planning Grants 2.0 (REAP 2.0)*

The Governor's Budget proposes to reduce \$300 million General Fund for REAP 2.0. The program previously appropriated \$600 million in the 2021 Budget Act to advance implementation of adopted regional plans by funding planning and development activities that accelerate infill housing and reductions in per capita vehicle miles traveled (VMT).

### **Transportation**

In recent state budgets, a variety of transportation programs have seen the commitment of unprecedented General Fund resources. The Governor's Budget proposal seeks to reduce these past General Fund commitments by \$296 million, shift \$791 million of these commitments to other funds, and delay \$3.8 billion of this funding to future fiscal years.

#### *Transit and Intercity Rail*

The Transit and Intercity Rail program funds capital projects that support state and local intercity rail, bus, ferry, and rail transit systems. Beginning with the 2021 Budget Act and continuing in subsequent budgets, the state has provided \$8 billion General Fund to augment this program's resources. The Governor's Budget proposes to delay \$3.2 billion General Fund to future fiscal years and shifts \$791 million of funding from the General Fund to the Greenhouse Gas Reduction Fund (GGRF).

#### *Zero Emission Transit Capital Program*

The 2023 Budget Act established this program and appropriated \$1.1 billion in GGRF and Public Transit Account resources beginning in 2023-24 to 2026-27. The funding will be allocated to regional transportation planning agencies on a population-based formula and another formula based on revenues to fund zero-emission transit equipment and operations. The Governor's Budget proposes no funding reductions or funding shifts to this program.

#### *Active Transportation Program (ATP)*

The ATP is a transportation grant program that funds projects which increase use of active modes of transportation, such as walking and biking. The Governor's Budget proposes to cut \$200 million in General Fund resources from the ATP, leaving the program with \$850 million of the approximately \$1 billion in funding that was originally provided. To ensure that previously

awarded projects are not impacted, \$200 million of ATP funding that was available for awarding in future cycles will be used to backfill the projects awarded in Cycle 6 of ATP. Finally, \$400 million General Fund will be delayed to future fiscal years, which is not expected to have an impact on how the program operates.

#### *Formula Funding for Local Streets and Roads*

The Governor’s Budget proposal estimates year-over-year increases of 1.5% in gasoline excise tax revenue and 3.2% in diesel excise tax revenue from 2023-24 to 2024-25. However, we note that any drop in fuel consumption driven by the overall economy may result in revenue decreases. These revenue streams fully fund county Highway User Tax Account allocations and provide approximately 70% of county Road Maintenance and Rehabilitation Account (RMRA) allocations. Transportation Improvement Fee revenues, which fund approximately 30% of county RMRA allocations, are estimated to grow by approximately 6%. CSAC will provide counties detailed revenue estimates for 2023-24 and 2024-25 later this week.

## **AGRICULTURE, ENVIRONMENT AND NATURAL RESOURCES**

The Governor’s Budget proposal includes various reductions to climate programs and investments in the AENR portfolio, both as reversions, or “claw backs,” of unspent funds allocated for 2023-24 (current year), and reductions to previously approved multi-year investments. In particular, the proposal includes many “belt tightening” cuts to climate-related programs, totaling \$6.7 billion. This includes \$1.8 billion shifted between fund sources, \$2.9 billion in reductions, and \$1.9 billion in fund delays across climate-related programs.

### **Environment & Climate**

#### *Greenhouse Gas Reduction Fund (GGRF)*

The Governor’s Budget proposes a significant increase in discretionary Cap and Trade expenditures through program shifts from the General Fund to the GGRF. The GGRF is derived from fees and taxes related to greenhouse gas emissions and fluctuates based on those market drivers. Funds from this account may be used for many activities.

The proposed fund shifts are a part of the Governor’s overall effort to reduce General Fund pressures by transferring responsibilities to other special funds. Additionally, the shifts reflect the Administration’s belief that the affected programs are suitable uses of GGRF resources. In addition to baseline program funding, the Governor’s Budget proposal shifts \$557 million in 2023-24 and \$1.7 billion in 2024-25. The current year expenditures include \$475 million at the California Energy Commission for Zero Emission Vehicle programs and \$82 million for fire prevention at CalFIRE. 2024-25 proposed shifts and delayed program implementation range from AB 617 community air programs to wildfire prevention, on-farm methane reduction, extreme heat, and drought resilience. More details on specific changes can be found in both the Agriculture, Environment, and Natural Resources and Housing, Land Use, and Transportation sections of this document.

### *Per- and Polyfluoroalkyl Substances (PFAS)*

Counties are on the frontline to clean up Per- and Polyfluoroalkyl Substances that have leached into our soil and water. The Governor's Budget proposes a reversion of \$71.6 million General Fund in prior year funds and reduction of \$30 million in 2024-25 for PFAS support. The proposal maintains \$53 million previously allocated to this program.

## **Waste & Recycling**

### *Compost Permitting Pilot Program*

Two years ago, the Legislature committed \$7.5 million for the Compost Permitting Pilot Program. Of this, \$7 million was slated to be allocated for 2024-25 to fund grants for local governments. These grants are intended to help local government entities and facilities locate and permit small and medium sized compost facilities to help meet SB 1383 (Chapter 395, Statutes of 2016) goals of diverting organic waste away from landfills.

The Governor's Budget proposes to reduce \$6.7 million General Fund from the Compost Permitting Pilot Program, leaving just \$800,000 of what was previously committed.

### *California Beverage Container Recycling Fund Loan*

The Governor's Budget proposes borrowing from the California Beverage Container Recycling Fund (BCRF) to help close the budget shortfall, a budgeting-balancing solution that has been used in previous years. The BCRF is used to fund the Beverage Container Recycling Program which provides consumer recycling credits for returning beverage containers and has seen a surplus in the last couple of years. The proposal would provide a loan of \$125 million from the BCRF to the General Fund with a deferral of an existing \$25 million budgetary loan.

## **Wildfire, Forest Health, and Emergency Response**

The Governor's Budget proposes \$2.7 billion General Fund to CalFIRE as a baseline to advance critical investments in forest health and fire prevention, continue to reduce the risk of catastrophic wildfires, and provide resources for fire protection in the state's wildfire response. Key investments include new air attack resources to support night-flying helicopters and federal C-130 aircraft. Though there are many serious reductions in programs critical to counties proposed in the Governor's Budget, investments are proposed for firefighter labor agreements, training, and physical infrastructure.

### *Firefighting Investments*

The recent agreement with the main CalFIRE firefighter bargaining unit resulted in a decreased workweek from 72 to 66 hours. The Governor's Budget reflects an increase of \$198 million in 2024-25, and \$440 million phased in over five years to reflect the change in hours and increased staffing needs. The Governor's Budget proposal also includes \$18.7 million to acquire an additional CalFIRE training center to support the implementation of the new 66-hour work week.

### *Prescribed Burning and Exception Events*

The Governor's Budget proposes \$3.8 million ongoing to expand the use of the Exceptional Event Rule and extend the Prescribed Burn Reporting and Monitoring Grant Program at the

California Air Resources Board. The program is intended to support expanded use of prescribed burn and monitoring programs through local air pollution control districts.

#### *Vegetation Management and Fire Resiliency*

The Governor's Budget proposes \$2 million ongoing for the Timber Regulation and Forest Restoration Fund to support forest health and wildfire resiliency activities statewide through the Department of Fish and Wildlife.

#### *Conservancy Projects*

The Governor's Budget proposes to reduce wildfire reduction investments to state conservancies in high-risk regions by \$27.7 million. These cuts are anticipated to be focused within foothill, mountain and coastal communities.

#### *Home and Community Hardening*

Home hardening pilot projects, which brought increased community safety in pilot counties, are proposed to be reduced by \$12 million. An additional reversion of \$45 million is being proposed for the grant program supporting community home hardening that leveraged the federal Hazard Mitigation Grant Program (HMG) at CalOES. HMG is administered through the Federal Emergency Management Agency (FEMA) and provides funding to state and local governments to develop hazard mitigation plans and rebuild after disasters. Funding is allocated and available after presidentially declared disasters. \$55 million is proposed to be retained for community hardening.

The Governor's Budget additionally proposes to extend the liquidation period of \$16 million General Fund for the California Wildfire Mitigation Program from June 30, 2025, to June 30, 2029, to complete wildfire home hardening activities at CalOES.

#### *Wildfire and Resilience Funding Shifts and Delays*

With the reduction in state General Funds, many programs related to fire risk reduction, fuels treatment, and wildfire resilience were shifted to the state's GGRF both in the current year and the forecasted budget year. Shifted funds that counties rely upon include \$82 million in 2023-24 for fire prevention grants, \$26 million for state fire prevention projects in 2024-25, and \$20 million for Regional Forest and Fire Capacity programs in 2024-25.

### **Extreme Heat & Community Resilience**

During recent budget surplus years important investments were made in several programs designed to help local communities and residents through extreme heat and other emergency events. This year's projected budget shortfall has led the Administration to propose substantial reductions to the programs.

The Governor's Budget proposes a net cut of \$40 million to the Extreme Heat and Community Resilience Program, which leaves the program at a funding level of \$95 million. Of this, \$70 million previously allocated for 2023-24 will be delayed to 2024-25. The Governor's Budget proposal does not provide details on how this delay will affect the program.

To address revenue shortfalls, the Governor’s Budget also proposes significant cuts to climate resilience and adaptation programs, which would result in a nearly \$90 million reduction. This includes:

- Regional Climate Resilience—A reversion of \$25 million in 2023-24 funding, and a reduction of \$50 million for the Regional Climate Resilience Program at the Office of Planning and Research. The Governor’s Budget maintains \$25 million previously allocated to this program.
- Regional Climate Collaboratives—A reversion of \$9.8 million in 2023-24 funding for Regional Climate Collaboratives Program at the Strategic Growth Council. The Governor’s Budget maintains \$10 million previously allocated to this program.
- Climate Adaptation and Resilience Planning Grants—A reversion of \$5 million in 2023-24 funding for the Climate Adaptation and Resilience Planning Grants at the Office of Planning and Research. The Governor’s Budget maintains \$20 million previously allocated to this program.

### **Water, Drought, and Flood**

The Governor’s Budget maintains \$7.3 billion of previously committed funding for programs related to drought and flood. This is a reduction from the \$8.6 billion previously committed over multiple years beginning in 2022. The proposed budget reductions total \$796.8 million across various programs but are offset by \$159 million in new investments for flood protection, levee repair and Salton Sea restoration.

#### *Flood Risk Reduction*

The Governor’s proposed budget allocates \$33 million General Fund for the state’s cost share for ongoing U.S. Army Corps of Engineers flood projects and urban flood risk reduction projects. In addition, the Governor’s Budget proposes \$30 million General Fund for storm damage to areas within the State Plan of Flood Control and other state-owned facilities.

#### *Central and San Joaquin Valley Multi-Benefit Projects*

The Governor’s Budget also proposes \$31 million General Fund to support continued multi-benefit flood risk reduction projects. Of this amount, \$11 million is proposed for the Yolo Bypass, \$11 million for the Upper Sacramento River Basin projects including Kopta Slough, and \$9 million for Central Valley systemwide flood risk reduction in the San Joaquin Valley.

#### *Salton Sea*

The Governor’s Budget proposes \$65 million General Fund to implement state water quality requirements for habitat and dust suppression on the exposed lakebed at the Salton Sea. The focus of these efforts is to both increase habitat and reduce exposure to toxic dust downwind from the Sea in Imperial and Riverside Counties.

#### *Groundwater Recharge Permitting*

2023 showed the need for increased access to groundwater recharge statewide. The Governor’s Budget proposal includes \$1.2 million from the Water Rights Fund at the State Water Resources Control Board to help expedite groundwater recharge permits. This is intended to pair with the Department of Water Resources efforts on future recharge projects and address key water rights permit backlogs related to recharge.



### *Dam Safety*

In 2022, CSAC joined a large coalition of local agencies, water suppliers, and emergency managers to advocate for significant improvements to overall dam safety, securing \$100 million for investments at aging facilities. The Governor's Budget proposes reducing this funding by \$50 million. The comprehensive dam safety program approved in 2023 includes a fee on dam structures with a 50% local cost share to sustain the program.

### *Watershed Climate Resilience*

The Governor's Budget proposes reductions of \$88 million in the current year and \$350 million over the next two years, for watershed climate resilience programs at the Department of Water Resources and Wildlife Conservation Board. \$56 million of previously allocated funding remains for these programs.

### *Forecasted Informed Reservoir Operations (FIRO) and Snow Surveys*

Counties were able to use FIRO to predict impacts from major storms during the 2023 extreme water year to reduce local impacts from extreme flood events. The Governor's Budget reduces funding for this key program by \$6.8 million, maintaining \$10 million in baseline support for both snow survey and FIRO programs.

### **Coastal Resilience and Sea Level Rise**

In 2023, programs to reduce impacts from sea level rise saw increased funding, particularly as winter storms brought devastation across all coastal counties. The Governor's Budget proposes a reduction of \$220.9 million for sea level rise planning and adaptation programs maintaining \$333.6 million previously allocated for the program. The Governor's Budget also reduces coastal protection and adaptation by \$171 million, leaving \$154.9 million previously allocated for the program.

### *SB 1 Programs Coastal Planning*

In 2022, the Legislature passed SB 1 (Atkins) which established collaboratives at state coastal agencies to support increase planning for sea level rise. As part of the act, counties were able to access funding to update local and regional land use plans to take into account sea level rise on an ongoing basis. The Governor's Budget proposes a reversion of \$25 million of SB 1 funding and retains \$36.8 million by shifting to the Greenhouse Gas Reduction Fund. Cities and counties have accessed over \$17 million over the past decade for grants to update Local Coastal Plans incorporating new data and sea level rise projections.

### **Agriculture**

Impacts to agriculture fall under many different programs, from water-use efficiency, to food and nutrition, to traditional agriculture activities and pest reduction. The Governor's Budget proposes significant reductions in available General Fund for current programs outlined below, mainly through the California Department of Food and Agriculture.

### *State Water Efficiency and Enhancement Program (SWEEP)*

As part of multiple programs being shifted from General Fund to the GGRF, \$26 million General Fund in the current year for the on-farm water efficiency program SWEEP is proposed to be shifted to the GGRF and delayed to 2024-25.

### *Drought Relief for Small Farmers*

The Governor's Budget proposes a reversion of \$12.9 million California Emergency Relief Fund for drought relief to small farms. The Governor's Budget maintains \$17 million previously allocated to this program.

### *On-Farm Water Use and Agriculture Technical Assistance*

The Governor's Budget proposes to reduce \$6 million California Emergency Relief for on-farm water use and agriculture technical assistance related to the drought and would maintain \$9 million previously allocated to this program.

### *Farm to Community Food Hubs Program*

The Governor's Budget proposes to reduce \$8.5 million for the Farm to Community Food Hubs Program, regaining \$12 million previously allocated with no new proposed funding.

## **Cannabis**

Proposition 64 specifies that money collected through the Cannabis Tax Fund be prioritized for:

*Allocation 1: Regulatory and administrative costs*

*Allocation 2: Specified allocations, including research*

*Allocation 3: Percentage allocations for programs (as listed below)*

In 2022, the Governor signed a bill which requires that Allocation 3 programs be funded at a baseline of approximately \$670 million, to the extent available. The Governor's Budget proposal estimates that \$568.9 million will be available for Allocation 3 programs in 2024-25:

- *Education, prevention, and treatment of youth substance use disorders and school retention—60% of Allocation 3 Funds (\$341.3 million)*
- *Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation—20% of Allocation 3 Funds (\$113.8 million)*
- *Public safety-related activities—20% of Allocation 3 Funds (\$113.8 million)*

To address overall budget shortfalls, the Governor's Budget also proposes loaning \$100 million in unobligated funds from the Board of State and Community Corrections Cannabis Tax Fund to the General Fund. This fund is used to issue grants to local governments to assist with law enforcement, fire protection, or other local programs addressing public health and safety associated with Proposition 64.

## **ADMINISTRATION OF JUSTICE**

### **Local Public Safety**

#### *Proposition 47 Savings Estimate*

The Governor's Budget proposal includes an estimated total state savings of \$87.8 million in 2024-25. Proposition 47, approved by voters in 2014, requires misdemeanor rather than felony

sentencing for certain property and drug crimes and permits incarcerated persons previously sentenced for these reclassified crimes to petition for resentencing. Each year, state savings from the implementation of Proposition 47 are allocated through grants to public agencies for various recidivism reduction programs (such as mental health and substance use treatment services), truancy and dropout prevention, and victims' services.

#### *Post Release Community Supervision (PRCS)*

The Governor's Budget proposal includes an estimated \$4.4 million General Fund will be allocated to county probation departments in 2024-25 to supervise individuals received from the state on PRCS.

#### *Community Corrections Performance Incentive Grant*

The Community Corrections Performance Incentive Grant, established by SB 678 (Chapter 608, Statutes of 2009) was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The Governor's Budget proposal includes \$113.6 million General Fund in 2024-25 for probation departments. Funding under this grant was held constant due to impacts of the COVID-19 pandemic on probation populations, law enforcement practices, and court processes. The Governor's Budget proposal reverts to the previous methodology for calculating incentive payments to counties beginning 2024-25.

#### *Combatting Organized Retail Theft and Other Crimes*

The Governor's Budget proposal sustains \$373.5 million General Fund over four years to bolster local law enforcement efforts to address retail theft and other crimes. These investments help local law enforcement agencies implement anti-theft task forces, improve prosecution, expand California Highway Patrol's retail theft taskforces, expand the Department of Justice's Special Operations Unit, and combat violent career criminals, gangs and organized crime groups using electronic surveillance and advanced investigative techniques.

In addition to organized retail theft, the Governor's Budget proposal also preserves roughly \$1.1 billion in other recent public safety investments including:

- California Violence Intervention and Prevention (Cal VIP) Grant Program
- Officer Wellness and Training
- Local Law Enforcement Mutual Aid for in-person security at places of worship
- California Internet Crimes Against Children Task Force
- Raising Awareness on Gun Violence Restraining Orders
- Highway Violence Task Force

### **California Department of Corrections and Rehabilitation (CDCR)**

#### *CDCR Adult Institutions*

The Governor's Budget proposal includes total funding of \$14.5 billion (\$14.1 billion General Fund and \$364.3 million other funds) for CDCR in 2024-25. The average daily adult incarcerated population for 2023-24 is projected to be 94,222, a slight increase of 1.4% since spring 2023 projections. Fall projections indicate the adult incarcerated population will trend downward, decreasing by 2,537 individuals between 2023-24 and 2024-25, from 94,222 to 91,685. To put this in perspective, on January 1, 2020, prior to the COVID-19 Pandemic, the

CDCR population was 123,977. The population is projected to continue its long-term downward trend, declining to 88,183 in 2026-27. The overall average daily population for individuals on parole is projected to be 36,495 in 2023-24 and is projected to be relatively stable over the next few years and is estimated to be 35,182 by June 30, 2028.

### *Prison Closures*

CDCR plans to terminate the lease of the California City Correctional Facility (California City), its last privately owned prison contract, by March 2024. CDCR estimates savings of \$156 million General Fund annually beginning in 2024-25.

CDCR also announced in December 2022 the planned closure of Chuckawalla Valley State Prison (Blythe) by March 2025. This closure is estimated to generate savings of \$148 million General Fund annually beginning in 2025-26.

The Governor's Budget proposal includes \$9.6 million General Fund savings in 2024-25, increasing to \$11.1 million ongoing, to reflect a reduction in administrative workload and positions associated with supporting the four current prison closures.

### *Community Reentry*

The Governor's Budget proposal includes \$11.4 million General Fund in 2024-25, growing to \$15.9 million in 2028-29, to increase community correctional reentry center contract rates commensurate with recent inflationary trends for contracts expiring in 2024-25. CDCR operates 9 community correctional reentry centers that allow participants to serve part of their terms of incarceration in the community. These programs provide a range of rehabilitative services intended to support individuals in successfully reintegrating into their communities following their release from prison. Additionally, the Governor's Budget proposal includes funding to address future cost increases through the addition of annual adjustments to sustain these important reentry programs over time. To date, CDCR has executed two contracts for expansion facilities in Fresno and Sacramento counties and is in the process of soliciting additional contracts.

### **Judicial Branch**

The Governor's Budget proposal includes total funding of \$5.2 billion (\$3.2 billion General Fund and \$2 billion other funds) in 2024-25 for the Judicial Branch, \$3 billion of which is provided to support trial court operations.

The Governor's Budget proposal provides greater flexibility to the trial courts to continue support for access to justice by increasing the reserve cap from 3% to 5% and allows the five smallest courts to hold up to \$100,000 in reserves. These changes give the trial courts more flexibility to plan for large one-time expenses, like facility repairs and information technology projects.

### **Governor's Office of Emergency Services (Cal OES)**

The Governor's Budget proposal includes \$3 billion (\$530.3 million General Fund) and 1,909 positions for Cal OES. This includes an increase of \$6.4 million for public safety radio modernization to support equal access to 9-1-1 services. This funding will add 12 positions to continue implementation of the California Radio Interoperable System, a statewide public safety radio system that dramatically improves interoperability for state, local, and federal public safety

responders. These modernization efforts are aimed at addressing accessibility issues with voice and data communications in hard-to-reach areas of the state. The system's expanded coverage will include connecting the front-line responders to centralized command and dispatch.

## GOVERNMENT FINANCE AND ADMINISTRATION

### State Revenue – Actual Revenue for 2023-24 and Projections for 2024-25

Due to the extended tax filing deadlines in 2023, and the resulting delay in revenue collection until late calendar year 2023, the Governor's Budget proposal includes an updated fiscal forecast that attempts to reconcile months of unknown revenue variables. The Governor's Budget summary describes this unique situation as "the correction that would have come as part of last year's May Revision is instead being made in this January budget."

Subsequently, the Governor's Budget proposal includes both an updated revenue projection for 2024-25 and the outyears, as well as updated estimate of General Fund revenues for the current fiscal year (2023-24). The updated General Fund revenue forecast for 2023-24 is based on actual revenues received to-date. Although this is a typical annual exercise, the adjustments in this forecast are larger than average, particularly for the past fiscal year (2022-23) and current fiscal year (2023-24).

This section includes a comparison of actual revenues to-date for 2023-24 and the revenue previously projected for the 2023 Budget Act last June. In general, projections for 2024-25 exceed actual revenue for 2023-24, but mostly represent a reduction in the revenue originally projected in the 2023 Budget Act.

Finally, the General Fund revenue depicted in the Governor's Budget proposal is not a complete representation of the budget problem faced in 2024-25. The General Fund resources available in 2024-25 assumes the amount of General Fund dedicated to Proposition 98 purposes will be reduced to what would have been the minimum guarantee level had we known the actual revenue for 2023-24. The minimum guarantee is just that: a minimum level, not a default level. So, making that change requires an action from the Legislature. It is not clear that the Legislature will agree to a significant reduction in K-12 funding that would be required to balance the budget under the Governor's proposal.

The following revenue figures represent the expected revenue as represented in the Governor's Budget proposal.

#### *Actual Revenue for 2023-24*

In total, 2023-24 General Fund revenues to-date and updated expected revenues through the end of the fiscal year fell \$10.4 billion below what was forecasted in the 2023 Budget Act.

Specifically, the top three revenue sources varied as follows:

- Personal income tax revenue fell \$4.4 billion below projections.
- Corporate tax revenue fell \$5.2 billion below projections, due to lower-than-expected tax liability from 2022-23, which carries over into 2023-24 and 2024-25.
- Sales and use tax revenue was \$1.3 billion above projections, attributed to rising wages due to a tight labor market and inflation of the price of consumer goods.

# ACTION

### *Revenue Forecast for 2024-25*

For 2024-25, the Governor's Budget proposal projects General Fund revenues of \$202.7 billion, a slight increase over actual General Fund revenue from 2023-24, but below the \$208.7 billion anticipated in General Fund revenue in the 2023 Budget Act.

- Personal income tax revenue is expected to generate \$114.9 billion in 2024-25, a 0.9% increase over actual 2023-24 revenue, but is \$3.3 billion, or 2.9%, below the revenue projected in the 2023 Budget Act.
- Corporate tax revenue is expected to generate \$38.3 billion in 2024-25, a 3.7% increase over actual 2023-24 revenue, but is \$3.7 billion, or 9.8%, below the revenue projected in the 2023 Budget Act.
- Sales and use tax revenue is expected to reach \$35.1 billion for 2024-25, a 1.5% increase over actual 2023-24 revenue, and is \$1.7 billion, or 5%, above the revenue projected in the 2023 Budget Act.

### **Economic Outlook**

Although the state faces a significant budget problem, the source of the problem is a combination of fiscal pressures, political decisions, and economic conditions that are felt by Californians. The Governor's Budget provides mixed signals for the California economy in the near term, with some signs indicating cautious optimism and others that show an uneven economic future.

While there has been [concern](#) that California had experienced periods of recession in late-2022 and early-2023, the Governor's Budget suggests a slightly more optimistic outlook in the near term. Inflation has slowed since reaching a peak of 8.3% in June 2022, reaching 3.2% in October. The Federal Reserve has signaled they may lower interest rates in 2024, which could benefit the California economy, the market, and improve revenue for the state and local governments. However, it is hard to make any predictions until the Federal Reserve actually enacts changes.

With regard to workforce, the Governor's Budget frames trends as "normalizing," after the COVID-19 pandemic created unique conditions that had an outsized impact on lower-wage jobs. Recent trends in the labor market have seen significant growth in lower-wage jobs and a reduction in high wage jobs through November 2023. While that may be concerning on its face, the uptick in lower-wage jobs could be a sign that those who left the workforce in the pandemic are returning to the labor market.

Wages in California rose dramatically in 2020 and 2021, due in large part to the outsized strong performance of higher-wage sectors during the COVID-19 pandemic. High-income wages fell in 2022, due in part to the market downturn, but showed signs of rising in late 2023. For 2024-25, the Governor's Budget proposal forecasts modest wage growth over the next few years, estimating 2.7% wage growth in 2023 and forecasting growth of 3.4% in 2024 and slightly stronger growth of 3.7% in 2025 and beyond. While wage growth, generally, is a positive sign, these growth rates are below pre-pandemic rates.

California's unemployment rate remains higher than the national average, at 4.9% in November 2023, compared to 3.7% nationwide. Statewide unemployment is expected to rise through early 2025 to approximately 5.2%.

### **Educational Revenue Augmentation Fund (ERAF)**

The Governor's Budget proposes statutory changes to make charter schools eligible to receive ERAF, which could diminish the portion of Excess ERAF available to local agencies.

### **California Business Roundtable Ballot Measure – November 2024**

The Governor's Budget proposal is clear regarding the assumptions made for the economic landscape of the upcoming year. These assumptions include: That the budget revenue forecast does not indicate a recession, slow but continued economic growth, and no additional delays in IRS tax deadlines. Even moderate fluctuations throughout 2024 that counter these assumptions could have significant impacts on the state's fiscal condition. Additionally, the Governor's Budget proposal does not consider the fiscal impacts of statewide ballot measures that will be considered by voters in November 2024. Notably, the deceptively named "[Taxpayer Protection and Government Accountability Act](#)," sponsored by the California Business Roundtable, which is designed to disrupt state and local governments and would jeopardize California's public fiscal sustainability.

The measure would severely restrict the ability of local governments to raise revenue by increasing voter thresholds to approve nearly every tax increase to a super majority, require sunset dates for all tax ordinances, restrict local government's ability to adjust user fees, and prohibit local advisory measures from being placed on the same ballot as tax increases. Further, the measure is retroactive. Any new or increased tax or fee adopted by the Legislature, a Board of Supervisors, or voters after January 1, 2022, would be required to retroactively comply with the measure's new rules. This would imperil upwards of hundreds of millions of dollars in already-approved tax measures. This assessment of the implications of the measure is shared by the Legislative Analyst's Office [in their analysis](#) published in January 2022. Should the California Business Roundtable's ballot measure pass in November 2024 and enact these revenue-raising restraints for the state and local governments, the Governor's Budget proposal for the following January will need to address an even more dire budget problem.

### **Community Economic Resilience Fund (now known as "California Jobs First")**

The 2021 Budget Act established the Community Economic Resilience Fund and appropriated \$600 million to support economic development projects aimed at establishing high-quality jobs, improving equity, and supporting economic diversification for a climate-resilient economy. CERF was established as a competitive grant program for which thirteen California regions may apply. The Governor's Budget proposes to delay \$300 million in CERF funds and preserve \$100 million in funding annually from 2024-25 through 2026-27. The Governor's Budget also rebrands the CERF program as "California Jobs First."

### **"Trigger" Proposed for Minimum Wage Increase for Health Care Workers**

In October 2023, following lengthy negotiations with the healthcare industry, Legislators, and a coalition of local government advocates, Governor Newsom signed [SB 525 \(Chapter 890\)](#).

[Statutes of 2023](#)), authored by Senator Durazo. SB 525 raises the minimum wage broadly across the health care sector and increases the minimum salaries of full-time employees. Governor Newsom signed SB 525 despite the cost it would impose on local governments, from the Department of Finance, and a looming state budget deficit.

To further chip away at the state's \$37.9 billion budget deficit in 2024-25, the Governor's Budget proposal includes legislation to be introduced sometime in January that would add an annual "trigger" to the provisions of SB 525. The proposed "trigger" would provide that the minimum wage increases approved in the bill would only be enacted upon sufficient General Fund revenues. The proposed SB 525 adjustment would also include language to clarify exemptions for state facilities. This is not dissimilar to a controversial provision included in the statewide \$15 minimum wage increase, signed by Governor Brown, which requires the Director of Finance to annually determine and certify to the Governor and the Legislature whether certain economic conditions are met before the minimum wage increase can take effect.

Notwithstanding the proposed triggers, current law raises the minimum wage for health care sector employees to \$25 per hour for hourly workers and increases the salaries of full-time employees to no less than 150% of the health care worker minimum wage or 200% of the state's applicable minimum wage, whichever is greater. This measure utilizes a phased-in approach over several years, based on employer size, county population size, and hospital governmental payor mix. Once the \$25 per hour minimum wage is reached, it must increase annually by 3.5% or the United States Consumer Price Index, whichever is lower. More detail regarding the tiers and implementation timeline is available on the [CSAC website](#). This measure applies to county hospitals, clinics (with county clinics exempted from the clinic provisions in the bill), mental health facilities, and correctional health facilities. Under current law, counties can delay implementing these provisions until January 1, 2025.

### **Broadband For All**

The Governor's Budget proposal for 2024-25 includes a mixed bag for the state's broadband network implementation projects. The state's [Broadband for All](#) initiative includes a wide variety of resources, partnerships, and programs to improve digital connectivity across the state.

Notably, funding for middle-mile broadband connectivity projects was not only preserved in the Governor's Budget, the Governor proposes to increase funding for the California Department of Technology for middle-mile projects by \$1.5 billion General Fund over two years (\$250 million in 2024-25 and \$1.25 billion in 2025-26). The Governor's Budget summary acknowledges that changes in scope and costs associated with inflation have increased the funding needs required to bring broadband connectivity statewide.

However, the Governor's Budget proposal does not include any new appropriations for last-mile broadband infrastructure grants or the Broadband Loan Loss Reserve Fund. Instead, the Governor proposes shifting \$100 million General Fund out two fiscal years, from 2024-25 to 2026-27, for last-mile infrastructure grants administered by the California Public Utilities Commission. It appears that the nearly \$2 billion of previously appropriated funds, spread across several fiscal years, remain intact.



Additionally, the Governor’s Budget proposal removes \$250 million General Fund across two fiscal years (\$150 million in 2024-25 and \$100 million in 2025-26) for the Broadband Loan Loss Reserve Fund. Originally included in the 2021 Budget Act, the Broadband Loan Loss Reserve Fund includes \$750 million across several fiscal years to finance last-mile broadband infrastructure projects, thereby expanding the ability of local governments to finance public broadband networks.

### **State-Mandated Programs**

The Governor’s Budget proposal includes \$130 million for state-mandated programs in 2024-25, \$36 million less than the appropriation included in the 2023 Budget Act for 2023-24. Notably, although the Governor’s Budget proposal for 2024-25 includes less funding than 2023-24, the difference is mainly attributed to one-time payments for prior year claims occurring in 2023-24 to implement the [AB 953 Racial and Identity Profiling Act of 2015](#) (\$37.6 million) and the [SB 22 Sexual Assault Evidence Kits Testing Program of 2019](#) (\$12.5 million). A complete list of state-mandated programs that are proposed to be funded in 2024-25 (for payment of mandate claims for costs incurred in prior years) or mandates that are suspended are listed under Budget Item 8885-295-0001 in the 2024-25 Budget Bill ([SB 917](#), Skinner, and [AB 1812](#), Gabriel)

To address revenue constraints or the increasing costs, the state will suspend some mandated programs via the state budget. While a mandate is suspended, the requirement remains in law, however local governments are not required to comply with the state-mandated requirements in that fiscal year and the state has no reimbursement obligation.

While the California Constitution requires the state to reimburse local agencies for all valid mandate claims, specific payment deadlines for any mandate that is suspended or repealed in the following fiscal year is unclear. Consequently, local governments can spend significant resources to meet state-mandated programs without any certainty for reimbursement. Interest on unpaid claims accrues until the claims are fully paid. According to the [State Controller’s Office](#), as of April 2023 local governments are collectively owed nearly \$1 billion for the cost to carry out state-mandated programs since 2004. To be clear, these are state-recognized costs owed for programs conducted and services rendered by local governments for the residents of California.

## APPENDIX: 1991 AND 2011 STATE-LOCAL REALIGNMENT TABLES

### 1991 Realignment Estimate at 2024 Governor's Budget

*\$s in Thousands*

Amount	2022-23 State Fiscal Year (Actual)						Total
	CalWORKs MOE	Health	Social Services	Mental Health	Family Support	Child Poverty	
<b>Base Funding</b>							
Sales Tax Account	\$752,888	\$152,266	\$2,480,037	\$337,129	\$462,930	\$512,972	\$4,698,222
Vehicle License Fee Account	367,663	1,071,315	216,223	105,480	185,798	420,228	2,366,708
<b>Subtotal Base</b>	<b>\$1,120,551</b>	<b>\$1,223,582</b>	<b>\$2,696,259</b>	<b>\$442,610</b>	<b>\$648,728</b>	<b>\$933,200</b>	<b>\$7,064,929</b>
<b>Growth Funding</b>							
Sales Tax Growth Account:	\$-	\$6,469	\$66,200	\$13,122	\$-	\$15,463	\$101,253
Caseload Subaccount	-	-	(66,200)	-	-	-	(66,200)
General Growth Subaccount	-	(6,469)	-	(13,122)	-	(15,463)	(35,053)
Vehicle License Fee Growth Account	-	21,888	-	44,399	-	52,320	118,608
<b>Subtotal Growth</b>	<b>\$-</b>	<b>\$28,357</b>	<b>\$66,200</b>	<b>\$57,520</b>	<b>\$-</b>	<b>\$67,783</b>	<b>\$219,861</b>
<b>Total Realignment 2022-23<sup>1/</sup></b>	<b>\$1,120,551</b>	<b>\$1,251,939</b>	<b>\$2,762,459</b>	<b>\$500,130</b>	<b>\$648,728</b>	<b>\$1,000,983</b>	<b>\$7,284,790</b>
<b>2023-24 State Fiscal Year (Projected)</b>							
<b>Base Funding</b>							
Sales Tax Account	\$752,888	\$117,991	\$2,546,237	\$350,251	\$503,675	\$528,434	\$4,799,475
Vehicle License Fee Account	367,663	1,093,203	216,223	149,879	185,798	472,549	2,485,315
<b>Subtotal Base</b>	<b>\$1,120,551</b>	<b>\$1,211,194</b>	<b>\$2,762,459</b>	<b>\$500,130</b>	<b>\$689,473</b>	<b>\$1,000,983</b>	<b>\$7,284,790</b>
<b>Growth Funding</b>							
Sales Tax Growth Account:	\$-	\$28,097	\$72,820	\$56,993	\$-	\$67,162	\$225,072
Caseload Subaccount	-	-	(72,820)	-	-	-	(72,820)
General Growth Subaccount	-	(28,097)	-	(56,993)	-	(67,162)	(152,252)
Vehicle License Fee Growth Account	-	13,873	-	28,140	-	33,160	75,173
<b>Subtotal Growth</b>	<b>\$-</b>	<b>\$41,970</b>	<b>\$72,820</b>	<b>\$85,133</b>	<b>\$-</b>	<b>\$100,322</b>	<b>\$300,245</b>
<b>Total Realignment 2023-24<sup>1/</sup></b>	<b>\$1,120,551</b>	<b>\$1,253,164</b>	<b>\$2,835,279</b>	<b>\$585,263</b>	<b>\$689,473</b>	<b>\$1,101,305</b>	<b>\$7,585,035</b>
<b>2024-25 State Fiscal Year (Projected)</b>							
<b>Base Funding</b>							
Sales Tax Account	\$752,888	\$218,416	\$2,619,057	\$407,244	\$431,347	\$595,596	\$5,024,547
Vehicle License Fee Account	367,663	1,107,076	216,223	178,019	185,798	505,709	2,560,488
<b>Subtotal Base</b>	<b>\$1,120,551</b>	<b>\$1,325,492</b>	<b>\$2,835,279</b>	<b>\$585,263</b>	<b>\$617,145</b>	<b>\$1,101,305</b>	<b>\$7,585,035</b>
<b>Growth Funding</b>							
Sales Tax Growth Account:	\$-	\$3,911	\$80,102	\$7,933	\$-	\$9,349	\$101,295
Caseload Subaccount	-	-	(80,102)	-	-	-	(80,102)
General Growth Subaccount	-	(3,911)	-	(7,933)	-	(9,349)	(21,193)
Vehicle License Fee Growth Account	-	5,018	-	10,179	-	11,995	27,192
<b>Subtotal Growth</b>	<b>\$-</b>	<b>\$8,929</b>	<b>\$80,102</b>	<b>\$18,112</b>	<b>\$-</b>	<b>\$21,344</b>	<b>\$128,487</b>
<b>Total Realignment 2024-25<sup>1/</sup></b>	<b>\$1,120,551</b>	<b>\$1,334,421</b>	<b>\$2,915,381</b>	<b>\$603,375</b>	<b>\$617,145</b>	<b>\$1,122,649</b>	<b>\$7,713,522</b>

<sup>1/</sup> Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.

## APPENDIX: 1991 AND 2011 STATE-LOCAL REALIGNMENT TABLES

### 2011 Realignment Estimate at 2024 Governor's Budget\*

	(\$ millions)					
	2022-23	2022-23 Growth	2023-24	2023-24 Growth	2024-25	2024-25 Growth
<b>Law Enforcement Services</b>	<b>\$3,336.8</b>		<b>\$3,432.1</b>		<b>\$3,512.8</b>	
Trial Court Security Subaccount	637.3	9.5	646.8	8.1	654.9	6.9
Enhancing Law Enforcement Activities Subaccount <sup>1</sup>	489.9	340.8	489.9	363.0	489.9	364.0
Community Corrections Subaccount	1,893.2	71.4	1,964.7	60.6	2,025.2	51.9
District Attorney and Public Defender Subaccount	76.7	4.8	81.5	4.0	85.5	3.5
Juvenile Justice Subaccount	239.7	9.5	249.2	8.1	257.3	6.9
<i>Youthful Offender Block Grant Special Account</i>						
	(226.4)		(235.4)		(243.1)	
<i>Juvenile Reentry Grant Special Account</i>	(13.2)		(13.8)		(14.2)	
<b>Growth, Law Enforcement Services</b>		<b>436.0</b>		<b>443.7</b>		<b>433.3</b>
<b>Mental Health<sup>2</sup></b>	<b>1,120.6</b>	8.8	<b>1,120.6</b>	7.5	<b>1,120.6</b>	6.4
<b>Support Services</b>	<b>5,125.9</b>		<b>5,293.9</b>		<b>5,436.4</b>	
Protective Services Subaccount	2,984.7	79.6	3,064.3	67.5	3,131.8	57.9
Behavioral Health Subaccount	2,141.1	88.5	2,229.6	75.0	2,304.6	64.3
<i>Women and Children's Residential Treatment Services</i>	(5.1)		(5.1)		(5.1)	
<i>County Intervention Support Services Subaccount<sup>3</sup></i>	(3.7)					
<b>Growth, Support Services</b>		<b>176.9</b>		<b>150.0</b>		<b>128.6</b>
<b>Account Total and Growth</b>	<b>\$10,196.1</b>		<b>\$10,440.3</b>		<b>\$10,631.7</b>	
<b>Revenue</b>						
1.0625% Sales Tax	9,345.5		9,563.9		9,750.1	
General Fund Backfill <sup>4</sup>	20.0		23.5		27.7	
Motor Vehicle License Fee	830.7		852.9		853.9	
<b>Revenue Total</b>	<b>\$10,196.1</b>		<b>\$10,440.3</b>		<b>\$10,631.7</b>	

\*This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

<sup>1</sup> Base Allocation is capped at \$489.9 million. Growth does not add to the base.

<sup>2</sup> Base Allocation is capped at \$1,120.6 million. Growth does not add to the base.

<sup>3</sup> This chart reflects a fiscal year 2022-23 transfer of \$3.7 million from Behavioral Health Subaccount Fund 3217 to the County Intervention Support Services Subaccount Fund 3325 pursuant to GOV 30027.10

<sup>4</sup> General Fund backfill pursuant to Revenue and Taxation Code sections 6363.9 and 6363.10; Chapter 690, Statutes of 2019; Chapter 78, Statutes of 2020; Chapter 82, Statutes of 2021; Chapter 225, Statutes of 2022; Chapter 251, Statutes of 2022; Chapter 442, Statutes of 2023; Chapter 833, Statutes of 2023; and Chapter 56, Statutes of 2023.