

May Revision

2021-22



Gavin Newsom, Governor
State of California

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INTRODUCTION

California is turning the corner on its most challenging year in recent history. The COVID-19 Pandemic has tested all Californians and stressed hospitals, health systems, schools, and the overall economy. Despite these extraordinary challenges, the state's science-based approach saved countless lives and coupled with its strong fiscal position provided the foundation for a strong economic recovery. It also provided the resources for immediate relief to families and businesses. California now has one of the lowest COVID-19 positivity rates in the nation and the state is on track to open up by this summer.

The May Revision stands in stark contrast to the budget of one year ago. Compared to a projected budget deficit of \$54 billion a year ago, the state now has a projected \$75.7 billion surplus. Combined with over \$25 billion in federal relief, this supports a \$100 billion California Comeback Plan—a once-in-a-lifetime opportunity to not only speed the state's recovery from the pandemic, but to address long-standing challenges and provide opportunity for every California family—regardless of their income, race, or ZIP code.

OVERALL BUDGET STRUCTURE

The May Revision includes \$24.4 billion in reserves—critical to a strong fiscal foundation, as last year clearly demonstrated. The reserve funds include: \$15.9 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund) for fiscal emergencies,

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\$450 million in the Safety Net Reserve, \$4.6 billion in the Public School System Stabilization Account, and an estimated \$3.4 billion in the state's operating reserve.

The May Revision continues to pay down the state's long-term retirement liabilities and reflects \$3.4 billion in additional payments required by Proposition 2 in 2021-22 and \$7.9 billion in additional payments over the next three years. The improved revenue forecast also allows for the elimination of \$2 billion in proposed program suspensions that were delayed at the Governor's Budget. Additionally, for some bargaining units, employee compensation reductions and pay deferrals will end automatically by provisions of their agreements, and the California Department of Human Resources is inviting the remaining bargaining units through collective bargaining to discuss revising these agreements.

While the economic outlook and revenue have improved dramatically, the same budget resiliency that helped the state through the pandemic will continue to be critical to protect programs in the future and to prepare the state for emergencies. The forecast does not project large structural deficits; however, risks to the economic forecast remain—new coronavirus variants, vaccine hesitancy, higher inflation if disrupted supply chains cannot support increased consumer demand, and a stock market decline that would impact state revenues. These risks, together with the one-time nature of the federal funds and new revenue, constrain the state's ability to significantly expand ongoing commitments.

The State Appropriations Limit, or "Gann Limit," caps the amount of revenues from proceeds of taxes that can be appropriated by the state, which constrains state spending and requires revenues over the two-year limit to be allocated evenly between schools and taxpayer refunds. The Governor's Budget projected that the state could exceed the limit over the 2018-19 and 2019-20 two-year period by \$102 million. Based on final revenues, the limit for that two-year period was not exceeded. However, the May Revision projects that the limit for the 2020-21 and 2021-22 fiscal years will be exceeded by \$16.2 billion. This estimate will continue to be revised until May 2023. The May Revision allocates \$16.2 billion to comply with the limit, including tax refunds through a Golden State Stimulus and allocating half of the funds to K-14 schools in 2022-23. Given the uncertainty around the calculation of the limit in future years, the multi-year projections do not assume additional payments.

IMMEDIATE RELIEF FOR FAMILIES AND SMALL BUSINESSES

Earlier this year, the Governor and the Legislature acted swiftly to approve an historic relief package that provided a \$600 Golden State Stimulus to 5.7 million households and \$2.5 billion for impacted small businesses. The May Revision proposes a major expansion to the Golden State Stimulus, providing tax refunds to middle-class families that make an adjusted \$75,000 or less. Under the plan, two-thirds of Californians will benefit from \$600 payments. Qualified families with dependents, including undocumented families, will also be eligible for an additional \$500 payment.

The May Revision continues to invest in small businesses—the backbone of the state's economy—by adding \$1.5 billion to the state's earlier investments that have helped nearly 200,000 businesses to stay open and keep Californians employed.

During the pandemic, many Californians have been able to remain in their homes through the help of state and federal eviction moratoriums and significant federal investments that have helped pay for rents and utilities and provided mortgage assistance. The May Revision also includes \$2 billion to pay down unpaid utility debt, including water and electricity, that has accumulated during the pandemic.

EXPANDING OPPORTUNITY FOR ALL CALIFORNIANS

California's K-12 and higher education systems will be pivotal to an equitable recovery, but also to an inclusive future that invests in each child. One-time federal funding and the significant increase in state funds present an historic opportunity to invest in students and raise the arc of the next generation of Californians.

K-14 EDUCATION

Under Proposition 98, the significant increase in state's revenues results in Proposition 98 funding of \$93.7 billion—nearly \$14,000 per pupil. This is a significant increase over the record level estimated in January. In addition, earlier this year the federal government allocated K-12 schools approximately \$15 billion and the California Community Colleges \$2.3 billion. In addition, the State Appropriations Limit will result in a supplemental payment to schools of approximately \$8 billion, which is scheduled to be allocated in 2022-23. This payment will assist districts over the next several years as one-time federal funds expire.

CALIFORNIA FOR ALL KIDS PLAN

The May Revision re-envisioned the K-12 public education through the California for All Kids Plan—a five-year investment strategy that addresses equity gaps by:

- Offering year-round access to enrichment and extended-day supplemental education programs in low-income communities;
- Improving teacher preparation and training;
- Increasing staff, including counselors, social workers and nurses; and
- Increasing access to school-based nutrition.

The plan also proposes beginning universal access to transitional Kindergarten starting in 2022-23 and fully implemented by 2024-25. With more children entering the K-12 school system, more preschool and childcare slots will become available to serve the 0-3-year-old population. The May Revision also proposes to fund 100,000 new childcare slots to further support working parents.

TRANSFORMING CHILDREN AND YOUTH BEHAVIORAL HEALTH

The May Revision proposes a statewide and comprehensive transformation of the behavioral health system for all Californians age 25 and younger—changing the life trajectory of children so that they can grow up to be healthier, both physically and mentally. This proposal will expand evidenced-based programs, train new behavioral health workers, and create a statewide portal that can connect young people with telehealth visits, and other interactive tools. The proposal is designed to identify behavioral health conditions earlier and improve outcomes.

INCREASING COLLEGE AFFORDABILITY

The May Revision reflects the Administration's priority to increase equity, access and affordability across California's public higher education segments. The May Revision reflects an additional 2 percent of base growth on top of the 3 percent proposed in January, and a complete restoration of the reductions in the 2020 Budget Act. Altogether, University of California's ongoing General Fund will increase by \$506.9 million, while the California State University's ongoing General Fund will increase by \$596.1 million. These are the largest ongoing investments in recent history, and are being made with the understanding that both segments will maintain undergraduate tuition and fees at current levels for the 2021-22 academic year, reduce equity gaps,

provide more online learning opportunities, and better align student learning with workforce needs.

The May Revision also includes \$4 billion over two years to develop more student housing, which will defray a significant cost of attending college and support students who often have to choose between education and work to support themselves and their families.

In an effort to make college more affordable for the 3.8 million low-income children in public schools today, the May Revision invests \$2 billion to create a California Child Savings Accounts program. Seeded with \$500 per account, the value of deposits will grow over time, providing a direct path to affording postsecondary education and helping address equity gaps. New accounts will be created for each subsequent income class of low-income first graders.

The May Revision further increases college affordability by investing \$1 billion over two years to establish the Learning-Aligned Employment program—an endowment housed at the University of California with annual proceeds distributed to the state's public higher education segments to develop partnerships with businesses to train and employ underrepresented students in jobs that align with their educational pathways and can lead to permanent career opportunities.

Recognizing the many workers displaced from their jobs during the pandemic, the May Revision includes a \$1 billion grant program through the California Student Aid Commission for the state's public higher education segments to make grants available to such workers to reskill or upskill and put them on a path toward upward economic mobility and security. The May Revision also includes billions in additional investments that connect people with training, establish more quality jobs, and grow California's workforce. In response to the disproportionate impacts of the pandemic on certain sectors and workers, these opportunities focus on training and apprenticeships, retraining and supporting displaced workers, and developing career pathways for low-income workers.

CONFRONTING HOMELESSNESS AND HOUSING AFFORDABILITY

Combined with the Governor's Budget proposals, the May Revision makes the largest investment to combat homelessness in the state's history—\$11.87 billion over the next two fiscal years. Project Roomkey, deployed during the depths of the pandemic, has helped to house homeless individuals and families. Since last fall, Homekey has acquired and rehabilitated 6,000 units of permanent housing. Total proposed funding of

\$7 billion for Homekey will further expand the portfolio of housing, including behavioral health continuum infrastructure and housing for low-income seniors. The May Revision also includes \$1 billion for the CalWORKS housing support program, \$560 million to address family homelessness, and \$25 million for veterans homelessness.

The May Revision makes numerous investments to address housing affordability, including accessory dwelling unit financing, regional planning grants, funds to preserve affordable units, and funds to promote homeownership.

HEALTH CARE EQUITY AND AFFORDABILITY AND AGING

The May Revision continues to support the California Advancing and Innovating Medi-Cal (CalAIM), a transformation of the delivery of Medi-Cal to manage risk and improve outcomes. The May Revision includes \$315 million to centralize administrative and clinical data from the state, health plans, and health providers to better identify and stratify member risk to support CalAIM implementation and health care equity.

The May Revision makes a significant ongoing \$1 billion (\$859 million General Fund) investment to expand Medi-Cal coverage to undocumented adults aged 60 years and older, beginning in May of 2022. This proposal will increase health care affordability and is a milestone on the path toward universal health coverage. Other proposals include expanded Medi-Cal eligibility for postpartum individuals, doula services as a covered benefit in Medi-Cal, and subsidized zero-dollar premium plans.

The May Revision also includes investments to support older adults—providing a cost-of-living-increase to State Supplemental Payment grants, augmenting Alzheimer's investments, and strengthening older adults' recovery from isolation and health impacts caused by the pandemic.

INFRASTRUCTURE FOR THE NEXT CENTURY

WATER AND DROUGHT

Combined with the Governor's Budget, the May Revision proposes \$5.1 billion over multiple years for a water resilience package to expand and protect water supplies across the state. The package supports drinking water and wastewater infrastructure, water recycling projects, immediate drought support to communities, and improves long-term ecological conditions to help species cope with climate change.

SUSTAINABLE AGRICULTURE

Ongoing climate change—evidenced by decreased water availability, increased floods, and changing weather—has put increased pressure on California's farmers. The May Revision builds on investments in the Governor's Budget to accelerate the transformation of the agriculture sector, together providing \$794 million for implementing climate smart agriculture, improving drought resiliency, increasing pollinator habitat, and transitioning to safer, more sustainable pest management.

ZERO EMISSION TRANSPORTATION

California is committed to developing an equitable Zero Emission Vehicle (ZEV) market, not only as a foundational tool to protect public health and combat climate change, but as a focal point of economic development and job creation. To further reduce the impacts of climate change, the May Revision builds on the Governor's Budget ZEV proposals, bringing investments to \$3.2 billion over the next three years. Investments include funding for clean transportation programs that will improve air quality by expanding zero-emission short-haul trucks, transit buses, and school buses. Funding also supports additional charging and fueling infrastructure to support more clean vehicles. Accelerating the adoption of ZEVs will allow the zero-emission industry to capitalize on scale, create more jobs and economic development, and help bring down the cost of ZEV deployment around the world.

CLIMATE RESILIENCE

The May Revision proposes \$1.3 billion in targeted investments for communities that are facing the impacts of climate change today. This includes proposals addressing extreme heat, sea level rise, and community-driven infrastructure investments in the most disadvantaged communities, which are often the hardest hit by climate change and other health, environmental, and economic challenges. Specific investments in environmental justice are described below.

TRANSPORTATION

The May Revision proposes significant investments in infrastructure, including \$4.2 billion for the High Speed Rail project, \$3.1 billion for high-priority rail and active transportation projects, and \$2.4 billion to repair the state highways and local bridges, and accelerate rail projects. Taken together, these investments will result in thousands of new jobs and spur even more economic activity throughout the state.

BROADBAND

The pandemic has underscored the importance of making broadband accessible and affordable for educational, employment, and health purposes. The May Revision reflects a plan to achieve equitable statewide access to high-speed broadband internet service, and proposes a \$7 billion investment to expand broadband infrastructure and enhance access.

ENVIRONMENTAL JUSTICE

The May Revision takes unprecedented steps to address legacy environmental issues that impact disadvantaged communities, including historic investments in reducing the harmful emissions from the state's transportation system and efforts to reduce harmful pesticides. It also reflects new strategies across programs to invest in community-led initiatives. In addition, the May Revision invests an additional \$200 million, bringing the total to \$500 million, to accelerate the cleanup of contaminated properties throughout the state in impacted communities and proposes an additional \$291 million for cleanup of additional properties near the former Exide facility in Vernon. The May Revision further invests in protecting Californians from harmful pesticides by implementing a notification system to provide important information about local pesticide use. The May Revision also includes \$200 million to plug abandoned orphaned oil and gas wells, many located near low-income residential areas.

EMERGENCY RESPONSE AND PREPAREDNESS

During 2020, California experienced two unprecedented emergencies—a global COVID-19 Pandemic and the worst wildfire season in state history. A devastating drought and another challenging fire season may be in the near future as well. So California can continue to prepare to respond to these and other emergencies, the May Revision proposes approximately \$100 million for the Governor's Office of Emergency Services (Cal OES) to strengthen the state's emergency capacity and capabilities.

The May Revision includes \$250 million for Cal OES to implement an equitable all hazards grant program focused on building resiliency in disadvantaged communities and providing assistance to communities who often lack resources or expertise in drafting competitive grant applications to leverage federal and private funds.

The May Revision together with the Governor's Budget adds another \$708 million to the already approved \$536 million wildfire package enacted earlier this year, bringing the total wildfire package to \$1.2 billion to prepare for and mitigate devastating fires this season and beyond.

RESULTS-ORIENTED GOVERNMENT

The May Revision will promote effective government with additional investments to improve the state's ability to respond rapidly to emergencies and continue the critical work to bring government closer to the people—an imperative underscored by more Californians adapting to remote work—during and after the pandemic. The May Revision includes funding for the Employment Development Department to take lessons learned during the pandemic to modernize its benefits system.

The Department of Motor Vehicles (DMV) has successfully moved their field offices online to offer a digital DMV to customers during the pandemic, and will begin work to improve operations and modernize its program as well as replace its decades-old information technology system to make it easier to access DMV services. Additionally, the May Revision includes \$50 million for the Department of Technology to pilot a more flexible way to support state information technology system upgrades to ensure the state can more effectively deliver services and benefits.

HISTORIC INVESTMENTS AND LOOKING AHEAD

California's prudent fiscal planning is supporting the state's recovery and affording significant investments in a more equitable future. The combination of the state's surplus and federal relief funds are allowing California to make a once-in-a-lifetime investment in the future of the state. However, it is unreasonable to believe this growth in resources will continue at this pace over the long term. Accordingly, the May Revision continues maintaining a balanced budget, pays down long-term liabilities, and builds strong reserves to enhance budget resiliency—a necessary predicate for maintaining programs in the future.

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SUMMARY CHARTS

This section provides various statewide budget charts and tables.

2021-22 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2020-21	2021-22
Prior Year Balance	\$5,658	\$27,435
Revenues and Transfers	\$187,020	\$175,921
Total Resources Available	\$192,678	\$203,356
Non-Proposition 98 Expenditures	\$98,166	\$130,421
Proposition 98 Expenditures	\$67,077	\$66,374
Total Expenditures	\$165,243	\$196,795
Fund Balance	\$27,435	\$6,561
Reserve for Liquidation of Encumbrances	\$3,175	\$3,175
Special Fund for Economic Uncertainties	\$24,260	\$3,386
Public School System Stabilization Account	\$1,984	\$4,601
Safety Net Reserve	\$450	\$450
Budget Stabilization Account/Rainy Day Fund	\$12,494	\$15,939

Note: Numbers may not add due to rounding.

General Fund Expenditures by Agency

(Dollars in Millions)

	2020-21	2021-22	Change from 2020-21	
			Dollar Change	Percent Change
Legislative, Judicial, Executive	\$7,848	\$11,328	\$3,480	44.3%
Business, Consumer Services & Housing	790	1,177	387	49.0%
Transportation	240	1,843	1,603	667.9%
Natural Resources	4,809	8,888	4,079	84.8%
Environmental Protection	2,492	1,214	-1,278	-51.3%
Health and Human Services	43,939	54,159	10,220	23.3%
Corrections and Rehabilitation	12,386	13,794	1,408	11.4%
K-12 Education	65,643	64,412	-1,231	-1.9%
Higher Education	17,801	20,589	2,788	15.7%
Labor and Workforce Development	140	843	703	502.1%
Government Operations	2,157	3,644	1,487	68.9%
General Government:				
Non-Agency Departments	969	1,735	766	79.1%
Tax Relief/Local Government	1,182	513	-669	-56.6%
Statewide Expenditures	4,847	12,656	7,809	161.1%
Total	\$165,243	\$196,795	\$31,552	19.1%

Note: Numbers may not add due to rounding.

2021-22 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$11,328	\$4,024	\$267	\$15,619
Business, Consumer Services & Housing	1,177	1,184	1,220	3,581
Transportation	1,843	15,135	4,417	21,395
Natural Resources	8,888	1,629	886	11,403
Environmental Protection	1,214	4,794	17	6,024
Health and Human Services	54,159	26,327	-	80,486
Corrections and Rehabilitation	13,794	3,254	-	17,048
K-12 Education	64,412	134	1,515	66,061
Higher Education	20,589	158	936	21,683
Labor and Workforce Development	843	855	-	1,698
Government Operations	3,644	244	8	3,896
General Government				
Non-Agency Departments	1,735	1,869	2	3,606
Tax Relief/Local Government	513	2,929	-	3,442
Statewide Expenditures	12,656	-810	1	11,847
Total	\$196,795	\$61,726	\$9,269	\$267,789

Note: Numbers may not add due to rounding.

General Fund Revenue Sources
(Dollars in Millions)

	2020-21	2021-22	Change from 2020-21	
			Dollar Change	Percent Change
Personal Income Tax	\$124,151	\$123,298	-\$853	-0.7%
Sales and Use Tax	27,936	28,986	1,050	3.8%
Corporation Tax	20,120	18,106	-2,014	-10.0%
Insurance Tax	3,348	3,428	80	2.4%
Alcoholic Beverage Taxes and Fees	385	390	5	1.3%
Cigarette Tax	60	58	-2	-3.3%
Motor Vehicle Fees	40	36	-4	-10.0%
Other	6,124	5,064	-1,060	-17.3%
Subtotal	\$182,164	\$179,366	-\$2,798	-1.5%
Transfer to the Budget Stabilization Account/Rainy Day Fund	4,856	-3,445	-8,301	-170.9%
Total	\$187,020	\$175,921	-\$11,099	-5.9%

Note: Numbers may not add due to rounding.

2021-22 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2020-21
Personal Income Tax	\$123,298	\$3,178	\$126,476	-\$446
Sales and Use Tax	28,986	13,140	42,126	1,794
Corporation Tax	18,106	-	18,106	-2,014
Highway Users Taxes	-	8,427	8,427	699
Insurance Tax	3,428	-	3,428	80
Alcoholic Beverage Taxes and Fees	390	-	390	5
Cigarette Tax	58	1,883	1,941	-13
Motor Vehicle Fees	36	6,884	6,920	287
Other	5,064	27,092	32,156	-589
Subtotal	\$179,366	\$60,604	\$239,970	-\$197
Transfer to the Budget Stabilization Account/Rainy Day Fund	-3,445	3,445	-	-
Total	\$175,921	\$64,049	\$239,970	-\$197

Note: Numbers may not add due to rounding.

EQUITABLE AND BROAD BASED RECOVERY

As it recovers from the COVID-19 Recession, California will continue to leverage what is unique to the state—a culture of innovation, a world-class educational system, a commitment to climate science, and a strong and skilled workforce.

The COVID-19 Pandemic and the resulting recession brought a halt to more than ten years of economic growth and ushered in a nationwide recession in February 2020. California's unemployment rate increased from a low of 4.3 percent in February to a record high of 16.0 percent in April. The pandemic also exacerbated underemployment, which averaged 17.1 percent in 2020, over twice as high as the 2019 annual average rate of 8.3 percent. While the labor force participation rate normally stays fairly constant, during this recession, the percentage of the working age population in the labor force decreased from 62.3 percent in the first quarter of 2020 to 59.8 percent in the second quarter, as parents and others dropped out of the workforce. Almost half of all jobs in leisure and hospitality, a low-wage sector, were lost; higher wage sectors such as professional and business services largely shifted to working from home. There were still 1.6 million fewer employed Californians in November than in February.

The Coronavirus Response and Relief Supplemental Appropriations Act was enacted in late December, helping millions of Californians maintain unemployment insurance or other forms of support starting at the end of 2020. Further, on March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 to combat the pandemic, including public health and economic impacts.

As discussed in the Introduction and Revenue Estimates chapters, revenues are up significantly over the Governor's Budget forecast. This is a result of strong cash trends, two major federal relief bills since the beginning of the year, continued stock market appreciation, and a significantly upgraded economic forecast. The state will also receive \$27 billion Coronavirus State Fiscal Recovery Funds from the American Rescue Plan Act of 2021 (ARPA). This brings the total amount of federal stimulus funds for state programs to over \$275 billion. See the Pandemic Response and Federal Assistance Chapter for additional information on federal assistance, including the Administration's planned allocation of Recovery Funds. Together, the surplus and federal funds will allow the state to make additional investments to support all sectors of the state, and improve the lives of all Californians.

IMMEDIATE ACTION

The Governor's Budget included several proposals for immediate action by the Legislature, and in February, a comprehensive package of budget actions was enacted to speed needed relief to individuals, families and businesses suffering the most significant economic hardships due to the pandemic. Specifically, the package established the Golden State Stimulus and Golden State grant program, which provided \$600 one-time payments to millions of low-income Californians; added \$2.075 billion (on top of a \$500 million investment) to California's Small Business COVID-19 Relief Grant Program; provided certain small businesses impacted by the pandemic license renewal fee waivers; provided additional resources for critical child care services; and provided emergency financial aid for community college students; among other investments. This critical assistance, totaling \$7.6 billion, has helped keep our communities afloat as the state begins recovery from the pandemic.

Additionally, in April, California took early action to conform state tax law to the federal treatment of Paycheck Protection Program (PPP) forgiven loans. This conformity will allow most of the hundreds of thousands of small businesses in California that received a federal PPP loan to avoid paying tax on that income and to be able to deduct expenses related to the loan in the event the loan is forgiven by the federal government.

The May Revision builds on these investments and continues the state's commitment to support individuals and businesses most heavily impacted by the pandemic with significant investments.

RELIEF FOR INDIVIDUALS AND BUSINESSES

The May Revision proposes additional state actions to provide relief to low-income families, small businesses and nonprofits that have been hardest hit by the pandemic.

GOLDEN STATE STIMULUS II

As discussed in the Revenue Estimates Chapter, the Golden State Stimulus II (GSS II) expands the Golden State Stimulus program established through the immediate budget action. The stimulus is targeted to low- and moderate-income households; specifically, the GSS II program will provide stimulus payments to three groups:

- **Low to Middle Income**—\$600 one-time stimulus payments to all taxpayers filing a 2020 tax year return with adjusted gross income of \$75,000 or less who did not already receive a Golden State Stimulus. This component is expected to cost about \$5.6 billion and assist about 9.4 million tax filers.
- **Families**—\$500 one-time stimulus payments to all taxpayers with adjusted gross income of \$75,000 or less with a dependent on the return. This component is expected to cost \$2.2 billion and assist 4.3 million tax filers. (Some of these families will receive \$1,100 if they also qualify for the low- to middle-income stimulus above).
- **Undocumented Families**—\$500 one-time stimulus payments to all ITIN taxpayers with adjusted gross income of \$75,000 or less and a dependent. This component is expected to cost \$260 million and assist 520,000 tax filers. (These families are eligible for both family credits so will receive \$1,000).

SMALL BUSINESS GRANTS AND CULTURAL INSTITUTIONS

As referenced in the immediate action section, \$2.5 billion has been allocated to provide immediate relief to small businesses affected by the pandemic. This funding supported six rounds of grants to small businesses, including a special round for nonprofit cultural institutions. As of May 2021, approximately 198,000 small businesses either have been or will be awarded grants. Due to the high demand for the program, after the sixth round of funding, it is estimated that approximately 180,000 applications will remain unfunded.

The May Revision proposes \$1.5 billion federal ARPA funds for three additional rounds of grants to provide relief to more small businesses. The Office of the Small Business

Advocate, within the Governor's Office of Business and Economic Development (GO-Biz), will first offer two closed rounds to target the applicants who are currently waitlisted—some of whom have been on the list since December—and then offer a final round that will be open to both new applicants and waitlisted applicants, to capture any entities who have not applied before or may still be on the waitlist.

Of the \$50 million allocated for nonprofit cultural institutions, only \$34 million was awarded to eligible recipients, leaving \$16 million available for this purpose. The May Revision proposes opening additional rounds of grants for eligible nonprofit cultural institutions until the full \$50 million has been awarded.

CALIFORNIA JOBS INITIATIVE

The May Revision builds on the California Jobs Initiative proposed in the Governor's Budget to support California business owners as they reopen their doors, rehire staff, and expedite the state's economic recovery. This initiative focuses on job creation and retention, regional development, small businesses, and climate innovation. The May Revision includes additional investments in the film industry, tourism, and California's ports.

SMALL BUSINESSES

STATE SMALL BUSINESS CREDIT INITIATIVE

The American Rescue Plan Act of 2021 included \$10 billion for the reauthorization of the State Small Business Credit Initiative (SSBCI), which was initially created in 2010, to strengthen state programs that support financing of small businesses. In 2010, California received \$168 million from the SSBCI, and the funds were split equally between the California Infrastructure and Economic Development Bank (IBank) and the State Treasurer's Office. California operated three of the five SSBCI authorized programs, the California Capital Access Program for Small Business, California Capital Access Program Collateral Support at California Pollution Control Finance Authority, and the Small Business Loan Guarantee Program that is now administered by IBank.

On April 9, 2021, the U.S. Treasury released a by-state allocation of the first \$6.2 billion of the \$10 billion appropriated, and California is estimated to receive \$895 million in three tranches as the funds are used. The U.S. Treasury is still developing their guidance for programs and anticipates rolling that out over the next two to six months. All states are required to submit a program application by December 11, 2021. IBank and the State

Treasurer's Office have begun stakeholder engagement and established an SSBCI working group in anticipation.

IBANK SMALL BUSINESS LOAN GUARANTEE PROGRAM

The Governor's Budget included \$50 million one-time General Fund in 2021-22 for IBank's Small Business Loan Guarantee Program to continue to provide loans as businesses recover from the economic impacts of COVID-19. Historically, the Small Business Loan Guarantee Program used state funds to supplement the SSBCI funds and were only used for guarantees that were not eligible for SSBCI. Given that additional SSBCI funding is available, the May Revision reduces the amount available for the Small Business Loan Guarantee Program to \$20 million one-time General Fund to support guarantees that are not eligible for the SSBCI funds.

The May Revision continues the following proposals that were included in the Governor's Budget:

- **Main Street Small Business Tax Credit**—Builds upon the Main Street hiring credit created by Chapter 41, Statutes of 2020 (SB 1447) which allocated \$147 million to create a new Main Street hiring credit to provide assistance to small businesses that have hired and retained workers since the explosion of unemployment in the second quarter of 2020.
- **Mitigating the SALT Deduction Limitation for Pass-through Entity Owners**—Creates an elective tax for pass-through entities to help mitigate the harmful impacts on California business owners of the limitation on state and local tax deductions by the 2017 federal Tax Cut and Jobs Act.
- **IBank's Small Business Finance Center and the California Rebuilding Fund**—Provides financial assistance to small businesses through IBank's programs including the California Rebuilding Fund, with a focus on programs that benefit underserved businesses in California.
- **The California Dream Fund**—Supports micro-grants of up to \$10,000 to seed entrepreneurship and small business creation in underserved small business groups that are facing opportunity gaps, including immigrant Californians and Californians that speak limited English. The May Revision shifts the funding proposed for these microgrants from 2020-21 to 2021-22.

JOBS AND REGIONAL DEVELOPMENT

FILM TAX CREDIT

The May Revision proposes a one-time expansion of the film credit. The Film and Television Tax Credit Program 3.0 provides tax credits for eligible films produced in California. This credit retains and grows production jobs in the economically important film industry and stimulates economic activity statewide, enhancing California's position as the leading location for all forms of media content creation nationally and globally. The May Revision proposes a one-time expansion of the film credit by \$30 million in the 2021-22 fiscal year for productions that relocate from other jurisdictions.

In addition, the May Revision continues the following proposals included in the Governor's Budget:

- Expansion of the California Competes Tax Credit (CalCompetes) by \$180 million. This proposal has been modified by moving the \$90 million that had been planned as an early budget action for 2020-21 into 2021-22.
- Establish a one-time \$250 million CalCompetes grant program for businesses meeting certain criteria to locate in California or to stay, grow, and create quality full-time jobs in the state. The May Revision shifts support of the grant program from the General Fund to the federal ARPA funds.

REVITALIZE CALIFORNIA TOURISM

California's travel and hospitality industry is one of the largest economic drivers for the state. The pandemic has impacted travel and tourism more than any other industry and almost half of all leisure and hospitality workers lost their jobs. The California Office of Tourism, within GO-Biz, works in close coordination with Visit California to promote California as a premier travel destination. The May Revision includes \$95 million one-time federal ARPA funds in 2021-22 to implement strategic media recovery campaigns that will jump start the recovery of the travel and tourism industry once it is safe to travel.

ECONOMIC SUPPORT FOR PORTS

The May Revision includes \$250 million one-time federal ARPA funds in 2021-22 for GO-Biz to allocate to California ports which provide a vital role in the state's economy. This funding is intended to address some of the revenue impacts suffered by ports as a

result of the pandemic, especially as a result of the loss of tourism. These ports drive economic activity, regional employment, and recovery for local jurisdictions and the state.

CLIMATE INNOVATION

CLIMATE CATALYST FUND

The 2020 Budget Act included statutory changes to establish the Climate Catalyst Fund, a financing tool to provide revolving loans for climate-related projects. The May Revision includes the following proposals for resources that will be deposited into the Climate Catalyst Fund. For additional information, see the Climate Change, Environmental Protection, and Sustainable Agriculture Chapters.

- **Climate Smart Agriculture for Sustainability and Resiliency**—The May Revision maintains the \$50 million one-time General Fund for agriculture-specific activities (i.e., methane reduction projects; equipment replacement; water efficiency; healthy soils; and energy efficiency for food processing).
- **Wildfire and Forest Resilience**—The Governor's Budget included \$47 million General Fund in 2020-21 in the wildfire and forest resilience package. The early action package ultimately included \$16 million one-time General Fund in 2020-21 for the Climate Catalyst Fund. The May Revision shifts the remaining \$31 million one-time General Fund from 2020-21 to 2021-22.
- **Recycling Infrastructure**—The May Revision includes \$50 million one-time General Fund to provide low-interest loans to attract recycling and reuse businesses to California.

The May Revision continues with the following proposal that was included in the Governor's Budget:

- **California Alternative Energy and Advanced Transportation Financing Authority**—Provide an additional one-time investment of \$100 million in 2021-22 to the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) sales tax exclusion program. This would bring the total allocation for 2021-22 to \$200 million.

WORKFORCE DEVELOPMENT

Despite marked improvements in recent months, the pandemic continues to negatively affect the state's labor market—especially for certain sectors and populations. Further, the pandemic has highlighted the inequalities many workers face. To address these inequities as the state economy recovers, the May Revision includes investment in the state's workforce development programs and helps strengthen the link between education, training, and industry.

REGIONAL RESILIENCE

The May Revision includes \$750 million to provide financial support to regional and local stakeholder collaboratives to plan and implement region- and industry-specific economic transition strategies, with a focus on supporting high road industries, quality job creation, and workforce strategies in those sectors or regions, such as Kern County, most affected by the state's transition to carbon neutrality. Strategies will be tied to the Budget's direct infrastructure investments across multiple categories—housing, transportation, advanced energy, broadband, and natural resources—all of which will prioritize the creation of high quality jobs for regions across the state.

Additional details on this investment are detailed in the Labor and Workforce Development Chapter.

SUPPORTING LINKAGES BETWEEN HIGHER EDUCATION AND EMPLOYMENT OPPORTUNITIES

As referenced in the Higher Education and Labor and Workforce Development Chapters, the May Revision includes \$157 million one-time General Fund for a regional workforce investment package between the California Workforce Development Board and the California Community Colleges Chancellor's Office (Chancellor's Office) that strengthens linkages between workforce training and the CCCs, using existing regional consortia to build upon existing training programs and develop new programs.

OTHER HIGHER EDUCATION INVESTMENTS SUPPORTING WORKFORCE DEVELOPMENT

As referenced in the Higher Education Chapter, the Budget reflects the following higher education workforce development related proposals:

- **Learning-Aligned Employment**—The May Revision includes \$1 billion one-time General Fund, split evenly between fiscal years 2021-22 and 2022-23, to establish the Learning-Aligned Employment program, which would promote learning-aligned, long-term career development for the University of California, California State University, and CCC students. This program would be established as an endowment to sustain ongoing support.
- **Education and Training Support Grants for Displaced Workers**—The May Revision includes \$1 billion in one-time federal ARPA funds for the Student Aid Commission to establish a one-time grant program to support displaced workers in seeking reskilling and up-skilling opportunities, educational opportunities, or to support some of the costs to start a business.
- **Regional K-16 Education Collaboratives**—The May Revision allocates the \$250 million one-time General Fund set-aside from the Governor's Budget for grants to establish several regional K-16 collaboratives focused on streamlining educational pathways leading to in-demand jobs.
- **High Road Training Partnerships and Regional Partnerships**—An increase of \$20 million one-time Proposition 98 General Fund to support California Community College participation in High Roads Training Programs and regional partnerships developed by the California Workforce Development Board.
- **Community College Strong Workforce Program**—An increase of approximately \$12.4 million ongoing Proposition 98 General Fund to increase Program funding by 5 percent.
- **Work-Based Learning**—An increase of \$10 million one-time Proposition 98 General Fund to develop work-based learning opportunities in (1) cloud computing, and (2) zero emissions and supply chain fields.
- **Competency-Based Education Pilot**—An increase of \$10 million one-time Proposition 98 General Fund to pilot implementation of competency-based education at select community colleges.

- **California Community College Registry Modernization**—An increase of \$1 million ongoing Proposition 98 General Fund to support the modernization of the California Community College Registry, which is an online database of job opportunities for the California Community Colleges.

LABOR AND WORKFORCE DEVELOPMENT PROGRAMS

The Governor's Budget proposed \$25 million one-time General Fund as part of an early action package to expand the High Road Training Partnership (H RTP) model in several specified industry sectors. As referenced in the Labor and Workforce Development Chapter, the May Revision builds upon this investment and includes \$160 million to expand existing workforce programs. These proposals include:

- High Road Training Partnership Expansion—\$90 million one-time General Fund
- Employment Training Panel Expansion—\$50 million one-time General Fund
- Housing Apprenticeships—\$20 million one-time General

These expanded workforce efforts, in addition to those included with the California Workforce Development Board and the California Community Colleges Chancellor's Office package mentioned above, will provide over 50,000 new training and earn and learn opportunities to support the state's economic recovery. More information on the California Workforce Development Board's investments can be found in the Labor and Workforce Development Chapter.

INFRASTRUCTURE INVESTMENTS

As referenced in the General Government and Statewide Issues Chapter, infrastructure investments play an important role in promoting economic recovery, including creating thousands of jobs statewide. While many capital projects were paused in 2020 as a result of fiscal uncertainties related to the pandemic, the May Revision demonstrates renewed commitment to these investments as a key driver in California's economic recovery.

The May Revision proposes significant investments in both new infrastructure and maintenance of existing infrastructure, including transportation infrastructure. Building upon the investments proposed in the Governor's Budget, the May Revision proposes over \$9.7 billion of state investment in our transportation system to lead to an equitable

recovery and competitively position the state to pursue significant federal investment that aligns with the American Jobs Plan and other federal budget priorities. And billions more have been proposed for key budget packages around broadband, drought, climate, toxic cleanup, wildfire, sustainable agriculture, and zero-emission vehicles that will add even more jobs and enhance California's economic recovery.

BROADBAND

As the Governor's Budget emphasized, universal access to high-speed Internet is critical to the state's economy, education, and basic health and well-being, and will be a key component of the state's long-term recovery. The pandemic has underscored the importance of making broadband accessible and affordable for educational, employment, and health purposes. The May Revision reflects the commitment stated in the Governor's Budget to develop equitable statewide access to high-speed broadband internet service, and proposes a \$7 billion investment over three years as part of a plan to: expand broadband infrastructure, increase affordability, and enhance access to broadband for all Californians.

Both access to infrastructure and affordability of broadband service are significant barriers to closing the digital divide and present a significant challenge. Today, approximately 83.4 percent of Californians are using broadband at any speed, but only 52.4 percent of Californians are using broadband at the modern benchmark speed of 100 Mbps. Service at speeds below 100 Mbps is not enough for households who are juggling the demands of distance learning, telework, and accessing health care on-line. These numbers are an indication of lack of access, lack of quality infrastructure, and lack of affordability. Rural communities are hit the hardest with 51.3 percent of rural households without any broadband networks offering service at 100 Mbps. Tribal lands are also disproportionately impacted with 28.4 percent of homes lacking this essential broadband infrastructure. Urban communities are also impacted. Almost half of households without access to service at 100 Mbps are located in urban areas.

The May Revision proposes to expand broadband infrastructure by utilizing a combination of federal ARPA funds and state funds to build out a critical statewide "middle-mile" network. The statewide network will incentivize providers to expand service to unserved and underserved areas by substantially reducing their upfront infrastructure costs, creating new opportunities for municipal fiber networks, and promoting affordability for consumers. This essential backbone infrastructure is a foundational step towards the entire state having access to broadband. Moreover, the

EQUITABLE AND BROAD BASED RECOVERY

generational investment will create tens of thousands of quality jobs to help the state's economy recover from the pandemic.

Existing providers find it too costly to serve many areas of the state, particularly in rural areas. The May Revision proposes to create a new \$500 million Loan Loss Reserve Account to assist local governments, tribes and non-profits to secure private financing for new municipal fiber networks. These last-mile networks require large upfront investments but the return to customers, communities, and California is significant.

The state already has programs to promote access to affordable telephone services in rural areas that are costlier to serve. The May Revision also proposes to provide \$500 million of one-time federal ARPA funds to entities serving these areas to expand their services to include broadband.

Lastly, the May Revision proposes to utilize one-time federal ARPA funds within the California Advanced Services Fund to incentivize existing and new providers to fund infrastructure for "last mile" service to the state's remaining unserved households.

PANDEMIC RESPONSE AND FEDERAL ASSISTANCE

California is emerging from the global COVID-19 Pandemic with a path to reopen the state's economy on June 15, 2021. The state's aggressive response, including issuing a statewide stay-at-home order at the outset of the pandemic and instituting requirements for the use of masks and physical distancing, have reduced community transmission and saved the lives of many Californians.

California has delivered over 31 million vaccine doses—including over 6.3 million in the state's hardest-hit communities—and ranked 11th among all states in first-dose administration as of May 8. The state is allocating 40 percent of vaccine doses for the hardest-hit communities and established an equity metric to increase vaccinations in those communities. As hospitalizations continue to decline, the state is expected to reopen its economy on June 15, allowing everyday activities and businesses to open with risk reduction measures, such as encouraging vaccination and mandating masks.

ACCELERATED AND EQUITABLE VACCINATION DISTRIBUTION

With input from the state's Community Vaccine Advisory Committee, the state has focused its efforts in the last four months on implementing a rapid, equitable distribution and administration of COVID-19 vaccinations statewide.

In late January, the Government Operations Agency worked in partnership with the Department of Public Health, local health jurisdictions, and a Third-Party Administrator (Blue Shield of California) to build a statewide vaccine network to optimize allocation and administration of vaccines as well as a statewide tool, My Turn, to help people know when it is their turn to be vaccinated and schedule an appointment. In addition, the Governor's Office of Emergency Services operated mass vaccination sites in Oakland and Los Angeles, where it administered over 833,000 vaccines.

In March, the state began doubling the COVID-19 vaccine supply to communities hardest hit by COVID-19 using ZIP code-level measures of community health. This increase helped narrow the gap in vaccination between those living in the most affluent communities and those who face more challenges accessing vaccinations.

A statewide multi-lingual, multicultural education and outreach campaign to promote vaccination continues, utilizing trusted messengers from 323 organizations statewide and text communications. In addition, the state is working to increase access by offering in-home vaccinations; free transportation to vaccination appointments; mobile sites in partnership with places of worship; "Get Out the Vaccine" door-knocking and canvassing to assist in arranging vaccinations; as well as coordination with businesses, school districts, and local health departments.

The work continues as millions of Californians have yet to be vaccinated against COVID-19. In addition, planning continues for administration of the vaccine to 12-15 year-olds in partnership with local health departments, schools and pediatricians statewide.

DIRECT EMERGENCY RESPONSE EXPENDITURES

Current estimates of total direct pandemic emergency response costs are approximately \$12.3 billion, which represents costs incurred in the prior and current fiscal year as well as projected costs in fiscal years 2020-21 and 2021-22. These expenditures are estimated to have no net General Fund impact as all costs that cannot be funded from other identified federal sources are anticipated to be backfilled with federal American Rescue Plan Act of 2021 funding. Since the 2020 Budget Act, the Department of Finance has regularly updated these estimates on its website.

The Administration continues seeking to maximize the use of federal funds and currently estimates the following fund split:

- \$1.5 billion American Rescue Plan Act (ARPA)
- \$8.1 billion Federal Emergency Management Agency Public Assistance Program
- \$2.4 billion Coronavirus Relief Fund (CRF)
- \$347.7 million other federal funds and private funds

These estimates were developed prior to the release of the U.S. Treasury's interim guidance regarding the use of ARPA funds on May 10, 2021, and may need to be adjusted to reflect this guidance.

The Department of Finance's March 2021 Fiscal Update reflected a total of \$15.1 billion in state direct emergency response costs across multiple fiscal years. The following chart summarizes current estimates compared to the estimates included in the March 2021 Fiscal Update. These estimates will continue to be refined as circumstances evolve and the state emerges from the pandemic.

Compared to the March 2021 Fiscal Update estimates, total costs are projected to decrease by approximately \$2.7 billion. This decrease is primarily attributable to most direct response activities tapering off at a faster pace than was assumed in the March 2021 Fiscal Update—including statewide testing, contact tracing, and other state response operations. In addition, a technical correction is being made to remove funding to local health jurisdictions for testing, contact tracing, and vaccinations that was added in the March 2021 Fiscal Update for consistency with how other local assistance funding is treated.

COVID-19 Direct Response Cost Estimates

Cost Category	March 2021 Fiscal Update	2021 May Revision Estimate	Difference
State Response Operations	\$2,641,592,000	\$2,357,239,000	-\$284,353,000
State Hospitals	\$148,996,000	\$153,873,000	\$4,877,000
Testing	\$28,543,000	\$47,204,000	\$18,661,000
Surge Capacity (Norwalk)	\$2,568,000	\$2,568,000	\$0
Other Staffing and Operational Costs	\$117,885,000	\$104,101,000	-\$13,784,000
National Guard	\$32,848,000	\$112,780,000	\$79,932,000
Corrections and Rehabilitation	\$1,535,908,000	\$1,592,719,000	\$56,811,000
Community Supervision	\$45,340,000	\$45,667,000	\$327,000
Temporary Suspension of Prison Intake	\$240,895,000	\$316,933,000	\$76,038,000
Reentry Housing	\$15,000,000	\$15,000,000	\$0
Project Hope	\$3,000,000	\$2,006,000	-\$994,000
Personal Protective Equipment	\$49,281,000	\$51,168,000	\$1,887,000
Medical Surge/Tents	\$111,012,000	\$145,157,000	\$34,145,000
Testing (Employee)	\$277,570,000	\$412,056,000	\$134,486,000
Testing (Inmate)	\$404,181,000	\$218,554,000	-\$185,627,000
Cleaning	\$146,176,000	\$123,581,000	-\$22,595,000
Other Staffing and Operational Costs	\$243,453,000	\$262,597,000	\$19,144,000
Other State Agency Response Operations Costs	\$923,840,000	\$497,867,000	-\$425,973,000
Procurements	\$3,281,062,000	\$2,995,347,000	-\$285,715,000
OES Masks Contract (Global Healthcare Product Solutions, LLC)	\$920,600,000	\$920,600,000	\$0
DGS and Other Procurements	\$2,360,462,000	\$2,074,747,000	-\$285,715,000
Hospital and Medical Surge (to support 5,000 beds)	\$1,566,852,000	\$1,285,322,000	-\$281,530,000
Staffing Costs	\$1,189,023,000	\$1,129,116,000	-\$59,907,000
Facilities and Operating Costs	\$377,829,000	\$156,206,000	-\$221,623,000
Hotels for Health Care Workers/Support Staff	\$349,981,000	\$277,951,000	-\$72,030,000
Housing for the Harvest	\$27,947,000	\$24,259,000	-\$3,688,000
Vulnerable Populations and Other Support Services	\$1,595,395,000	\$1,738,742,000	\$143,347,000
Project Roomkey	\$162,000,000	\$212,000,000	\$50,000,000
Food Banks	\$200,500,000	\$230,000,000	\$29,500,000
Immigrant Services	\$104,305,000	\$453,460,000	\$349,155,000
Support for Small Businesses	\$562,500,000	\$562,500,000	\$0
Great Plates Delivered	\$25,000,000	\$19,111,000	-\$5,889,000
Other Program Allocations	\$541,090,000	\$261,671,000	-\$279,419,000
Statewide Testing	\$2,612,142,000	\$1,855,645,000	-\$756,497,000
PerkinElmer	\$1,386,414,000	\$1,126,297,000	-\$260,117,000
Logistics Health, Inc. (Optum)	\$787,000,000	\$465,145,000	-\$321,855,000
FedEx Specimen Transportation	\$19,989,000	\$15,838,000	-\$4,151,000
Other Statewide Testing	\$418,739,000	\$248,365,000	-\$170,374,000
Contact Tracing and Tracking	\$250,903,000	\$233,142,000	-\$17,761,000
Vaccine Distribution and Administration	\$1,374,893,000	\$1,388,274,000	\$13,381,000
Supporting Vaccine Sites and Management of the Statewide Provider Network	\$1,183,827,000	\$1,100,658,000	-\$83,169,000
Administering the Statewide Provider Network	\$151,066,000	\$202,500,000	\$51,434,000
Media Campaign	\$40,000,000	\$85,116,000	\$45,116,000
Local Health Jurisdiction Funding for Testing, Contact Tracing, and Vaccination	\$1,187,498,000	\$0	-\$1,187,498,000
Community Engagement	\$163,695,000	\$193,340,000	\$29,645,000
Totals	\$15,051,960,000	\$12,349,261,000	-\$2,702,699,000

Although the amount of CRF has increased about \$200 million since the March 2021 Fiscal Update, the approach to allocate these funds has changed based on updated

FEMA guidance. The process to compile, submit, and receive funding from FEMA is lengthy for most disasters. Given the national scale and scope of the response effort, this process is expected to be even more protracted and FEMA approval is uncertain in some areas. Using the flexibility permitted in federal guidance for the CRF, the state can pursue FEMA reimbursement for claims that are most easily compiled, reviewed, and paid. These modifications are being made to maximize federal funding to defray the costs of the response as summarized in the CRF allocation chart.

Allocation of CRF for COVID-19 Response Costs

Cost Category	Selected Direct Response Costs	Estimated CRF March 2021 Fiscal Update	Estimated CRF 2021 May Revision	Difference
State Response Operations	\$2,357,239,000	\$401,452,000	\$1,139,099,000	\$737,647,000
Procurements	\$2,995,347,000	\$637,132,000	\$443,605,000	-\$193,527,000
Hospital and Medical Surge	\$1,285,322,000	\$326,894,000	\$31,033,000	-\$295,861,000
Hotels for Health Care Workers/Support Staff	\$277,951,000	\$32,544,000	\$25,000,000	-\$7,544,000
Vulnerable Populations/Other Support Services	\$1,738,742,000	\$605,779,000	\$535,057,000	-\$70,722,000
Statewide Testing	\$1,855,645,000	\$191,593,000	\$24,200,000	-\$167,393,000
Contact Tracing and Tracking	\$233,142,000	\$135,438,000	\$162,551,000	\$27,113,000
Other State Costs ^{1/}	N/A	N/A	\$174,347,000	\$174,347,000
Totals	\$10,743,388,000	\$2,330,832,000	\$2,534,892,000	\$204,060,000

^{1/}Excludes costs for Project Homekey

FEDERAL ASSISTANCE

To address the direct and indirect effects of COVID-19, the federal government enacted six federal stimulus bills. Together, these funds are helping pay for emergency response, testing and contact tracing, health care, and vaccinations. These funds are also directly supporting the unemployed and K-12 schools. Combined with direct payments and other assistance to individuals and families, hospitals and medical providers, businesses, higher education institutions and college students, local housing authorities, airports, farmers, and local government, California and its economy will benefit from over \$600 billion provided through these federal bills as summarized in the chart below.

Summary of Estimated Federal Stimulus Funds

(Dollars in Thousands)

Federal Bill and Description	To/Through State	Direct Stimulus	Total
Preparedness and Response (HR 6074, March 2020): Provided emergency funding for public health and health care.	\$77,432	\$1,539,951	\$1,617,383
Families First (HR 6201, March 2020): Provided food assistance and addressed diagnostic testing costs, expanded paid and family sick leave, and increased the federal match share for some state programs.	12,831,667	4,553,496	17,385,163
Coronavirus Aid, Relief, and Economic Security (HR 748, March 2020): Broadened assistance to include states, local governments, education, child care and families. Provided economic impact payments, unemployment insurance enhancements, and assistance for small businesses, farmers, airports, and transit agencies.	140,242,761	84,436,272	224,679,033
Paycheck Protection/Health Care (HR 266, April 2020): Provided funding to small businesses, hospitals, and health centers to expand testing and contract tracing to support reopening businesses and the economy.	499,619	74,252,131	74,751,750
Coronavirus Response and Relief (HR 133, December 2020): Provided funding for rental and utility assistance, funeral expenses, food assistance, farmers, airports, transit agencies, and state highways. Included additional unemployment benefits and economic impact payments. Additional funding provided for health care providers, testing, and vaccine distribution.	32,980,017	71,990,263	104,970,280
American Rescue Plan Act (HR 1319, March 2021): Provided additional relief to state and local governments, funding for vaccine distribution, behavioral health, education, child care, housing, and transit. Continued enhanced unemployment benefits and provided economic assistance through tax credits as well as relief for small businesses.	89,581,922	100,526,035	190,107,957
Totals	\$276,213,419	\$337,298,147	\$613,511,566

ARPA was enacted on March 11, 2021, and provided additional funding to support reopening, including vaccine distribution; extended unemployment benefits through September 6, 2021, including a partial tax exemption on these benefits; enacted several tax credits to support working families; and provided additional state and local relief funds. The following chart provides additional details regarding the estimated funding for state programs and direct payments to individuals, families, colleges, businesses, and local government entities.

American Rescue Plan Act of 2021 — Preliminary California Estimates

(Dollars in Billions)

Major Program Categories	Available Nationwide	California Amount	Through State	Direct
Economic Assistance	\$ 612.000	\$ 65.727	\$ 0.000	\$ 65.727
Recovery Rebates to Individuals and Families	410.000	44.000	0.000	44.000
Tax Relief for Families and Unemployed	202.000	21.727	0.000	21.727
State/Local Fiscal Recovery and Infrastructure Funds	355.500	43.655	28.785	14.870
State Fiscal Recovery Fund	195.300	27.017	27.017	0.000
Local Fiscal Recovery Fund - Cities and Counties	130.200	15.898	1.218	14.680
Tribal Governments	20.000	0.190	0.000	0.190
Capital Projects Fund	10.000	0.550	0.550	0.000
Education and Child Care	208.875	24.575	19.423	5.152
Primary and Secondary (including private schools)	126.325	15.350	15.350	0.000
Higher Education	39.585	5.047	0.000	5.047
Individuals with Disabilities Education Act	3.030	0.317	0.317	0.000
Child Care	39.935	3.861	3.756	0.105
Safety Net	276.220	32.689	32.286	0.403
Unemployment Insurance Benefits	242.000	30.000	30.000	0.000
Food Assistance	21.253	2.313	1.963	0.350
Aging Services	0.659	0.068	0.068	0.000
Disaster Response	1.356	0.061	0.008	0.053
Human Services	1.776	0.246	0.246	0.000
Other Assistance	9.176	TBD	TBD	TBD
Test, Trace, and Vaccinate	57.550	3.681	2.863	0.817
Testing and Contact Tracing	50.050	3.324	2.506	0.817
Vaccine Distribution and Monitoring	7.500	0.357	0.357	0.000
Health, Public Health, and Mental Health	41.892	4.382	2.638	1.743
Health and Human Services	0.282	0.002	0.000	0.002
Medicaid	12.400	2.394	2.245	0.149
Provider Relief	8.500	0.600	0.000	0.600
Community Health Centers	7.600	0.993	0.000	0.993
Mental Health	2.070	0.189	0.189	0.000
Substance Use Disorders	1.530	0.204	0.204	0.000
Other	9.510	TBD	TBD	TBD
Housing, Utility Assistance, and Homelessness	46.770	5.188	2.649	2.539
Housing Assistance	31.770	3.642	2.266	1.376
Utility Assistance	5.000	0.229	0.227	0.002
Homelessness	10.000	1.317	0.155	1.162
Business and Transportation	119.436	10.123	0.923	9.199
Small Business Assistance	61.100	4.575	0.895	3.680
Airline Support and Airport Improvement	26.000	1.000	0.000	1.000
Public Transit	30.461	4.492	0.028	4.463
Amtrak/Rail	1.875	0.056	0.000	0.056
Veterans, Arts, Libraries, and Workplace Safety	1.608	0.090	0.015	0.075
Totals	\$ 1,719.851	\$ 190.108	\$ 89.582	\$ 100.526

CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS

ARPA appropriates \$350 billion to states, local governments, and tribal governments and territories to mitigate the fiscal effects stemming from the COVID-19 public health emergency. The Act specifies that funds may be used to respond to the public health emergency or its negative economic impacts and to make necessary investments in water, sewer, or broadband infrastructure. California is expected to receive over \$43 billion in combined recovery funds to cover costs incurred between March 3, 2021 and December 31, 2024, to mitigate the impacts of the pandemic. Based on the methodology used by the U.S. Treasury, California anticipates receiving the following:

- **State:** \$27 billion
- **Counties:** \$7.7 billion for 58 counties
- **Metropolitan Cities:** \$7 billion for 191 cities with populations over 50,000
- **Smaller Cities:** \$1.2 billion for 291 cities with populations below 50,000. These funds will pass-through the state.
- **Tribes:** \$190 million based on minimum amount of about \$1.7 million for each of California's 109 tribes

The U.S. Treasury issued a 150-page Interim Final Rule, allocation amounts, and a fact sheet on May 10, 2021, for states, counties, and metropolitan cities. With current unemployment levels at 8.3 percent, well above the February 2020 level (4.3 percent), the state will receive its funds in a single payment. Local governments will receive half of their funding in May 2021 and the balance will be provided 12 months later.

The May Revision framework for the Coronavirus State Fiscal Recovery Fund for targeted investments was developed prior to the interim guidance and may need to be adjusted to reflect any inconsistencies between the proposed plan and the guidance. It includes allocations to:

Address Public Health Impacts (\$4.9 billion)—Includes support for state and local emergency response to COVID-19 and the state's public health infrastructure that has been strained by efforts to respond to COVID-19 including public hospitals, health systems, and residential care facilities. These funds will also address the emotional and behavioral health impacts on California's children and youth stemming from quarantine requirements and distance learning. To support this effort, it is necessary to

build capacity by investing in workforce and facility infrastructure, including training and certification of psychologists, psychiatrists, counselors, and social workers.

Address Negative Economic Impacts (\$13.7 billion)—Funds will support special district utilities to help households pay for water and utility arrearages, address housing shortages and homelessness exacerbated by the pandemic, and provide grants to small businesses as well as economic support for the tourism industry and ports. Targeted investments are also made to stimulate jobs—including investments in work-study, reduce barriers to accessing higher education, and address equity gaps among low-income children and families, including homeless youth and children in foster care.

Water, Sewer, and Broadband Investments (\$7.3 billion)—Addresses deferred maintenance on water infrastructure, and water and sewer infrastructure for housing. Promotes access to and affordability of broadband.

Unemployment Insurance Trust Fund (\$1.1 billion)—The May Revision proposes that these funds be used to replenish the state's unemployment insurance trust fund, which is projected to have a deficit of more than \$24.3 billion at the end of 2021. More broadly, any unobligated funds as of June 30, 2024, will also be used to further reduce the total funds borrowed from the federal unemployment insurance trust fund.

See the chart for additional details on these priority investments to help California build back a stronger, more equitable economy and address the disproportionate negative economic impacts of COVID-19 on low-wage sectors.

Allocation of \$27 Billion Coronavirus State Fiscal Recovery Fund

(Dollars in Millions)

Coronavirus Fiscal Recovery Fund Allocations	Amount
Address Public Health Impacts	\$4,879.8
Children and Youth Behavioral Health Initiative	\$2,070.2
COVID-19 Direct Response Costs	\$1,529.6
Behavioral Health Continuum Infrastructure Program	\$530.0
Support for Public Hospitals and Health Systems	\$300.0
Community Residential Care Facility Expansion	\$450.0
Address Negative Economic Impacts	\$13,681.3
Address Increased Homelessness and Housing Shortages	\$4,976.0
Child Savings Accounts to Address Equity Gap and Increase Opportunities for Higher Education	\$2,039.5
Relief for Unpaid Utility Bills and Arrearages	\$2,000.0
Small Business Grants	\$1,500.0
Training and Education Support for Displaced Workers	\$1,000.0
Community Economic Resilience	\$750.0
Fine and Fee Debt Forgiveness Program	\$300.0
CalCompetes Grants for Jobs	\$250.0
Economic Support for Ports	\$250.0
Californians for All College Service Program	\$239.4
Youth Workforce Development	\$200.0
Revitalize California Tourism	\$95.0
Legal Aid for Renters	\$60.0
Federal Tracking, Accountability, and Cost Recovery	\$10.9
Support for K-12 Interscholastic Athletic Leagues	\$10.5
Water, Sewer, and Broadband	\$7,333.4
Broadband Infrastructure, Access, and Affordability	\$5,500.0
Water Resilience Package: Infrastructure Investments	\$1,595.0
Water Infrastructure - Deferred Maintenance	\$237.0
Argonaut Mine Dam Project Stormwater Upgrades	\$1.4
Unemployment Insurance Trust Fund/Unallocated	\$1,122.5
Total	\$27,017.0

OVERSIGHT, ACCOUNTABILITY, AND TRANSPARENCY

With the unprecedented level of federal stimulus funding received over the last 14 months, the May Revision proposes a new unit in the Department of Finance to track the award and expenditure of these funds, monitor and oversee the use of the funds, and establish a framework for data collection, reporting and analysis of the Coronavirus State Fiscal Recovery Funds based on predefined outcome measures. The unit will also identify opportunities to standardize and streamline accounting and reporting policies

and processes to improve the tracking, oversight, and recovery of federal funding, including the state's ability to recover disaster relief funds from FEMA.

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EMERGENCY RESPONSE

In 2020, the state experienced unprecedented emergencies, having to respond to the global COVID-19 Pandemic and wildfires that were the most destructive in state history. While continuing to respond to the pandemic, the state continues to prepare for a worsening drought and potentially another catastrophic wildfire season.

The May Revision bolsters the state's ability to prepare for, respond to, recover from, and mitigate against the impacts of multiple emergency events the state continues to experience in the midst of severe climate change, while prioritizing equity in protecting vulnerable and disadvantaged communities and populations.

OFFICE OF EMERGENCY SERVICES

Under the authorities of the California Emergency Services Act, the Office of Emergency Services (Cal OES) serves as the state's leadership hub during all major emergencies and disasters. This includes responding, directing, and coordinating state and federal resources and mutual aid assets across all regions to support the diverse communities across the state.

Cal OES also supports local jurisdictions and communities through planning and preparedness activities, training, and facilitating the immediate response to an emergency through the longer-term recovery phase. During this process, Cal OES serves as the State Administrative Agency and the overall coordinator and agent to secure

federal government resources and eligible reimbursements through the Federal Emergency Management Agency (FEMA).

STRENGTHENING CALIFORNIA'S EMERGENCY CAPACITY AND CAPABILITIES

The May Revision proposes \$98.4 million (\$76.2 million General Fund) and 224 positions for Cal OES to address the more frequent, complicated, and often simultaneous emergencies and disasters involving numerous counties and regions across the state.

The May Revision proposes a package of initiatives to strengthen the state's resiliency and ability to respond to increasingly complex disasters, and emergencies; lead multi-faceted, long-term recovery efforts across California; and strengthen equity and connections with vulnerable and disadvantaged communities. The May Revision proposes funding for Cal OES in the following areas:

- **Reducing Reliance on Redirected and Temporary Staff for Emergency Response and Recovery**—\$16.5 million General Fund and 73 positions ongoing to establish a permanent and dedicated Incident Support Team, a deployable Incident Management Assistance Team, and needed support to operate California's State Operations Center or Regional Emergency Operations Centers to respond to the all-hazard events. These teams will strengthen the capabilities of the State Operations Center and lessen the Department's reliance on redirected staff from other areas in the organization.
- **Long-Term Recovery Support**—\$37.8 million (\$15.7 million General Fund) ongoing to provide permanent funding for 104 permanent recovery positions provided in 2018 with three year limited-term funding, and 110 new positions to better support California's recovery efforts and recoupment of eligible federal disaster cost reimbursements for state and local governments, and to maximize the hazard mitigation program to mitigate the impacts of future disasters on the state and local jurisdictions.
- **Strengthening Equity and Connections with Communities**—\$29.9 million General Fund ongoing and 13 positions to establish a new Office of Equity and make permanent a Listos grant program to further strengthen connections and build resiliency with all communities. California's disasters have had a significant impact on communities across the diverse state, but some communities have been hit harder than others. A strong connection between California's diverse communities and the emergency response network is key to better planning and preparation for disasters and swiftly meeting community needs during and after the emergency

event. The Listos program would include an on-going \$25 million General Fund grant program and expand its focus from emergency preparedness to also include emergency response and recovery.

- **Modernizing Technology and Data Analytics**—\$10.2 million General Fund and 14 positions to modernize the Department's technology and data capabilities through new technology and updating outdated systems. Reliable data analytics have proven more important than ever to make data-informed decisions impacting the state emergency response and overall recovery strategy.
- **Strengthening Tracking and Reporting of Disaster Costs and Funding**—\$4 million General Fund and 14 positions to establish a new unit within Cal OES to better coordinate and lead the state's disaster cost tracking and public facing reporting efforts in coordination with all state agencies. In addition, this new unit would serve as a liaison with the Department of Finance to better align cost tracking and federal cost recovery efforts, as this work is currently being done across agencies.

The May Revision includes an additional \$133.9 million General Fund for Cal OES for the following investments to enhance state and local emergency preparedness and response:

- **California Disaster Assistance Act (CDAA)**—\$100 million one-time General Fund to increase the amount of funding available through the CDAA, which is used to repair, restore, or replace public real property damaged or destroyed by a disaster or to reimburse local governments for eligible costs associated with emergency activities undertaken in response to a state of emergency proclaimed by the Governor. This augmentation increases total CDAA funding available in 2021-22 to \$162.6 million.
- **Southern Regional Emergency Operations Center**—\$26.5 million one-time General Fund to acquire land to establish a new emergency operation center in the Cal OES southern operational region. It also includes \$7.7 million to relocate the staff from temporary trailers to a leased space while the construction of the new building occurs. The current space is inadequate and limits the capability of the team in responding to emergencies. The Department needs a permanent location for this staff given the high risk for disasters in the area and the critical need for timely response to local communities.
- **Wildfire Forecast and Threat Intelligence Integration Center**—\$7.4 million and 22 positions for Cal OES, California Military Department, Department of Forestry and Fire Protection (CAL FIRE), and Public Utilities Commission to implement Chapter 405,

Statutes of 2019 (SB 209). This bill requires Cal OES and CAL FIRE to establish a Wildfire Forecast and Threat Intelligence Integration Center to: (1) provide “real time” intelligence and data regarding wildfire threats to government agencies; (2) develop intelligence products for public and private entities involved in wildfire risk mitigation efforts; and (3) serve as a central organizing hub for wildfire forecasting, weather information, threat intelligence gathering, and analysis. This additional investment builds on the \$2 million ongoing General Fund provided in the 2020 Budget Act for a total investment of \$9.6 million.

EMERGENCY PREPAREDNESS INFRASTRUCTURE

The collateral and cascading impacts of California's disaster events are reflected in the increasingly widespread damages, injuries, loss of lives, and economic disruptions that the state has experienced in recent years. Disadvantaged communities have been disproportionately impacted and experience longer recoveries.

SIGNIFICANT ADJUSTMENTS:

- **Community Hardening to Build Disaster Resilient Communities**—\$250 million one-time General Fund to develop and implement a new initiative, “Prepare California,” modeled after a successful FEMA program, designed to build disaster-resistant communities through state, local, federal, and private sector and nongovernmental organization partnerships. This proposal would be implemented in a manner that promotes the principles of equity in building statewide resiliency and education to all hazards, including earthquakes, through community hardening programs. This program maximizes the effectiveness of governmental, non-profit, and local community partnerships and seeks to eliminate current barriers for local and tribal governments, including paying up to 100 percent of the local government's cost share for participating in the federal hazard mitigation program.
- **Community Resilience Centers**—\$150 million one-time General Fund for the Department of Food and Agriculture to support the development and enhancement of community resilience centers. Funding would be available to improve both local fairground and other community facilities to enhance the state's emergency preparedness capabilities, particularly in response to climate change. Funding could be used to support infrastructure for emergency evacuation, shelter, base camps during emergency events, and critical deferred maintenance. Elements for this infrastructure may include cooling and heating centers, clean air centers, and extended emergency evacuation response centers with community

kitchens, shower facilities, broadband, back-up power and other community needs due to wildfires, floods, and other emergencies or climate events.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

The Department of Forestry and Fire Protection (CAL FIRE) provides resource management and wildland fire protection services covering over 31 million acres. It operates 234 fire stations and also staffs local fire departments when funded by local governments. CAL FIRE contracts with county agencies in six counties to provide wildland fire protection services.

The ongoing impacts of climate change on California's wildlands continue to create critically dry fuel conditions and longer, more severe fire seasons. As of April 2021, the United States Drought Monitor shows that 70 percent of California is experiencing severe, extreme, and exceptional drought conditions, and these conditions are expected to remain in the coming months. In addition to widespread drought, the below-normal snowpack is expected to melt off earlier than usual, leaving middle and upper elevations available for fire spread earlier in the season than usual. With these conditions in mind, the May Revision proposes further investments to enhance CAL FIRE's fire prevention and suppression capacity.

SIGNIFICANT ADJUSTMENT:

- **Firefighter Surge Capacity**—\$38.9 million one-time General Fund to augment CAL FIRE's resources for the 2021 fire season. To address the state's high-risk fuel conditions, this additional funding will support the staffing of three additional California National Guard crews for a total of 13 fire crews from July through December, and continue staffing 8 additional CAL FIRE crews that began in April 2021.

The May Revision also maintains funding for the comprehensive Wildfire and Forest Resilience proposal in the Governor's Budget. This funding will increase the pace and scale of fire prevention and forest health activities and decrease the risk of catastrophic wildfires. For additional information, see the Climate Change Chapter.

CALIFORNIA MILITARY DEPARTMENT

The May Revision proposes \$2.8 million ongoing General Fund to address the increased magnitude, frequency, and complexity of natural disasters. In recent years, the California Military Department has changed from providing a periodic response force to sustaining year-round support for disaster prevention, response, and recovery. These resources will enhance current logistical, administrative, and fiscal support operations, as well as future planning and training to prepare for contingencies as the nature of disasters and emergencies evolve.

K-12 EDUCATION

California provides instruction and support services to roughly 5.9 million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, 1,000 local school districts, and more than 1,200 charter schools provides instruction in English, mathematics, history, science, and other core competencies.

The May Revision includes total funding of \$121.7 billion (\$70 billion General Fund and \$51.7 billion other funds) for all K-12 education programs, the highest level of funding in California's history. Per-pupil funding is also at the highest levels ever, totaling \$13,977 per pupil in Proposition 98 General Fund and \$21,152 per pupil when accounting for all funding sources.

CALIFORNIA FOR ALL KIDS

Public schools hold the promise of serving as the hubs for California communities, a source of shared local pride and engagement, and the foundation for providing all children with opportunity. The potential of public schools to drive positive change and reduce societal inequities is immense. It is time to re-envision the K-12 public educational experience by directing historic levels of funding to schools, improving outcomes for all young Californians and ensuring the future prosperity of the state. The May Revision utilizes this opportunity by proposing the California for All Kids Plan, a five-year strategy for public school investment that offers every child in California the comprehensive support necessary to reach their full potential.

K-12 EDUCATION

The California for All Kids Plan invests aggressively in equity. Nearly two out of every three of the state's school-age children have a family income that qualifies them for free and reduced-price school meals (less than or equal to 185 percent of the federal poverty level). These children are less likely to have access to enrichment opportunities and comprehensive services like many of their peers, including stable health care and mental health services, access to technology, consistent opportunities for a variety of engaging and enriching extracurricular activities, and educators that are well-prepared to meet their needs. Public schools serve a central role in closing these historic and structural opportunity gaps. The California for All Kids Plan provides a roadmap to equip schools to do this work, specifically by achieving all of the following by 2025-26:

- Universal access to transitional kindergarten so all children enter the school system prepared to succeed
- Year-round access to enrichment activities and before/after-school supplemental education programs for children in low-income communities
- Well-prepared and well-supported teachers
- Deeper connections and relationships between students and adults on campus, with training in tiered systems of student supports, including more school counselors, social workers, and nurses
- Increased access to school-wide nutrition programs
- An improved and more integrated relationship between schools and health care plans, county health, and social services to provide school-based services to children
- Greater student access to broadband internet and computer technology, both in the classroom and at home

Additionally, to strengthen the existing public education fiscal infrastructure, which has been significantly impacted by the COVID-19 Pandemic and multi-year enrollment declines, the May Revision includes additional investments in general purpose K-12 funding to ensure a strong base that facilitates the success of the proposed new investments.

PROPOSITION 98

Proposition 98 is a voter-approved constitutional amendment that guarantees minimum funding levels for K-12 schools and community colleges (collectively referred to as K-14 schools). The Guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline. The Local Control Funding Formula is the primary mechanism for distributing these funds to support all students attending K-12 public schools in California.

The Guarantee continues to be in a Test 1 for all years 2019-20 through 2021-22. This means that the funding level of the Guarantee is equal to approximately 38 percent of General Fund revenues, plus local property tax revenues. The significant increase in revenues projected for 2020-21 and 2021-22 results in a corresponding increase in resources for K-14 schools. Proposition 98 is estimated to be \$79.3 billion in 2019-20, \$92.8 billion in 2020-21, and \$93.7 billion in 2021-22, representing a three-year increase in the minimum Guarantee of \$17.7 billion over the level estimated in the Governor's Budget. These funding levels include property tax decreases of \$283 million in 2019-20, \$298 million in 2020-21, and \$315.9 million in 2020-21, related to recent State Controller's Office guidance on counties' calculation of local excess Educational Revenue Augmentation Fund.

Additionally, excess revenues above the State Appropriations Limit in 2020-21 and 2021-22 creates a Constitutional obligation for the state to make a one-time payment to K-14 schools, supplemental to the Proposition 98 Guarantee funding level, and allocated based on K-12 average daily attendance and full-time equivalent community college students. While this payment amount will not be finalized until the adoption of the 2023-24 budget, the Administration currently anticipates that it will total approximately \$8.1 billion, and will be provided to K-14 schools in the 2022-23 fiscal year.

PROPOSITION 98 SUPPLEMENTAL PAYMENT

The 2020 Budget Act created a multi-year obligation to increase Proposition 98 funding by \$12.4 billion, after estimates showed the Proposition 98 funding levels in 2019-20 and 2020-21 would drop below the target funding level (Test 2), by this amount. The Governor's Budget included the first of these supplemental payments (\$2.3 billion), even though estimates at that time showed 2019-20 and 2020-21 declines below Test 2 of only \$511 million. The Administration now estimates that the Proposition 98 funding levels in 2019-20 and 2020-21 will be \$9.3 billion greater than the Test 2 amount. Given

this significant increase in funding, the May Revision proposes eliminating the supplemental payment proposed in the Governor's Budget.

PROPOSITION 98 RAINY DAY FUND

The Governor's Budget projected a total of \$3 billion in payments to the Public School System Stabilization Account would be necessary between 2020-21 and 2021-22. Increases in capital gains revenues at May Revision have increased these required payments to a total of \$4.6 billion. Under current law, there is a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the Account is equal to or greater than 3 percent of the total K-12 share of the Proposition 98 Guarantee. The balance of \$4.6 billion in 2021-22 triggers school district reserve caps beginning in 2022-23.

LOCAL CONTROL FUNDING FORMULA (LCFF)

The Governor's Budget included a compounded LCFF cost-of-living adjustment of 3.84 percent, representing a 2020-21 cost-of-living adjustment of 2.31 percent and a 2021-22 cost-of-living adjustment of 1.5 percent. At May Revision, the 2021-22 cost-of-living adjustment is updated to 1.7 percent, for a new compounded LCFF cost-of-living adjustment of 4.05 percent. Additionally, to help local educational agencies address ongoing fiscal pressures, the May Revision includes \$520 million Proposition 98 General Fund to provide a 1 percent increase in LCFF base funding. This discretionary increase, when combined with the compounded cost-of-living adjustment, results in growth in the LCFF of 5.07 percent over 2020-21 levels.

DEFERRALS

Recession-driven revenue reductions anticipated at the 2020 Budget Act drove the need to defer LCFF apportionments, in the amounts of \$1.9 billion in 2019-20, growing to more than \$11 billion in 2020-21. The Governor's Budget proposed paying off the full K-12 deferral in 2019-20 and \$7.3 billion of the K-12 deferral in 2020-21, leaving an ongoing K-12 deferral balance of \$3.7 billion in 2021-22. The May Revision further reduces this by \$1.1 billion, for a proposed 2021-22 K-12 deferral balance of \$2.6 billion.

REOPENING SCHOOLS

The pandemic posed an unprecedented crisis for California's schools. As the science emerged and frequently evolved, school communities grappled with two monumental challenges: creating and scaling high-quality models of distance learning, and managing the public health precautions necessary for safe re-openings for in-person instruction. The safe re-openings were further complicated by a surge of COVID-19 cases late in 2020 that caused heightened concerns. With recent scientific consensus regarding the safety of in-person instruction and continued success in expanding vaccinations to drive down COVID-19 transmission, school communities can and must prioritize the in-person connections that best serve the mental health, social-emotional well-being, and academic needs of students, families, and staff.

The May Revision assumes a return to full-time in-person instruction for the 2021-22 school year. Consistent with all school years prior to 2020-21, this mode of instruction will be the default for all students and schools, and generally one of only two ways in which local educational agencies can earn state apportionment funding in 2021-22. To ensure safety and build trust, the May Revision proposes \$2 billion one-time Proposition 98 General Fund to fund health and safety activities, including testing and vaccine initiatives, enhanced cleaning, personal protective equipment, and improved ventilation. These funds will supplement the \$2 billion appropriated by Chapter 10, Statutes of 2021 (AB 86) to schools that were open for in-person instruction by April 2021.

Notwithstanding these measures, some parents may still be hesitant to send their children back to school for in-person instruction. To give families a high-quality option for non-classroom based instruction, and to provide local educational agencies with an option to generate state funding by serving students outside the classroom in response to parent requests, the May Revision proposes a series of improvements to the state's existing independent study programs. Specifically, local educational agencies will provide non-classroom based instruction using the existing traditional and course-based independent study models, but will have additional requirements to: (1) provide access to technology, internet connectivity, and a dedicated and rigorous curriculum; (2) develop and implement a framework of tiered re-engagement strategies for students not meaningfully participating in instruction; and (3) track and record daily student participation and interaction with teachers.

EXPANDED LEARNING TIME

A substantial body of research demonstrates the benefits of both expanded learning time and summer/intersessional enrichment in addressing and preventing sub-standard academic outcomes for students. In short, more time, used well, can accelerate student learning. While some families are able to access expanded learning outside of school, through summer camps, music lessons, sports teams, tutoring, etc., not all students are able to access the benefits that come from these opportunities.

The May Revision reflects a five-year plan to implement expanded-day, full-year instruction and enrichment for all elementary school students in local educational agencies with the highest concentrations of low-income students, English language learners, and youth in foster care (representing approximately 2.1 million children). By 2025-26, these students would have access to no-cost after school and summer programs. When combined with regular instructional time, this will provide students with nine hours of developmentally appropriate academics and enrichment per instructional day and for six weeks each summer.

Similar to the existing After School Education and Safety Program, these programs would offer developmentally appropriate enrichment to students, including:

- An educational element in which tutoring or homework assistance is provided, and
- A supplemental element including, but not limited to, STEM, fine arts, career technical education, recreation, and physical fitness.

Additionally, these programs would be required to maintain adult-to-student ratios of 1:10 for transitional kindergarten and kindergarten students and 1:20 for students in first through sixth grades.

The Administration estimates that the Proposition 98 General Fund costs to implement this proposal is approximately \$1 billion in 2021-22, growing to \$5 billion in 2025-26. Over the implementation period, services would be phased in, with the local educational agencies with the highest proportion of students from low-income families, English language learners, and youth in foster care being provided the ability to access extended day/year programming first. Once fully implemented, the Administration proposes incorporating these funds into the LCFF concentration grant calculation.

UNIVERSAL TRANSITIONAL KINDERGARTEN

Evidence is plentiful that children who attend preschool are better prepared to begin kindergarten than children who do not. While the state has made significant investments in subsidized, high-quality preschool in recent years, many low-income four-year-olds in the state cannot access low-cost or free preschool programs. The May Revision proposes to address this lack of access and ensure all students are able to benefit from high-quality preschool.

To provide access to free, high-quality, inclusive pre-kindergarten education for all children, the May Revision proposes a series of investments beginning in 2022-23 to incrementally establish universal transitional kindergarten, creating a "14th grade" of public education by 2024-25. Universal transitional kindergarten would be phased-in over four years, with local educational agencies able to use 2021-22 for planning and infrastructure development, and additional access for four-year-olds, increased in increments of three months of age per year from 2022-23 through 2024-25, when all four-year-olds would be eligible. The costs of this plan are anticipated to be approximately \$900 million General Fund in 2022-23, growing to \$2.7 billion in 2024-25 (the Proposition 98 Guarantee would be "rebenched" to draw down General Fund for the costs of new enrollment in each year of increased investment). Additionally, the May Revision repurposes \$250 million one-time Proposition 98 General Fund proposed in the Governor's Budget to incentivize transitional kindergarten expansion to instead be used for planning and implementation grants for all local educational agencies.

To build on and enhance the quality of the existing transitional kindergarten program, the May Revision also proposes \$380 million Proposition 98 General Fund in 2022-23, growing to \$740 million in 2024-25, to provide one additional certificated or classified staff person in each transitional kindergarten classroom. For many classrooms, this will reduce adult-to-child ratios from 1:24 to 1:12. Additionally, the May Revision includes \$10 million one-time General Fund for the Department of Education to update the Preschool Learning Foundations, the recommended learning standards for preschool and transitional kindergarten, to reflect the most recent research on early childhood development and provide comprehensive resources for pre-kindergarten teachers.

Finally, the budget maintains the level of funding available for the State Preschool Program. The Administration will develop a comprehensive plan for implementation in 2022-23 to support existing State Preschool Program providers to maintain their contracts while transitioning to serve younger children, in alignment with the Master

Plan for Early Learning and Care, to ensure all eligible three-year-olds have access to a high quality early learning.

COMPREHENSIVE STUDENT SUPPORTS

Disruptive life events, like the Pandemic, have a negative impact on student learning. The effects of these types of events, however, can be mitigated by a safe school centered on deep connections and relationships. Children learn and thrive when they feel that they have many adults who care about them, when they are secure, and when their basic needs are met consistently and in a regular, structured manner.

To build up the capacity of schools to become stable hubs for a wider spectrum of basic student needs, the May Revision builds upon the \$264.9 million Proposition 98 General Fund proposed in the Governor's Budget to provide \$3 billion one-time Proposition 98 General Fund, available over several years, to further expand the implementation and use of the community school model. Community schools blend various funding sources to provide integrated health, mental health, and social services alongside high-quality, supportive instruction. In addition to these integrated student supports, community schools offer expanded learning time, active family and community engagement, and collaborative leadership and practices, which are also funded in other proposals in the May Revision. This level of proposed funding would support grants for up to 1,400 local educational agencies (more than 60 percent of local educational agencies statewide) to convert school campuses into full-service community schools.

To increase the number of adults providing direct services to students on school campuses, the May Revision includes an ongoing increase to the LCFF concentration grant of \$1.1 billion Proposition 98 General Fund. Local educational agencies that are recipients of these funds will be required to demonstrate in their local control and accountability plans how these funds are used to increase the number of certificated and classified staff on their campuses, including school counselors, nurses, teachers, paraprofessionals, and other student support providers. Also, in recognition of the disproportionate impact of the Pandemic on youth in foster care, county offices of education will receive an additional \$30 million one-time Proposition 98 General Fund to work with local partners to coordinate and provide direct services to these students.

Further, the May Revision proposes \$2 billion one-time federal funds and \$623 million one-time Proposition 98 General Fund to schools to provide research-tested interventions for students, including intensive tutoring. Although almost \$30 billion in

combined state and federal funds have been provided to schools since April 2020 to mitigate the impacts of school closures and challenges around distance learning and other COVID-19 related impacts to education, schools are experiencing significant demands related to closing learning gaps and providing enhanced services related to compensatory education. These funds will supplement \$4.6 billion appropriated by Chapter 10, Statutes of 2021 (AB 86) to schools for targeted student academic supports.

Finally, as noted in the Health and Human Services Chapter, funding for the Administration's Children and Youth Behavioral Health Initiative is increased from \$400 million one-time General Fund in the Governor's Budget to \$1 billion at May Revision. This Initiative is designed to comprehensively re-envision the child behavioral health system, by better connecting children and youth to behavioral health care, investing in schools' ability to both deliver care directly and partner with Medi-Cal plans, and significantly expanding the infrastructure for providing behavioral health care for all Californians under the age of 26.

EDUCATOR PREPARATION, RETENTION, AND TRAINING

The transformative changes proposed in the May Revision require a well-prepared, well-trained, and expansive educator workforce. Preparing, training, and recruiting a diverse workforce of administrative, credentialed, and classified staff to work in public K-12 schools is critical to the success of the entire system. To this end, the May Revision builds upon more than a half billion in investments proposed in the Governor's Budget to further expand the state's educator preparation and training infrastructure by providing a grand total of approximately \$3.3 billion to support educator initiatives. These proposals include:

WORKFORCE PREPARATION

- An additional \$450 million one-time Proposition 98 General Fund over five years (for a total of \$550 million) to support approximately 22,000 teacher candidates in teacher residencies and other grow-your-own teacher credentialing programs.
- An additional \$400 million one-time General Fund over five years (for a total of \$500 million) for the Golden State Teacher grants, which would support a combined total of at least 25,000 grants for teacher credential candidates who commit to teach at a priority school, in a high-need subject matter area, for four years.
- An additional \$100 million one-time Proposition 98 General Fund over five years (for a total of \$125 million) for the Classified School Employee Teacher Credentialing

K-12 EDUCATION

Program, to support more than 5,000 classified school staff in becoming credentialed teachers.

- \$65.5 million one-time Proposition 98 General Fund and \$45.6 million one-time General Fund to establish the Roadmap to Pre-K through 12 Educational Employment Program, a long-term, comprehensive statewide recruitment and communications strategy that focuses on recruiting and developing a diverse and talented educational workforce, highlighting the value of working in the education sector, and assisting individuals in moving into the pre-K-12 educator workforce by identifying and sharing resources, such as financial aid programs and pathways to teaching.
- \$20 million one-time General Fund to provide a credential fee waiver in 2021-22 for individuals entering the K-12 educator workforce.
- \$15 million one-time Proposition 98 General Fund over three years to support 6,000 teachers in completing the coursework necessary to receive state certification to teach computer science.

RETENTION AND TRAINING

- An additional \$1.3 billion one-time Proposition 98 General Fund over three years (for a total of \$1.5 billion) for the Educator Effectiveness Block Grant, to provide local educational agencies with training resources for classified, certificated, and administrative school staff in specified high-need topics, including accelerated learning, re-engaging students, restorative practices, and implicit bias training.
- \$250 million one-time Proposition 98 General Fund over five years for incentives for 2,500 highly-qualified National Board Certified teachers that teach in high poverty schools to attract and retain them as mentors for other instructional staff.
- \$60 million one-time Proposition 98 General Fund for the Classified School Employee Summer Assistance Program, which provides matching funds for intersessional pay for classified employees that work less than 12 months per year.
- \$25 million one-time Proposition 98 General Fund over five years for the 21st Century School Leadership Academy, to provide high-quality professional learning for administrators and other school leaders.
- Additional one-time funds are also provided to increase educator training and resources in early math, reading, science instruction, computer science, dyslexia, and LGBTQ+ cultural competency.

Finally, the budget proposes aligning teacher preparation programs with new teacher expectations for the instruction of students with exceptional needs, including dyslexia.

NUTRITION

Nutrition programs are a key component in achieving an effective education program. Research shows that child nutrition programs increase student attendance and improve their well being. To expand access to subsidized school meals, the May Revision includes \$150 million ongoing Proposition 98 General Fund to encourage local educational agencies to participate in one of the federal universal meal provisions. Participation in a universal meal provision allows schools to serve breakfast and lunch at no charge to all students and greatly reduces the administrative burden associated with collecting school meal applications. Students eligible for free and reduced price meals are also more likely to participate in universal school meal programs. Finally, local educational agencies participating in a federal universal meal provision generally receive increased federal meal reimbursement.

Additionally, the May Revision invests in the workers and infrastructure that support school meal programs by including \$100 million one-time Proposition 98 General Fund to provide school kitchen infrastructure upgrades and training for school cafeteria staff. As noted in the Sustainable Agriculture Chapter, the May Revision also provides \$30 million one-time General Fund (up from \$10 million in the Governor's Budget) to the Department of Food and Agriculture to support the Farm to School initiative.

SPECIAL EDUCATION

The May Revision reflects the Administration's ongoing commitment to invest in and improve instruction and services for students with exceptional needs in the state. Specifically, the May Revision includes the following for special education programs:

- \$277.7 million one-time federal Individuals with Disabilities Education Act (IDEA) funds to local educational agencies to increase general statewide special education resources.
- \$117.7 million Proposition 98 General Fund to increase the cost-of-living adjustment for state special education funding from 1.5 percent to 4.05 percent, reflecting both an increase in the 2021-22 cost-of-living adjustment as well as application of the

2.31 percent cost-of-living adjustment from 2020-21, which was suspended in the 2020 Budget Act.

- \$15 million one-time federal IDEA funds to provide technical assistance and support to local educational agencies in developing and administering comprehensive individualized education programs and to develop tools and resources to assess and address academic impacts of the Pandemic on students with disabilities.
- \$2.3 million federal IDEA funds (of which \$965,000 is available on a one-time basis) and 6 positions for the Department of Education to address special education complaints, perform court-ordered special education monitoring of local educational agencies, and to purchase special education monitoring software.
- \$1.2 million federal IDEA funds (of which \$1.1 million is available on a one-time basis) and 1 position to improve coordination between the California Department of Education, the California Department of Developmental Services, and local educational agencies to support the transition from IDEA Part C to Part B programs, and convene stakeholder workgroups to address data sharing and disseminate best practices to increase access to more inclusive settings for three-, four-, and five-year-olds.

OTHER K-12 BUDGET ADJUSTMENTS

Other significant adjustments include:

- **Local Property Tax Adjustments**—An increase of \$53 million ongoing Proposition 98 General Fund for school districts, charter schools, and county offices of education in 2020-21 as a result of decreased offsetting property tax revenues, and a decrease of \$153.6 million ongoing Proposition 98 General Fund for school districts and county offices of education in 2021-22 as a result of increased offsetting property taxes.
- **Career Technical Education ROCPs**—\$86.4 million one-time Proposition 98 General Fund for career technical education regional occupational centers or programs (ROCPs) operated by a joint powers authority to address costs associated with the COVID-19 Pandemic.
- **County Offices of Education**—An increase of \$29.7 million ongoing Proposition 98 General Fund to reflect a 2.7-percent cost-of-living adjustment and average daily attendance changes applicable to the LCFF.

- **Cost-of-Living Adjustments**—An increase of \$2.4 million ongoing Proposition 98 General Fund to reflect a 1.7-percent cost-of-living adjustment for categorical programs that remain outside of the LCFF and Special Education, including Child Nutrition, State Preschool, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.

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HIGHER EDUCATION

California provides instruction, training, support services, and other programs and opportunities to nearly three million postsecondary students. Leading these efforts are the University of California (UC), California State University (CSU), California Community Colleges (CCC), Student Aid Commission, and several other agencies. The May Revision includes \$48.7 billion (\$26.5 billion General Fund and local property tax and \$22.2 billion other funds) for all higher education entities in 2021-22. The figure on Higher Education Expenditures displays additional detail about funding for higher education.

The May Revision proposes significant one-time and ongoing investments that reflect the Administration's continued commitment to affordability, access, and efficiency in higher education. These investments include making college savings accounts widely available to low-income children; providing grants to advance training and education for workers impacted by the COVID-19 Pandemic; promoting learning-aligned, long-term career development opportunities; expanding the availability of affordable student housing; and establishing regional K-16 education collaboratives focused on streamlining educational pathways leading to in-demand jobs.

Higher Education Expenditures

(Dollars in Millions)

	2019-20 ⁴	2020-21 ⁵	2021-22 ⁶	Change from 2020-21	
				Dollars	Percent
University of California					
Total Funds ^{1/}	\$9,647.3	\$9,323.8	\$10,580.1	\$1,256.3	13.5%
Ongoing General Fund	3,724.3	3,465.3	3,972.1	\$506.9	14.6%
One-Time General Fund	214.0	8.8	300.7	-	-
California State University					
Total Funds ^{1/}	\$8,571.6	\$8,269.1	\$10,277.2	\$2,008.1	24.3%
Ongoing General Fund	4,350.9	4,041.6	4,637.7	\$596.1	14.8%
One-Time General Fund	329.5	19.5	683.0	-	-
California Community Colleges					
Total Funds	\$17,369.3	\$18,081.8	\$19,107.7	\$1,025.9	5.7%
General Fund & Property Taxes	10,341.8	11,680.1	11,672.9	-\$7.2	-0.1%
California Student Aid Commission					
Total Funds	\$2,363.9	\$2,577.2	\$3,114.1	\$536.9	20.8%
General Fund ^{2/}	1,284.8	2,135.6	2,693.5	\$557.9	26.1%
Other Higher Education ^{3/}					
Total Funds	\$97.1	\$66.2	\$5,611.0	\$5,544.9	8378.8%
Ongoing General Fund	16.9	19.0	20.7	\$1.6	-
One-Time General Fund	26.1	-	2,503.0	-	-
Total Funds	\$38,049.2	\$38,318.1	\$48,690.1	\$10,372.0	27.1%
General Fund	\$20,288.3	\$21,369.9	\$26,483.6	\$5,113.7	23.9%

^{1/} These totals include tuition and fee revenues, other funds the universities report as discretionary, and American Rescue Plan Act of 2021 infrastructure funds.

^{2/} General Fund expenditures for the Cal Grant program are offset by reimbursements, including approximately \$400 million in federal Temporary Assistance for Needy Families (TANF) funds received through an agreement with the Department of Social Services.

^{3/} This category includes Hastings College of the Law; one-time funds in 2019-20 for the Scholarshare California Kids Investment and Development Savings Program; and one-time funds in 2021-22 for Child Savings Accounts (\$2.04 billion), Learning-Aligned Employment (\$500 million), Student Housing Development (\$2 billion), and Displaced Worker Training Grants (\$1 billion).

^{4/} 2019-20 Total Funds include federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding provided directly to colleges and universities.

^{5/} 2020-21 Total Funds include federal Coronavirus Response and Relief Supplemental Appropriations Act funding provided directly to colleges and universities.

^{6/} 2021-22 Total Funds include federal American Rescue Plan Act of 2021 funding provided directly to colleges and universities.

IMPROVING COLLEGE AFFORDABILITY

The state's primary method for addressing college affordability issues has long been providing direct subsidies for tuition and non-tuition costs through the Student Aid Commission's Cal Grant Program. The May Revision builds on this approach by:

- Maintaining the state's substantial investments in Cal Grant, two years of free community college, and other aid programs.
- Making summer financial aid resources for the UC and CSU permanent, assisting students in their efforts to improve timely degree completion.

- Providing the CCCs with additional resources to support basic needs centers and coordinators, and Dreamer Resource Liaisons, thereby providing additional support for underrepresented students.

The Administration is also proposing several measures to help address students' total cost of attendance and to make higher education an accessible goal for all students.

COLLEGE SAVINGS ACCOUNTS

The May Revision includes approximately \$2 billion one-time federal American Rescue Plan Act of 2021 funds in 2021-22, and assumes \$170 million ongoing General Fund beginning in 2022-23, to establish college savings accounts for all current low-income public school students, as defined by the Local Control Funding Formula, with supplemental investments for foster youth and homeless students enrolled in a public school, and for successive cohorts of these student populations as they enter first grade. Making college savings accounts widely available to eligible students and seeding them with resources that will be invested and grow in value over time will help set children from low-income families on a path to affording postsecondary education, while helping to address equity gaps. The program will involve:

- Establishing the California Child Savings Program, administered by the ScholarShare Investment Board, to create college savings accounts targeted to low-income and underrepresented public school students.
- Establishing accounts for every student qualifying as low-income as defined by the Local Control Funding Formula (students eligible for free or reduced-price meals under the National School Lunch Program, English learners, and foster youth).
- Providing seed funding of \$500 for each account, with qualifying foster youth and homeless students each receiving an additional supplemental seed deposit of \$500.

College savings accounts will not solve poverty today, but they are a long-term investment in children and their financial futures, and promote positive savings behavior. The pandemic has taken an extraordinary toll on low-income families and this effort seeks to reverse some of those negative economic impacts going forward.

STUDENT HOUSING

The May Revision also includes \$4 billion one-time General Fund, split evenly between fiscal years 2021-22 and 2022-23, to establish a low-cost student housing grant program focused on expanding the availability of affordable student housing. Reducing many students' rent costs will relieve one of the largest financial pressures students face and will significantly limit increases in the total cost of attendance. The program will involve:

- Authorizing the California School Finance Authority to award grants to the UC, CSU, and CCCs to build new student housing or to acquire commercial properties that would be transformed into student housing.
- Substantially reducing rent for students by relieving the segments from having to build in construction and/or acquisition costs into rental and meal plan charges.
- Prioritizing grants for the conversion of commercial properties that would be transformed into student housing.
- Prioritizing access to newly available units for low-income and under-represented students to support and improve equity.
- Requiring student tenants to take an average of 15 degree-applicable units per semester to facilitate timely degree completion and to further reduce their overall cost of completing college.

These one-time funds will create additional student housing that will add to the state's overall housing stock and thus relieve pressure on student housing costs, simultaneously increasing supply around universities and helping to improve housing affordability.

ADVANCING WORKERS IN A POST-COVID ECONOMY

The pandemic is accelerating change in the state's economy, increasing the importance of connecting higher education to jobs and careers. In addition, addressing equity gaps requires new thinking about how to move students seamlessly from preschool to college. Finally, the pandemic has displaced millions of workers, especially women and mothers who have shouldered a disproportionate share of caregiving while schools have operated in distance learning and family members have fallen ill. For many, the chance to return to school or training would be difficult without additional support. The May Revision makes the following substantial investments to advance workers as California recovers from the pandemic.

LEARNING-ALIGNED EMPLOYMENT

The Administration is focused on promoting closer links between campuses and businesses in order to foster job creation, economic mobility, and economic growth. The May Revision includes \$1 billion one-time General Fund, split evenly between fiscal years 2021-22 and 2022-23, to establish the Learning-Aligned Employment program, which would promote learning-aligned, long-term career development for UC, CSU, and CCC students. This program would be established as an endowment to sustain ongoing support. The program will involve:

- Creating the Endowment for Learning-Aligned Employment and authorizing the UC to invest the funds and distribute the annual returns to the public segments of higher education based on their share of resident undergraduate students receiving a Pell grant.
- Strategically focusing campuses toward identifying or establishing partnerships with external employers to provide learning-aligned opportunities related to students' fields of study, aimed at providing students with long-term career development and professional networking opportunities.
- Prioritizing learning-aligned employment opportunities for underrepresented students, particularly underrepresented students in STEM fields.

EDUCATION AND TRAINING SUPPORT GRANTS FOR DISPLACED WORKERS

The May Revision includes \$1 billion in one-time American Rescue Plan Act of 2021 funds for the Student Aid Commission to establish a one-time grant program to support displaced workers seeking reskilling and up-skilling, educational opportunities, or to support some of the costs to start a business. The program will involve:

- Authorizing the Student Aid Commission to disseminate the funds to the higher education segments, and authorizing UC, CSU, and CCC campuses to receive these funds and grant them to individuals displaced from their employment due the COVID-19 Pandemic on behalf of the Commission.
- Allowing recipients to use their grants to cover the costs of postsecondary programs, high-quality training programs, or to start a business for which the recipient has filed for a business license and developed a business plan.

HIGHER EDUCATION

- Requiring at least half of the amount appropriated for this purpose to be used to provide grants to eligible individuals who are caring for a dependent child.
- Encouraging UC, CSU, and CCC campuses to match grant funds used at their institutions, which could include UC and CSU extension programs, with institutional funds.
- Specifying that the grant amounts will be determined by the Student Aid Commission, with a minimum amount of \$1,000 per grant.

REGIONAL K-16 EDUCATION COLLABORATIVES

The May Revision allocates the \$250 million one-time General Fund set-aside from the Governor's Budget to a grant program for regional K-16 collaboratives. The program will involve:

- Appropriating the funds to the Office of Planning and Research to award grants to between five and eight regional collaboratives, modeled after the Fresno K-16 Education Collaborative.
- Requiring eligible collaboratives to include at least one institution from all three segments; to include consideration of regional workforce needs; to focus on streamlining occupational pathways that lead to high-paying, in-demand jobs; and to align higher education with workforce needs.
- Requiring eligible collaboratives to adopt recommendations from the February 2021 Recovery with Equity report related to fostering inclusive institutions and facilitating student transitions.

MULTI-YEAR FRAMEWORK FOR HIGHER EDUCATION

The Administration is committed to working with the UC and CSU to develop a multi-year agreement focusing on priorities that include closing equity gaps, improving time-to-degree completion, reducing students' total cost of attendance and increasing predictability, increasing California resident undergraduate enrollment, improving faculty diversity, and better aligning curricula and student learning objectives with workforce needs.

The May Revision maintains the Administration's expectations articulated in the Governor's Budget that:

- The UC and CSU maintain resident undergraduate tuition and fees at current levels for the 2021-22 academic year;
- The UC, CSU, and CCCs take action to significantly reduce equity gaps with the goal of fully closing equity gaps;
- The UC, CSU, and CCCs adopt policies furthering educational opportunities using online learning programs;
- The UC, CSU, and CCCs better align student learning objectives with workforce needs; and
- The UC and CSU create a new stand-alone dual admissions pathway enabling first-time freshman applicants to be considered for guaranteed admission to the UC or CSU campus of their choice upon completion of an Associate Degree for Transfer or another transfer pathway at a California Community College.

The May Revision also increases base resources provided to UC and CSU in the Governor's Budget. Specifically, the May Revision:

- Provides a \$69.3 million ongoing General Fund base augmentation to the UC and a \$74.4 million ongoing General Fund base augmentation to the CSU. When combined with respective base augmentations of \$103.9 million and \$111.5 million previously provided in the Governor's Budget, these augmentations result in five-percent ongoing base General Fund resource increases beginning in 2021-22.
- Provides \$302.4 million General Fund to the UC and \$299 million General Fund to the CSU to offset the ongoing reductions applied to the UC and CSU in the 2020 Budget Act, starting in fiscal year 2021-22.

These significant investments in UC and CSU provide ongoing base funding levels above pre-pandemic levels to aid the universities in making progress toward multi-year goals.

UNIVERSITY OF CALIFORNIA

Consisting of ten campuses, the UC is the primary institution authorized to independently award doctoral degrees and professional degrees. The UC educates approximately 285,000 undergraduate and graduate students and receives the highest state subsidy per student among the state's three public higher education segments. In

2019-20, the UC awarded 83,000 degrees. An additional 300,000 students participate in continuing education programs through the University extensions.

UC OFFICE OF THE PRESIDENT

The COVID-19 Pandemic has underscored the importance of being able to act swiftly to adjust operations to best support students and complex university operations. This is best done under a model that allows the UC President to collaborate with campuses to implement systemwide efforts that enable campuses to better serve students and operate more efficiently. To support such a model, the May Revision proposes to consolidate the separate funding items for the UC Office of the President and UC campuses into one item, and enable the UC Office of the President to return to a campus assessment model. Returning to a campus assessment model, while maintaining existing transparency measures, will enable the UC Office of the President to provide campuses with additional flexibility to determine if a centrally supported service would more efficiently and effectively serve the needs of students.

DETAILED BUDGET INVESTMENTS

ONGOING INVESTMENTS:

- **Support for the University of California**—An increase of approximately \$302.4 million General Fund to support the University's changing operational and programmatic needs, which effectively restores UC's 2020 Budget Act reductions beginning in 2021-22.
- **Base Growth**—An increase of approximately \$69.3 million ongoing General Fund to support the University's changing operational and programmatic needs, which when combined with the Governor's Budget base augmentation of \$103.9 million ongoing General Fund, results in a five-percent base increase.
- **Graduate Medical Education**—A decrease of \$1.6 million ongoing General Fund to maintain the Proposition 56 Graduate Medical Education Program at an ongoing total of \$40 million.

ONE-TIME INVESTMENTS:

- **Deferred Maintenance**—An increase of \$150 million one-time American Rescue Plan Act of 2021 funds to address deferred maintenance and energy efficiency projects at UC campuses. This funding is provided in addition to \$175 million one-time

General Fund provided in the Governor's Budget for UC deferred maintenance and energy efficiency projects.

- **Grants for Animal Shelters**—An increase of \$45 million one-time General Fund for the UC Davis Koret Animal Shelter Medicine Program to develop a grant program for animal shelters. This augmentation would enable the center to provide expertise, support, and local assistance over a five-year period to help communities achieve the state's policy goal that no adoptable or treatable dog or cat should be euthanized.
- **UCLA Labor Center**—An increase of \$15 million one-time General Fund to renovate the UCLA Labor Center facility.
- **UC San Francisco Dyslexia Center**—An increase of \$10.2 million one-time General Fund to enhance the Center's app, support collaboration with teacher training programs, and support dyslexia research that could inform practices.
- **UCLA Asian American Studies Center**—An increase of \$5 million one-time General Fund to support analysis and research associated with the prevention of hate incidents experienced by Asian Pacific Islander communities and to provide grants to community-based organizations focused on preventing hate incidents experienced by Asian Pacific Islander communities.
- **UC Berkeley Alternative Meats Lab**—An increase of \$1 million one-time General Fund to support the UC Berkeley Alternative Meats Lab.

CALIFORNIA STATE UNIVERSITY

The CSU serves approximately 486,000 undergraduate and graduate students across 23 campuses and receives funding from a variety of sources, including state General Fund, federal funds, lottery funds, and student tuition and fees. In 2019-20, the CSU awarded over 129,000 degrees. The CSU also provides opportunities for residents to enroll in professional and continuing education programs.

TRANSITIONING HUMBOLDT STATE UNIVERSITY TO A POLYTECHNIC UNIVERSITY

The May Revision provides a significant investment to support Humboldt State University becoming designated as the state's third polytechnic university, and the first in northern California. Transitioning Humboldt State University to a polytechnic university would build upon the University's high concentration of programs in science, technology,

engineering and math (STEM) fields, as well as applied sciences such as health, agriculture, and natural resources. Moreover, the availability of a polytechnic university on the northern California coast would improve the availability of hands-on educational opportunities in the region, preparing students for in-demand careers in the North Coast region and throughout California.

The May Revision provides \$433 million one-time General Fund to support a capital projects transition plan—including renovations of science and laboratory facilities, as well as enhanced computing and telecommunications infrastructure—as the campus transitions to a polytechnic university. Additionally, the May Revision provides \$25 million ongoing General Fund to support the addition of academic programs that would be offered under Humboldt State University's polytechnic designation, such as programs in cyber security and technology, wildlife management, and climate resilience.

DETAILED BUDGET INVESTMENTS

ONGOING INVESTMENTS:

- **Support for the California State University**—An increase of approximately \$299 million General Fund to support the University's changing operational and programmatic needs.
- **Base Growth**—An increase of approximately \$74.4 million ongoing General Fund to support the University's changing operational and programmatic needs, which when combined with the Governor's Budget base augmentation of \$111.5 million ongoing General Fund, results in a five-percent base increase.

ONE-TIME INVESTMENTS:

- **Deferred Maintenance**—An increase of \$150 million one-time American Rescue Plan Act of 2021 funds to address deferred maintenance and energy efficiency projects at CSU campuses. Additionally, the May Revision provides the CSU with the flexibility to use \$175 million one-time General Fund proposed in the Governor's Budget to address deferred maintenance to also be used to address energy efficiency projects at CSU campuses.
- **CSU Northridge Center for Equity in Innovation and Technology**—An increase of \$25 million one-time General Fund to support construction of the CSU Northridge Center for Equity in Innovation and Technology.

CALIFORNIA COMMUNITY COLLEGES

The CCCs are the largest system of higher education in the nation, serving roughly one-quarter of the nation's community college students, or approximately 2.1 million students. The CCCs provide basic skills, career education, and undergraduate transfer education with 73 districts, 116 campuses, and 78 educational centers. In 2019-20, the community colleges awarded more than 115,000 certificates, 196,000 degrees and transferred about 107,000 students to four-year institutions.

SIGNIFICANTLY REDUCING TEXTBOOK COSTS

To address rising costs of student instructional materials, the 2016 Budget Act included \$5 million one-time Proposition 98 General Fund to establish the Zero-Textbook-Cost Degree (ZTC) Grant Program to create associate degrees and career technical education certificate programs, earned entirely by completing courses that eliminate textbook costs. Although the CCCCO does identify official savings to students, some external estimates indicate this investment produced \$42 million in cost savings to students.

Textbooks contribute considerable costs to earning a degree. The May Revision proposes a nearly eight-fold increase over the Governor's Budget to expand the creation of ZTC degrees by incenting the development and use of open educational resources. The May Revision proposes \$100 million one-time Proposition 98 General Fund, which when combined with \$15 million one-time Proposition 98 General Fund proposed in the Governor's Budget would provide a total of \$115 million one-time Proposition 98 General Fund to develop and implement zero-textbook-cost degrees and open educational resources.

DETAILED BUDGET INVESTMENTS

APPORTIONMENTS INVESTMENTS:

- **Apportionments Cost-of-Living Adjustment**—An increase of \$185.4 million ongoing Proposition 98 General Fund to reflect a compounded cost-of-living adjustment of 4.05 percent, which represents a 2020-21 cost-of-living adjustment of 2.31 percent and a revised 2021-22 cost-of living adjustment of 1.7 percent.
- **Apportionment Deferrals**—An increase of approximately \$326.5 million one-time Proposition 98 General Fund to fully retire deferrals from the 2021-22 fiscal year to the 2022-23 fiscal year.

- **Dual Enrollment**—An increase of \$75 million one-time Proposition 98 General Fund to expand new and existing College and Career Access Pathways (CCAP) agreements between school districts and community colleges.
- **Local Property Tax Adjustment**—An increase of \$62.4 million ongoing Proposition 98 General Fund as a result of decreased offsetting local property tax revenues.

STUDENT-FOCUSED PROGRAM INVESTMENTS:

- **Guided Pathways**—An increase of \$150 million one-time Proposition 98 General Fund to further support colleges' efforts to implement Guided Pathways programs.
- **Retention and Enrollment Strategies**—An increase of \$100 million one-time Proposition 98 General Fund to support efforts to bolster CCC student retention rates and enrollment, consistent with funds approved for this purpose pursuant to Chapter 4, Statutes of 2021 (AB 85).
- **English as a Second Language**—An increase of \$50 million ongoing Proposition 98 General Fund to expand vocational training opportunities and English as a Second Language (ESL) programs for ESL students at the community colleges. The Administration expects that these programs be linked to pathways enabling ESL students to subsequently enroll in for credit certificate, credential, or degree programs.
- **Student Basic Needs**—An increase of \$30 million ongoing Proposition 98 General Fund for colleges to establish basic needs centers and hire basic needs coordinators.
- **Student Equity and Achievement Program**—An increase of approximately \$23.8 million ongoing Proposition 98 General Fund to increase program funding by five percent.
- **Equal Employment Opportunity Programs**—An increase of \$20 million one-time Proposition 98 General Fund to support the implementation of EEO best practices, as developed by the Chancellor's Equal Employment Opportunity and Diversity Advisory Committee.
- **Dreamer Resource Liaisons**—An increase of \$5.8 million ongoing Proposition 98 General Fund to further support Dreamer Resource Liaisons and student support services for immigrant students, including undocumented students in community colleges, pursuant to Chapter 788, Statutes of 2019 (AB 1645).

WORKFORCE-FOCUSED INVESTMENTS:

- **High Road Training Partnerships and Regional Partnerships**—An increase of \$20 million one-time Proposition 98 General Fund to support CCC participation in High Road Training Partnerships and regional partnerships developed by the California Workforce Development Board.
- **CCC Strong Workforce Program**—An increase of approximately \$12.4 million ongoing Proposition 98 General Fund to increase program funding by five percent.
- **Work-Based Learning**—An increase of \$10 million one-time Proposition 98 General Fund to develop work-based learning opportunities in (1) cloud computing, and (2) zero emissions and supply chain fields.
- **Competency-Based Education Pilot**—An increase of \$10 million one-time Proposition 98 General Fund to pilot implementation of competency-based education at select community colleges.
- **CCC Registry Modernization**—An increase of \$1 million one-time Proposition 98 General Fund to support the modernization of the CCC Registry, which is an online database of job opportunities for the California Community Colleges.

TECHNOLOGY-FOCUSED INVESTMENTS:

- **Program Pathways Technology**—An increase of \$10 million ongoing Proposition 98 General Fund to for the systemwide acquisition of software that visualizes and clearly maps out curricular pathways for students choosing their pathway and for students needing help to stay on their pathway. This investment would also support the long-term development and integration of a common application platform within the proposed Cradle-to Career Data system.
- **Common Course Numbering**—An increase of \$10 million one-time Proposition 98 General Fund to plan for and begin developing a common course numbering system throughout the community college system, which should better enable students to identify the courses needed to complete a degree or certificate, or transfer to a four-year institution. This investment would also support the long-term development and integration of a common application platform within the proposed Cradle-to Career Data system.
- **Library Services Platform**—An increase of \$4 million ongoing Proposition 98 General Fund to support a systemwide technology platform for library services to better manage and deliver digital information to support teaching and learning.

OTHER INVESTMENTS:

- **Deferred Maintenance**—An increase of \$314.1 million one-time Proposition 98 General Fund and \$250 million one-time American Rescue Plan Act of 2021 funds to address deferred maintenance.
- **COVID-19 Response Block Grant**—An increase of \$50 million one-time Proposition 98 General Fund to support grants to assist community colleges with responding to the COVID-19 Pandemic and transitioning back toward in-person education.
- **Student Success Completion Grant**—An increase of \$27.2 million ongoing Proposition 98 General Fund to support revised estimates of students eligible for the program.

CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission administers financial aid programs, including the Cal Grant program and the Middle Class Scholarship Program. The state's Cal Grant program is estimated to provide over 383,000 financial aid awards to students who meet specified eligibility criteria in fiscal year 2019-20.

The Administration remains committed to fostering equity and access within the State's higher education institutions. In an effort to support college affordability, the May Revision maintains all financial aid programs, with only caseload adjustments.

GOLDEN STATE TEACHER GRANT PROGRAM

The May Revision provides an increase of \$400 million one-time General Fund, which when combined with \$100 million one-time General Fund proposed in the Governor's Budget, provides a combined total of \$500 million one-time General Fund for the Golden State Teacher Grant Program. These funds will be available over a five-year period to support grants to students enrolled in teacher preparation programs who commit to working in a high-need field at school sites with the highest rates of non-credentialed or waiver teachers.

SIGNIFICANT INVESTMENTS:

- **Cal Grant Program Costs**—A decrease of \$106.4 million General Fund in 2021-22 to account for the following:

- A decrease of approximately \$63 million in 2021-22 to reflect a decrease in the estimated number of new recipients in 2020-21. This adjustment includes decreased costs of \$50.8 million in 2020-21.
- A decrease of \$43.4 million ongoing General Fund associated with the cost to restore Cal Grant A eligibility for students impacted by a change in their living status due to the pandemic. The May Revision also reflects decreased costs of \$43.4 million in 2020-21.
- **Former and Current Foster Youth Access Award**—A decrease of approximately \$5.1 million ongoing General Fund associated with revised estimates of foster youth that would qualify for a supplemental access award funding for all former or current foster youth.

HASTINGS COLLEGE OF THE LAW

Hastings College of the Law is affiliated with the UC system, but is governed by its own Board of Directors. Located in San Francisco, it primarily serves students seeking a Juris Doctor degree, but also has masters programs. In 2019-20, Hastings enrolled 944 full-time equivalent students. Of these, 921 were Juris Doctor students.

SIGNIFICANT INVESTMENT:

- **Alternative Campus Safety Program**—An increase of \$3 million one-time General Fund, available for a three-year period, to provide support for an alternative campus public safety program.

CALIFORNIA STATE LIBRARY

The California State Library serves as the central reference and research library for the Governor and Legislature. The Library collects, preserves, generates, and disseminates information, and provides critical assistance to libraries across the state. The Library administers programs funded by state and federal funds to support local and public library programs.

SIGNIFICANT INVESTMENTS:

- **Infrastructure:**

- **Library Infrastructure**—An increase of \$50 million one-time General Fund for an equity-focused matching grant program to support local library infrastructure.
- **Broadband Access**—An increase of \$35 million one-time General Fund available through 2024-25, to expand broadband access to isolated and under-served communities through a collaborative partnership of local education agencies, regional libraries, and telehealth providers and leverage available federal funds through the E-Rate Program.
- **Broadband Capacity and Equipment Grants**—An increase of \$6 million one-time General Fund to support the Broadband Connectivity Initiative.

- **Education:**

- **English as a Second Language Programs**—An increase of \$15 million one-time General Fund to support English as a Second Language programs offered through local libraries.
- **Online Tutoring**—An increase of \$6.4 million one-time General Fund to support a two-year pilot online tutoring service program.
- **Civil Liberties Program**—An increase of \$5 million one-time General Fund to support grants for public education and awareness of Civil Liberties.
- **Database Access**—An increase of \$241,000 ongoing General Fund to support K-12 Student Online STEAM database access.

- **Other Investments:**

- **Disaster Preparedness**—A limited-term increase of \$2.4 million General Fund annually for the next four years to support Disaster Preparedness for Cultural Heritage Agencies.
- **Assistive Technology**—An increase of \$1.6 million one-time General Fund and \$220,000 ongoing General Fund to support Assistive Technology for Visually Impaired Californians.
- **Data and Systems Librarians**—An increase of \$345,000 ongoing General Fund to support Data and Systems Librarians.

- **Homeless Youth Project**—An increase of \$130,000 to support the California Homeless Youth Project.

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HEALTH AND HUMAN SERVICES

The Health and Human Services Agency oversees departments and state entities that provide health and social services to the most vulnerable and at-risk Californians. The Agency is leading the response to the COVID-19 Pandemic along with the Governor's Office of Emergency Services. The May Revision includes \$207.7 billion (\$54.2 billion General Fund and \$153.5 billion other funds) for all health and human services programs. This does not include all pandemic response costs (see Pandemic Response and Federal Assistance Chapter for more details).

As more Californians get vaccinated and case rates and hospitalizations decrease, the May Revision presents a once-in-a-generation opportunity to begin to address the health, economic, and racial inequities that were exacerbated by the pandemic. The May Revision builds on the Governor's Budget proposal that makes structural changes to our safety net that help many Californians toward self-sufficiency and success.

For California, the goal is all individuals having the opportunity to thrive and be part of healthy, equitable communities. The May Revision charts a path to a system in which necessities like housing and childcare are linked to health and behavioral health services. Furthermore, these services address the social, cultural, and linguistic needs of the individuals they serve.

The May Revision begins to lay the foundation to make this vision a reality, changing the life trajectory of children so they grow up to be healthier—both physically and mentally—and better educated, with higher paying jobs, and lower rates of involvement in the criminal justice system. In addition, the May Revision lifts older,

homeless, and formerly-incarcerated Californians to build back stronger and more resilient.

The May Revision proposals transform the behavioral health system for children and youth, support vulnerable and homeless families, build an age-friendly state for older Californians, and provide care to the most marginalized. These proposals independently help bolster critical safety net programs that support and empower Californians. Taken together, these investments advance the health and well-being of all Californians, as well as their social and economic mobility.

To help address projected structural deficits, the Legislature assumed in the 2020 Budget Act the suspension of various health and human services investments effective July 1, 2021 and December 31, 2021. Given the improved revenue outlook, the Governor's Budget proposed to delay the suspensions for one year. The May Revision proposes to eliminate the suspensions. These suspensions include, but are not limited to, Proposition 56 supplemental payment increases, reversing the 7-percent reduction in In-Home Supportive Services hours, and Developmental Services provider rate increases.

TRANSFORMING THE BEHAVIORAL HEALTH SYSTEM FOR CHILDREN AND YOUTH

The pandemic has exacerbated behavioral health conditions for children and youth. Absent action, these conditions will grow and intensify with more young people emerging with untreated anxiety, depression, psychosis, and new substance use disorders.

Half of all lifetime cases of diagnosable mental illnesses begin by age 14 and three fourths of all lifetime cases of diagnosable mental illness begin by age 25. Historically the adolescent substance use disorder system in California has been under-scaled. Addressing these needs is vital to California's recovery.

The children's behavioral health system needs more focus on prevention, increasing the number of behavioral health professionals, providing more crisis services, and adding acute care services and beds. Coordination between systems must also be improved to avoid delays or barriers to services. The most glaring behavioral challenges are borne inequitably by communities of color, low-income communities, LGBTQ+ communities, and in places where adverse childhood experiences are widespread and prominent.

The state has the opportunity now to take a statewide, comprehensive approach to provide more and better services. This opportunity to build a better system of care for all

children and youth age 25 and younger could change the lives of the next generation of Californians, having the potential to alter the drivers of homelessness, incarceration, and poverty.

The goal is to transform California's behavioral health system for children and youth into a world-class, innovative, and prevention-focused system where all children and youth are routinely screened, supported, and served for emerging and existing behavioral health needs. To realize this goal, the May Revision includes \$1 billion from the federal American Rescue Plan Act's Coronavirus State Fiscal Recovery Fund (ARPA) in 2021-22, \$1.7 billion (\$1.3 billion ARPA, \$300 million General Fund, and \$100 million Federal Trust Fund) in 2022-23, and \$431 million (\$300 million General Fund) ongoing for the Children and Youth Behavioral Health Initiative. (Some of these amounts also relate to proposed changes to the Behavioral Health Continuum Infrastructure proposal described under the Department of Health Care Services.)

Services developed under the Initiative will be provided to children and youth age 25 and younger, available statewide (in both commercial plans and Medi-Cal), evidence based, culturally competent, and equity focused. Services will address a broad and complex range of issues affecting mental and emotional well-being, including alcohol and other substance use, stress, trauma, grief, anxiety, and psychological disorders. Connecting children and youth to these services will be a set of interactive tools available via virtual platform 24 hours a day, seven days a week. In short, the Initiative will identify children who need help early, provide services where and when needed, and make programs and services available to meet their needs. Furthermore, supports will be provided for young people facing challenges at home or who are having difficulty forging positive and supportive adult relationships.

The Initiative includes resources for the Department of Health Care Services to: implement a virtual platform to integrate behavioral health services with screening, clinic-based care, and app-based support services; provide grants to qualified entities to increase behavioral health services at or affiliated with schools; develop and expand age-appropriate, evidence-based programs offered through plans as well as the CalHOPE Student Support Program; provide dedicated funds from the Behavioral Health Continuum Infrastructure Program to build infrastructure targeted at individuals age 25 and younger; and provide Medi-Cal dyadic service benefits.

Moreover, the Initiative includes resources for the Office of Statewide Health Planning and Development (OSHPD) to support behavioral health providers through existing and new health workforce development programs. The Initiative also includes resources for an Office of the Surgeon General public awareness campaign on adverse childhood

experiences and toxic stress, and develop a curriculum of trauma-informed training specific to the education sector. Lastly, the Initiative includes resources for the Department of Public Health to raise the behavioral health literacy of all Californians and prevent mental health and substance use challenges.

The May Revision also includes the following augmentations related to behavioral health for children and youth:

- **Lanterman Act Provisional Eligibility**—The May Revision includes \$23.8 million ongoing General Fund to provide children aging out of Early Start provisional Lanterman service eligibility up to age five.
- **Mental Health Services Act Partnership Grant Program**—The May Revision includes \$30 million one-time Mental Health Services Fund for the Mental Health Student Services Act partnership grants.
- **Foster Youth**—The May Revision includes \$39.2 million General Fund to assist counties with serving foster youth with complex needs and behavioral health conditions, within California, as well as youth that return from an out-of-state congregate placement.
- **Treatment and Prevention of Adverse Childhood Experiences**—Housed within the Office of Planning and Research, the California Initiative to Advance Precision Medicine supports collaborative research and partnerships between the state, researchers, patients, communities, and industry to advance a holistic perspective of physical and mental wellbeing. The May Revision includes \$12.4 million one-time General Fund for seven demonstration projects focused on advancing research on, and building scalable approaches to, treating and preventing Adverse Childhood Experiences (ACEs). Funding will further the Administration's efforts to better understand and treat ACEs by strengthening workforce training efforts, building a statewide stress surveillance network, and broadening the network of clinicians and providers that are equipped to treat and prevent toxic stress resulting from ACEs.

See the K-12 Education Chapter for investments in behavioral health programs at schools.

SUPPORTING VULNERABLE AND HOMELESS FAMILIES

The pandemic has exacerbated inequities and the Administration is prioritizing investments that will promote a recovery for all Californians.

The May Revision makes investments in California's safety net programs that have been designed to collectively work to lift families out of poverty with cash assistance and targeted food and health benefits. These investments will help provide a foundation to advance the health and well-being of all Californians, and improve social and economic mobility.

The May Revision proposes investments in the following programs:

- **CalWORKs Housing Support Program Investment**—The May Revision includes \$475 million General Fund in both 2021-22 and in 2022-23 to expand the existing CalWORKs Housing Support program.
- **Bringing Families Home Program**—The May Revision includes \$280 million General Fund in both 2021-22 and 2022-23 to expand the existing Bringing Families Home program. This program provides housing-related supports to eligible families experiencing homelessness in the child welfare system.
- **Project Roomkey**—The May Revision includes \$150 million one-time General Fund to support transitioning participants into permanent housing.
- **Regional Center Mobile Crisis Teams**—The May Revision includes \$8 million General Fund in 2021-22, increasing to \$11 million General Fund ongoing in 2022-23, for Systemic, Therapeutic, Assessment, Resources and Treatment (START) teams. The teams provide 24-hour crisis prevention and response services to individuals with intellectual or developmental disabilities.
- **Low to No Purchase of Service Caseload Ratio**—The May Revision includes \$10 million General Fund in 2021-22 to establish an intensive caseload ratio (1:40) to improve service delivery to consumers in underserved communities.
- **Family Reunification CalWORKs Assistance Payment**—The May Revision includes \$8.7 million General Fund in 2021-22 and ongoing for counties to continue providing CalWORKs services for no more than 180 days when a child has been removed from the home and is receiving out-of-home care.
- **Family First Prevention Services Act Part I**—The May Revision includes \$122.4 million General Fund one-time in 2021-22 to be expended over three years to assist counties with new prevention services implementation efforts allowable under the new federal Family First Prevention Services Act. These one-time resources will assist counties to build locally driven services and supports for children, youth and families at risk of entering foster care.

- **Universal Basic Income Pilot**—The May Revision includes \$35 million General Fund over five years for Universal Basic Income pilot programs. These pilot programs would be city or county administered, require a local-match commitment, and shall target low-income Californians.

BUILDING AN AGE-FRIENDLY STATE FOR OLDER INDIVIDUALS

The pandemic disproportionately harmed older and other at-risk adults and strained aging and disability services. Older adults have accounted for unprecedented death rates—particularly among Latino, Black and Asian Pacific Islander communities and those living in nursing homes. Intensified social isolation has been especially burdensome. The suffering experienced by and pressures placed on older adults, people with disabilities, caregivers, service providers, and advocates during this time have made implementing parts of California's Master Plan for Aging even more urgent.

The Master Plan for Aging applies the lessons learned during the pandemic, which has highlighted the need to embrace new ways to support older adults, people with disabilities, and communities of color. The Master Plan for Aging calls for California communities to build a California for All Ages where people of all ages and abilities are engaged, valued and afforded equitable opportunities to thrive as we age. Consistent with the Master Plan for Aging, the May Revision makes investments in order to realize the promise of an age-friendly state.

The May Revision proposes:

- **Medi-Cal Coverage to Undocumented Older Adults**—The May Revision includes \$69 million (\$50 million General Fund) in 2021-22 and \$1 billion (\$859 million General Fund) ongoing to expand Medi-Cal, including In-Home Supportive Services, to undocumented adults aged 60 and older effective no sooner than May 1, 2022.
- **Older Adult Recovery and Resiliency**—The May Revision includes \$106 million General Fund available over three years, to strengthen older adults' recovery and resilience from isolation and health impacts caused by the pandemic. This investment will increase service levels of existing programs based on local need including: Senior Nutrition, Senior Legal Aid, Home Modifications and Fall Prevention, Behavioral Health Friendship Line, Senior Digital Assistance, Family Caregiver Support, Senior Employment Opportunities, Elder Abuse Prevention, and Aging & Disability Resource Connection.

- **CalFresh Expansion Older Adult Outreach**—The May Revision includes \$2 million (\$1.1 million General Fund) ongoing for the Department of Aging to continue CalFresh Expansion outreach efforts to older adults.
- **Master Plan for Aging Implementation**—An April 1 proposal included \$3.3 million General Fund ongoing to provide the Department of Aging policy, project management, and information technology leadership necessary to implement the Master Plan for Aging.
- **Department of Aging Suspensions**—The May Revision proposes to eliminate suspensions for Aging and Disability Resource Connections and Senior Nutrition resulting in a cost of \$13.8 million General Fund in 2022-23 and \$27.5 million ongoing.
- **Office of Medicare Innovation and Integration**—An April 1 proposal included \$602,000 (\$452,000 General Fund) ongoing to provide the Department of Health Care Services focused leadership and expertise to lead innovative models for Medicare beneficiaries in California, including both Medicare-only beneficiaries and individuals dually eligible for Medicare and Medi-Cal.
- **Office of Long-Term Care Patient Representative**—An April 1 proposal included \$4 million Public Health Licensing & Certification funding ongoing for the Department of Aging to provide public patient representatives to nursing facility residents who lack capacity to make their own health care decisions and who do not have a family member or friend who can act as a patient representative.
- **Alzheimer's Augmentation**—Building on investments proposed in the Governor's Budget, the May Revision includes \$12.5 million General Fund one-time to address Alzheimer's in California. These investments include \$5 million for public awareness, \$2.5 million for standards of care, and \$5 million for geriatric workforce development.
- **Home Safe**—The May Revision Includes \$100 million General Fund in both 2021-22 and 2022-23 for the Home Safe program for access to health, safety, and housing supports for individuals involved in or at risk of involvement in Adult Protective Services.
- **Housing and Disability Advocacy Program**—The May Revision includes \$175 million General fund annually through 2023-24 to assist disabled individuals who are experiencing homelessness. Additionally, the May Revision waives the Interim Assistance Reimbursement requirement through the end of 2023-24 for this program.

- **Community Care Expansion Program**—The May Revision includes \$500 million in both 2021-22 and 2022-23 for the construction, acquisition and/or rehabilitation of adults and seniors in care facilities who are homeless or at risk of becoming homeless, and will further stabilize these facilities with physical upgrades and capital improvements.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services.

To further the Medi-Cal program's ability to address some of the most complex challenges facing Californians' most vulnerable neighbors, the May Revision builds on the California Advancing and Innovating Medi-Cal (CalAIM) proposal. This proposal recognizes the opportunity to provide for non-clinical interventions focused on a whole-person care approach that targets social determinants of health and reduces health disparities and inequities.

The broader system, program, and payment reforms included in CalAIM allow the state to take a population health, person-centered approach to providing services with the goal of improving outcomes for all Californians. Attaining such goals will have a significant impact on an individual's health and quality of life and, through iterative system transformation, will ultimately reduce the per-capita costs over time.

The Medi-Cal budget is \$115.6 billion (\$21.5 billion General Fund) in 2020-21 and \$123.8 billion (\$27.6 billion General Fund) in 2021-22. The May Revision assumes that caseload will increase by approximately 7.1 percent from 2019-20 to 2020-21 and increase by 6.6 percent from 2020-21 to 2021-22. Medi-Cal is projected to cover approximately 14.5 million Californians in 2021-22, over one-third of the state's population.

EXPANDING COVERAGE AND BENEFITS

Over the course of the last decade, Medi-Cal has significantly expanded and changed, mostly because of changes brought by the federal Patient Protection and Affordable Care Act and various federal regulations, as well as state-level statutory and policy changes. During this time, the state has also undertaken many initiatives and embarked on innovative demonstration projects to improve the beneficiary

experience. Additionally, health equity has been a key focus of the Administration and the pandemic has accelerated the need for additional action.

The May Revision builds on these efforts to address the need for a more culturally and linguistically competent and responsive health and social services system. The May Revision proposes the following initiatives, which build on the CalAIM Medi-Cal proposal and advance equity in health care.

The May Revision proposes:

- **Population Health Management Service**—The May Revision includes one-time \$315 million (\$31.5 million General Fund) to provide population health management services that would centralize administrative and clinical data from the Department, health plans, and providers. Access to this information would allow all parties to better identify and stratify member risks and inform quality and value delivery across the continuum of care while implementing CalAIM. The service will also facilitate the connection between important health data and critical social service data for a given beneficiary.
- **Medi-Cal Providing Access and Transforming Health Payments (PATH)**—The May Revision includes one-time \$200 million (\$100 million General Fund) to build capacity for effective pre-release care for justice-involved populations to enable coordination with justice agencies and Medi-Cal coverage of services 30 days prior to release.
- **Five-Year Medi-Cal Eligibility Extension for Postpartum Individuals**—The American Rescue Plan Act of 2021 allows states to receive a federal funding if they extend Medi-Cal eligibility from 60 days to 12 months for most postpartum individuals, effective April 1, 2022 for up to five years. The May Revision includes \$90.5 million (\$45.3 million General Fund) in 2021-22 and \$362.2 million (\$181.1 million General Fund) annually between 2022-23 and 2027-28 to implement the extension.
- **Doula Benefit**—The May Revision includes \$403,000 (\$152,000 General Fund) in 2021-22 and approximately \$4.4 million (\$1.7 million General Fund) annually at full implementation to add doula services as a covered benefit in the Medi-Cal program, effective January 1, 2022.
- **Community Health Workers**—The May Revision includes \$16.3 million (\$6.2 million General Fund), increasing to \$201 million (\$76 million General Fund) by 2026-27, to add community health workers to the class of health workers who are able to provide benefits and services to Medi-Cal beneficiaries, effective January 1, 2022.

- **Medically Tailored Meals**—The May Revision includes one-time funding of \$9.3 million General Fund to continue the provision of medically tailored meals in the period between the conclusion of the existing pilot program in 2021 and when medically tailored meals become available as an option for In-Lieu of Service (ILOS) under CalAIM.
- **Audio Only Visits**—As part of the Administration's proposal to extend telehealth flexibilities utilized during the pandemic, while providing assurances of appropriate access to in-person care, DHCS will establish rates for audio-only telehealth that is set as 65 percent of the Medi-Cal rate for the service rendered in fee-for-service, and comparable alternative to prospective payment system (PPS) rates for clinics to maintain an incentive for in-person care. Only providers located in California or border communities and able to provide in-person services to each client served by audio-only telehealth can claim Medi-Cal reimbursement for the service. DHCS will consult with subject matter experts to establish utilization management protocols for all telehealth services prior to implementation of post-pandemic telehealth services.

OTHER SIGNIFICANT ADJUSTMENTS:

- **Current Year**—The May Revision assumes decreased expenditures in the Medi-Cal program of approximately \$1 billion General Fund compared with the Governor's Budget. The majority of the current year decrease results from lower-than-expected COVID-19-related caseload costs, and a one-time draw-down of retroactive federal funds associated with state-only populations.
- **Year-Over-Year**—The May Revision projects General Fund expenditures of \$27.6 billion in 2021-22, an increase of \$6.1 billion compared with 2020-21. Approximately one-third of the increase is attributable to caseload costs resulting from the federal continuous coverage requirement during the public health emergency and other COVID-19-related impacts, one-third of the increase is attributable to base program cost increases and an increase in estimated repayment of federal funds for state-only populations, and one-third is attributable to various new investments as well as various smaller adjustments, including an increase in projected federal fund claiming deferrals.
- **Proposition 56 Suspensions**—The May Revision proposes to eliminate suspensions for Proposition 56 supplemental payment increases resulting in a cost of approximately \$550 million ongoing.
- **Behavioral Health Continuum Infrastructure**—The Governor's Budget proposed \$750 million one-time General Fund for competitive grants to qualified entities to

construct, acquire, and rehabilitate real estate assets to expand the community continuum of behavioral health treatment resources. An April 1 Budget Letter shifted \$6.5 million one-time General Fund from local assistance to state operations, available over a three-year period. The May Revision increases the Governor's Budget proposal by \$10 million ARPA and shifts \$300 million General Fund to ARPA. In addition, the May Revision includes \$1.4 billion (\$1.2 billion General Fund and \$220 million ARPA) for the program in 2022-23 (some of these amounts are included in the Children and Youth Behavioral Health Initiative described above). Of the funding, a minimum of \$10 million ARPA in 2021-22 and \$255 million (\$220 million ARPA and \$25 million General Fund) in 2022-23 is available for increased infrastructure targeted to individuals age 25 and younger.

- **Incompetent to Stand Trial Facility Infrastructure**—As a part of the Behavioral Health Continuum Infrastructure proposal, the May Revision includes \$250 million one-time General Fund to provide competitive grants for increased infrastructure targeted to justice-involved individuals with a serious mental illness who are deemed IST. Related to an intent to reallocate Relinquished County Jail Bond Authority to purchase or modify community mental health facilities, this proposal is intended to provide community based alternatives to incarceration or unnecessary state hospitalization.
- **Drug Rebate Fund Reserve**—The May Revision allocates \$222 million in 2020-21 to the Medi-Cal Drug Rebate Fund to maintain a reserve. The reserve is intended to alleviate the General Fund impact related to drug rebate volatility.
- **Medication Therapy Management**—The May Revision includes \$12.6 million (\$4.4 million General Fund) to reimburse specialty pharmacies for services provided to beneficiaries with complex drug therapies in the fee-for-service delivery system, effective July 1, 2021.
- **County Administration Funding for Post-Public Health Emergency Redeterminations**—The May Revision includes one-time funding of \$73 million (\$36.5 million General Fund) in each of 2021-22 and 2022-23 to resume annual Medi-Cal redeterminations upon conclusion of the federal public health emergency and continuous coverage requirement.
- **Support for Public Hospitals and Health Systems**—The May Revision includes \$300 million one-time Coronavirus Fiscal Recovery Fund to help public health care systems cover costs associated with critical care delivery needs provided during and beyond the pandemic.

- **Rates for Intermediate Care Facilities for Individuals with Developmental Disabilities (ICF/DD) and Pediatric Subacute Facilities**—The May Revision includes \$24 million (\$11 million General Fund) to address frozen rates for ICF/DD and pediatric subacute facility rates.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Department's major programs include CalWORKs, CalFresh, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare Services, Community Care Licensing, and Disability Determination. Effective July 1, 2021, child care and nutrition programs will transition from the California Department of Education (CDE) to DSS. The May Revision includes \$42.2 billion (\$14.7 billion General Fund) for DSS programs in 2021-22.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The CalWORKs program, California's version of the federal Temporary Assistance for Needy Families (TANF) program, provides temporary cash assistance to low-income families with children to meet basic needs. It also provides welfare-to-work services so that families may become self-sufficient. Eligibility requirements and benefit levels are established by the state. Counties have flexibility in program design, services, and funding to meet local needs.

Total TANF expenditures are \$8.5 billion (state, local, and federal funds) in 2021-22. The amount budgeted includes \$6.8 billion for CalWORKs program expenditures and \$1.7 billion in other programs. Other programs include expenditures for Child Care, Child Welfare Services, Foster Care, Department of Developmental Services programs, the Statewide Automated Welfare System, Work Incentive Nutritional Supplement, California Community Colleges Child Care and Education Services, Cal Grants, and the Department of Child Support Services.

The average monthly CalWORKs caseload is estimated to be 358,110 families in 2021-22. The 2021-22 May Revision includes revised caseload projections, driven by the assumption federal unemployment benefits will expire resulting in new families receiving CalWORKs.

SIGNIFICANT ADJUSTMENTS:

- **CalWORKs Grant Increase**—The May Revision reflects a 5.3-percent increase to CalWORKs Maximum Aid Payment levels, which is estimated to cost \$142.9 million in 2021-22. These increased grant costs are funded entirely by the Child Poverty and Family Supplemental Support Subaccounts of the Local Revenue Fund.
- **CalWORKs Overpayments**—The May Revision includes the following changes to CalWORKs overpayment collections.
 - Beginning April 2020 through the end of the pandemic or June 30, 2022, whichever is sooner, authorizes a county to reduce the collection of all non-fraudulent related CalWORKs overpayments that are considered administrative errors from 10 percent to 5 percent of a family's aid payments.
 - Reduces the CalWORKs Overpayment collection timeframe from 5 years to 2 year.
- **Indian Health Clinic Funding Restoration**—The May Revision includes \$1.9 million General Fund ongoing to restore Indian Health Clinic funding to pre-2009 funding levels.

For additional details see the Housing and Homelessness Chapter.

IN-HOME SUPPORTIVE SERVICES

The IHSS program provides domestic and related services such as housework, transportation, and personal care services to eligible low-income aged, blind, and disabled persons. These services are provided to assist individuals to remain safely in their homes and prevent more costly institutionalization. The May Revision includes \$17.2 billion (\$5.5 billion General Fund) for the IHSS program in 2021-22. Average monthly caseload in this program is estimated to be 590,293 recipients in 2021-22.

SIGNIFICANT ADJUSTMENTS:

- **IHSS State and County Sharing Ratio**—Under current law, the state and counties share the nonfederal cost for locally negotiated increases to wages and benefits for IHSS providers—a ratio of 35 percent county and 65 percent state, up to the state participation cap, which is set at \$1.10 above the state minimum wage. For

increases above that amount, the county is responsible for 100 percent of the nonfederal share. Effective January 1, 2022, when the state minimum wage reaches \$15 per hour, county-negotiated increases to IHSS wages and benefits would have flipped to a ratio of 65 percent county and 35 percent state. The May Revision now assumes the continuation of the 65 percent state and 35 percent county sharing ratio and the continuation of the 10 percent over three years option. The May Revision assumes increased state costs of \$57.3 million General Fund in 2021-22 and \$123.8 million ongoing General Fund to reflect this change.

- **Long Term Care Career Pathways**—The May Revision includes \$200 million one-time General Fund to incentivize, support, and fund career pathways for IHSS providers, allowing these workers to build on their experience to obtain a higher-level job in the home care and/or health care industry.
- **IHSS 7 Percent Suspension**—The May Revision proposes to eliminate the IHSS 7 percent reduction in service hours resulting in a cost of approximately \$248 million General Fund in 2022-23 and \$496 million ongoing General Fund.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT (SSI/SSP)

The federal SSI program provides a monthly cash benefit to eligible aged, blind, and disabled persons who meet the program's income and resource requirements. In California, the SSI payment is augmented with an SSP grant. These cash grants assist recipients with basic needs and living expenses. The federal Social Security Administration administers the SSI/SSP program, making eligibility determinations, computing grants, and issuing combined monthly checks to recipients. The state-only Cash Assistance Program for Immigrants (CAPI) provides monthly cash benefits to aged, blind, and disabled legal noncitizens who are ineligible for SSI/SSP due solely to their immigration status.

The May Revision includes \$2.7 billion General Fund in 2021-22 for the SSI/SSP program. The average monthly caseload in this program is estimated to be 1.2 million recipients in 2021-22.

Effective January 2021, the maximum SSI/SSP grant levels are \$955 per month for individuals and \$1,598 per month for couples. CAPI benefits are equivalent to SSI/SSP benefits.

SIGNIFICANT ADJUSTMENT:

- **2011 SSP COLA Restoration for Individuals**—The May Revision includes \$131.5 million General Fund in 2021-22 and ongoing to restore SSP, Cash Assistance Program for Immigrants, and California Veterans Cash Benefit recipients COLA for individuals back to 2011 payment levels.

CHILDREN'S PROGRAMS

Child Welfare Services include family support and maltreatment prevention services, child protective services, foster care services, and adoptions. California's child welfare system provides a continuum of services to children who are either at risk of or have suffered abuse and neglect. Program success is measured in terms of improving the safety, permanence, and well-being of children and families served. The May Revision includes \$1.1 billion General Fund in 2021-22 for services to children and families in these programs. When federal and 1991 and 2011 Realignment funds are included, total funding for children's programs is in excess of \$9.3 billion in 2021-22.

SIGNIFICANT ADJUSTMENTS:

- **Foster Care Emergency Assistance**—The May Revision includes \$24.5 million General Fund and federal TANF block grant funds in 2021-22 to provide caregivers with up to four months of emergency assistance payments pending resource family approval and up to twelve months for cases that meet good cause criteria.
- **Child Welfare Services-California Automated Response and Engagement System**—The May Revision includes \$39.4 million General Fund in 2021-22 to continue development of a new technology platform for Child Welfare Services.
- **Child and Adolescent Needs and Strengths Assessment Tool Workload**—The May Revision includes \$3.4 million General Fund ongoing for increased county social worker workload associated the Child and Adolescent Needs and Strengths assessment tool.
- **Continuum of Care Reform Reconciliation**—The May Revision includes \$7.1 million General Fund to reflect Continuum of Care Reform true-up related to county Child and Family Teams actual expenditures for fiscal year 2018-19.
- **Stipend for Tribal Social Work Students**—The May Revision includes \$3 million General Fund in 2021-22 to provide a Master of Social Work Programs stipend for tribal

members or Native Americans who commit to working in tribal social services programs dedicated to serve children and families through after graduation

IMMIGRATION SERVICES

DSS funds qualified organizations to provide legal and other critical services to immigrants in California.

SIGNIFICANT ADJUSTMENTS:

- **Rapid Response Efforts**—The May Revision includes \$105.2 million one-time General Fund for the Rapid Response Fund to provide support for migrant family arrivals at the Southern California border and additional funding for other emergency responses, including wildfires and drought.
- **Unaccompanied Undocumented Minors (UUM)**—The May Revision includes \$20 million General Fund and \$5 million Proposition 98 General Fund in 2021-22 to provide additional support for UUMs through Opportunities for Youth pilot project (\$4.7 million General Fund), the UUM legal services (\$14 million General Fund), state operations (\$1.3 million General Fund) and the California Newcomer Education and Well-Being Project (\$5 million Proposition 98 General Fund) will be available through 2022-23.
- **DACA and Naturalization Filing Fees**—The May Revision includes \$25 million one-time General Fund in 2021-22 to fund filing fees for DACA and naturalization.

CHILD CARE

The May Revision builds on prior investments to minimize the disruption of the pandemic on children, families and the child care workforce. Federal funding will continue to be instrumental in providing for the recovery and stability of families and the workforce and programs serving them. The Administration will continue to build on key recommendations from the Master Plan for Early Learning and Care to transform the state's child care system.

EXPANDING ACCESS AND INVESTING IN THE FUTURE

The Administration proposes to make the largest expansion of its kind in child care access by adding 100,000 subsidized child care slots. Updated Proposition 64 cannabis tax revenues will provide an additional \$83 million for child care slots in 2021-22 and

ongoing. These funds will provide for an additional 6,500 new child care slots. Additional investments to strengthen the child care system include:

- **Infrastructure Facilities**—The May Revision includes \$250 million one-time federal American Rescue Plan Act of 2021 (ARPA) funds to provide infrastructure grants for the acquisition, construction, development, and renovation of child care facilities focusing on desert areas to be spent through September 30, 2024.
- **Child Care Resource and Referral Programs**—The May Revision includes \$10 million ARPA funds to support continued Resource and Referral partnerships to strengthen their role serving as intermediaries to develop new child care facilities and capacity, and to streamline and improve data collection processes.
- **Quality Improvement**—The May Revision includes \$20 million for a multi-year effort to strengthen existing quality improvement supports and systems. CDSS will engage with stakeholders to inform policy-setting and program design with a focus on addressing inequities. Quality projects funded by the federal Child Care and Development Fund (CCDF) will transfer to CDSS as part of the child care and development transition without any immediate changes.

The K-12 Education Chapter includes information about additional investments in early learning programs and supports.

SUPPORTING THE EARLY LEARNING AND CARE WORKFORCE

The pandemic has disrupted the child care system and federal funding has been critical to reducing long-term losses in this system. The February, 2021 pandemic-related relief package provided \$402 million in federal funds. This relief package included \$244 million in per-child stipends for subsidized providers and additional paid closure days in the event that a provider temporarily shuts down due to COVID-19.

The May Revision includes a second pandemic relief package of \$579 million in one-time Coronavirus Response and Relief Supplemental Appropriations funds. The pandemic relief package includes:

- A tiered **licensed provider one-time stipend** based on licensing capacity of between \$3,500 to \$6,500.
- A third round of **per-child stipends** for subsidized child care and preschool providers.
- **Family fee waivers** for eligible families beginning July 1, 2021 through June 30, 2022.

- \$25 million one-time CRRSA funds available through September 30, 2023, for the expansion of the **California Child Care Initiative Project** to target areas such as child care deserts and building capacity of new licensed family child care homes.
- \$10.6 million one-time CRRSA funds available through September 30, 2023 for **early childhood mental health consultation**. This investment will expand the California Inclusion and Behavior Consultation project which offers support to child care programs and providers on such topics as children's social emotional development, trauma-informed practices and health and safety for the wellbeing of children and families impacted by the pandemic and beyond.
- **16 non-operational days** for providers accepting vouchers that have to close due to COVID-related reasons beginning July 1, 2021, through June 30, 2022.
- **Continued hold harmless** funding for child care providers that contract directly with the state and provider reimbursement at a child's maximum certified level of need for all providers accepting vouchers through June 30, 2022.

TRANSITION OF CHILD CARE AND DEVELOPMENT PROGRAMS

Effective July 1, 2021 child care and nutrition programs will shift from the CDE to the DSS. This transition will align all child care programs within a single department in state government. This transfer supports the implementation of a high-quality affordable child care and development system designed to comprehensively and effectively serve children, families, and the child care and development workforce. The Administration continues to support this transfer with additional investments.

SIGNIFICANT ADJUSTMENTS:

- **State Operations**—The May Revision shifts \$31.7 million (\$0.9 million General Fund) and 185.7 positions from the CDE to the DSS to administer child care, and nutrition programs. Additionally, to continue to support this transition additional state operations resources of \$10.9 million (\$10.4 million General Fund) and 79 position to provide adequate infrastructure to support the system, program enhancements, and to a whole-child/whole-family approach to child care integration and data development.
- **Local Assistance**—The May Revision includes \$3 billion (\$1.5 billion General Fund) and shifts the following programs, including: General Child Care, Alternate Payment Programs, CalWORKs Stage 2 & Stage 3, Resource & Referral Programs, Migrant Child Care Program, Severely Disabled Program, California Child Care Initiative,

Quality Improvement Activities, Local Planning Councils, and Child and Adult Care Food Program.

- **Direct Deposit**—The May Revision includes \$6.0 million to modernize payment options to child care and development contractors through the option of direct deposit.
- **Child Care Data Landscape**—The May Revision includes \$4.8 million General Fund to support planning and initial implementation for the design of a child care data system to meet the needs of families and the workforce. This proposed data system aligns with the Master Plan for Early Learning and Care and would strengthen the administrative processes used for data collection. DSS will build on prior efforts and engage stakeholders in the design.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) provides individuals with developmental disabilities a variety of services that allow them to live and work independently or in supported environments. California is the only state that provides services to individuals with developmental disabilities as an entitlement. The May Revision includes \$10.7 billion (\$6.6 billion General Fund) and estimates that approximately 386,753 individuals will receive services by the end of 2021-22.

SIGNIFICANT ADJUSTMENTS:

- **Elimination of Suspensions**—The May Revision proposes to eliminate suspension of the Provider Supplemental Rate Increase and lift the implementation of the Uniform Holiday Schedule resulting in a cost of \$173.7 million General Fund in 2022-23 and \$309.6 million ongoing General Fund.
- **Performance Incentives Program**—The May Revision includes \$4 million General Fund in 2021-22 for one-time planning resources to create an outcome-focused regional center operations funding program. Beginning in 2022-23, ongoing costs increase to \$61 million General Fund.
- **Direct Service Professional Workforce Training and Development**—The May Revision includes \$2.9 million General Fund in 2021-22 to establish a training and certification program for direct service professionals tied to wage differentials. The program aims to reduce staff wage inequity, stabilize service access, and professionalize and

diversify the workforce. Beginning in 2023-24, ongoing costs increase to \$51 million General Fund.

- **Bilingual Staff Differentials**—The May Revision includes \$2.2 million General Fund in 2021-22 to create a differential for bilingual service provider staff. Beginning in 2023-24, ongoing costs increase to \$6.5 million General Fund.
- **Self-Determination Supports**—The May Revision includes \$6.8 million General Fund to improve consumer onboarding into the Self-Determination Program, to include: participant choice specialists, intensive transition support services, and regional center training. Beginning in 2024-25, ongoing costs decrease to \$2.2 million General Fund.

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health (DPH) is charged with protecting and promoting the health and well-being of the people of California. The May Revision includes \$4.6 billion (\$1.3 billion General Fund) in 2021-22 for the Department.

The pandemic is the largest and most pervasive public health emergency in recent history. During recent decades, California has addressed smaller-scale outbreaks and threats, such as H1N1 influenza, Zika, Ebola, West Nile Virus, Measles, and Valley Fever. While each of these has led DPH to modify and refine its preparedness planning, the magnitude of the pandemic has been unprecedented and overwhelming. No segment of the state—whether by geography, by ethnicity, or by age—has been untouched.

The pandemic has exposed disparities within California's public health system and highlighted needs for infrastructure to prevent disease, promote health, and prepare for and respond to both immediate threats and chronic challenges. Federal and state investments in core public health functions (laboratory, epidemiology, and surveillance) have remained stagnant or decreased over the last decade. At the same time, the incidence and prevalence of both chronic and infectious diseases has risen. The number of reported infectious diseases rose nearly 45 percent over the past decade.

During the pandemic, federal support—including FEMA public assistance, Coronavirus Relief Funds, and various federal grants—has increased spending on public health response efforts by billions of dollars. In addition, the recently enacted American Rescue Plan Act of 2021 provides over \$1 billion to state and local public health efforts. The chart below details about \$5 billion in selected federal grants that have flowed to

the state and local governments to address critical public health needs. Local governments, who are key partners in these efforts, have received nearly \$3 billion in direct support from three of the largest grant awards. These funds generally are available over multiple fiscal years.

Selected Federal Public Health Grants Since March 2020		
Grant	Recipient	Award Amount (In Millions)
Epidemiology and Laboratory Capacity Grant	State	\$213
Epidemiology and Laboratory Capacity Grants, Local Share	Los Angeles County	\$291
Epidemiology and Laboratory Capacity Grants, Local Share	State Allocation to Local	\$286
Epidemiology and Laboratory Capacity Grants	State	\$508.5
Epidemiology and Laboratory Capacity Grants	Los Angeles County	\$577.8
Epidemiology and Laboratory Capacity Grants	State Allocation to Local	\$1,187.5
Vaccine Preparedness Grants	State	\$178.5
Vaccine Preparedness Grants	State Allocation to Local	\$178.5
School Testing Grants	Los Angeles County	\$302.4
TOTAL STATE		\$900.0
TOTAL LOCAL (INCLUDING LA)		\$2,823.10
TOTAL		\$3,723.1
Other Health-Related American Rescue Plan Grants*		
Grant	Recipient	Award Amount (In Millions)
School Testing Grants	State	\$888.7
Vaccine Preparedness Grants	State	\$357
GRAND TOTAL		\$4,968.8

*The local share of these awards is not yet known.

Although the state continues to respond to the pandemic, the next few months present an opportunity to look at the lessons learned and begin to build a vision for the future public health system. The Administration envisions a system that is able to monitor and detect new and emerging infectious and communicable diseases, quickly respond and mitigate their impacts on individuals, communities and the economy, and integrate with the healthcare delivery system to create a seamless continuum that includes surveillance, prevention and treatment. The May Revision includes \$3 million for a review that will assess the state's public health response and root causes of the disparities and inequities experienced by disproportionately impacted communities. The Administration is committed to turning lessons learned and gaps identified into actionable policies to be presented as part of the 2022 Governor's Budget.

Specifically, the May Revision proposes:

- **COVID-19 Response Costs**—\$1.08 billion for COVID-19 response costs. These funds will support testing and laboratory operations, vaccination, medical surge capacity, contact tracing management, and other state operations needs.
- **Pandemic Response Review**—\$3 million for an assessment of the state's public health and emergency response to the pandemic.
- **Behavioral Health Outreach for Young People**—\$100 million over the next five years to support youth behavioral health education and outreach programs as a part of the Children and Youth Behavioral Health Initiative proposal.

DEPARTMENT OF STATE HOSPITALS

The Department of State Hospitals (DSH) administers the state mental health hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed patients. The May Revision includes \$2.5 billion (\$2.3 billion General Fund) in 2021-22 for support of the Department. The patient population is expected to reach 7,089 by the end of 2021-22, including patients receiving competency treatment in jail-based settings and community-based settings.

PROVIDING CARE TO THE MOST MARGINALIZED

The California state hospital system cares for patients with the most serious mental illness, many of whom are justice involved and who have committed serious crimes. Patients admitted to the DSH are committed for treatment by a criminal or civil court judge. Approximately 90 percent of patients are forensic commitments. These patients are sent to a state hospital through the criminal court system and have committed crimes linked to their mental illness.

The pandemic has placed a significant strain on the state hospital system and has further exacerbated the waitlist of felony Incompetent to Stand Trial (IST) patients that are pending placement in a state hospital facility due to necessary changes to hospital operations and health precautions.

The May Revision makes investments designed to support individuals prior to admission into a state hospital. Moreover, these investments will help build the community infrastructure to support the restoration of the individuals served by the state hospital system.

FELONY INCOMPETENT TO STATE TRIAL POPULATION

The Department continues to experience a growing number of felony IST commitments who are referred from trial courts and are awaiting admission to the state hospital system, which has been further exacerbated by the pandemic. The number of ISTs pending placement into the state hospital system was approximately 1,561 individuals in May, 2021.

The May Revision includes the followings proposals to address the number of ISTs pending placement by increasing local capacity to provide treatment, housing, and other necessary supports:

OTHER SIGNIFICANT ADJUSTMENTS:

- **Community-Based Restoration Program Expansion**—The May Revision includes \$28.3 million General Fund to provide competency restoration service for IST patients in community mental health treatment settings. Beginning in 2024-25 ongoing costs increase to \$49.8 million General Fund.
- **Discontinue Lanterman-Petris-Short Patient Contracts with Counties**—The May Revision includes a \$17.1 million General Fund backfill for lost revenues as the state will no longer be able to take new Lanterman-Petris-Short patients. Beginning in 2023-24 the ongoing cost increases to \$146 million General Fund.
- **Jail-Based Competency Treatment Program Existing/New Program Updates**—The May Revision includes \$13.3 million General Fund to contract with counties to provide competency restoration services for IST patients residing in county jail facilities. Beginning in 2022-23 ongoing costs increase to \$22.5 million General Fund.
- **Reevaluation Services for Felony ISTs**—The May Revision includes \$12.7 million General Fund to partner with local county jails to re-evaluate individuals deemed IST on a felony charge waiting in jail 60 days or more pending placement to a DSH treatment program.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

California and its health care system have changed dramatically since OSHPD's creation in 1978, necessitating changes to make OSHPD more responsive to the state's needs. With the addition of new programs such as the Health Care Payments Data Program and the proposed Office of Health Care Affordability, the May Revision proposes to rename the office the Department of Health Care Access and Information (HCAI). The Department's work will be centered on safe health care facilities, increasing the health workforce, improving the affordability and quality of health care, and financing health facilities. The May Revision includes \$6.3 million in 2021-22 and \$3.9 million in 2022-23 and ongoing from various funds to recast the Office as a department, strengthen health workforce and other data assets, build a more robust health workforce data system, and analyze that data to better inform policy recommendations to help support the state's health care workforce. Also, as noted under the Building an Age-Friendly State for Older Individuals section above, the May Revision includes an augmentation the OSHPD's geriatric workforce programs of \$5 million one-time General Fund.

In addition, the May Revision includes:

- **Healthcare Workforce Training Program**—\$50 million one-time General Fund to support grants to new residency programs.

COVERED CALIFORNIA

The 2019 Budget Act included historic subsidies to help more low and middle class Californians afford health coverage through Covered California. In addition, the state created an individual mandate to obtain comprehensive health care coverage. For 2020-21 and 2021-22, ARPA provides more generous subsidies than the current state subsidy program, effectively eliminating the need for the state subsidies. The May Revision contains the following adjustments to the Covered California budget and individual mandate penalty revenue:

- **State Subsidy Program Savings**—The May Revision reflects General Fund savings totaling \$732.7 million over 2020-21 and 2021-22 combined that result from new federal subsidy levels replacing the state subsidy program.

- **Individual Mandate Penalty Revenue**—The Franchise Tax Board is currently processing returns for the 2020 tax year, the first year in which the individual mandate penalty is in effect. Based on initial sample data, the May Revision reflects reduced revenue from the individual mandate penalty of about \$345 million over 2020-21 and 2021-22 combined.
- **Zero-Dollar Premium Plans**—Health care consumers pay \$1 premiums for health plans due to federal policy concerning abortion coverage. The May Revision proposes to subsidize this cost for Covered California consumers at a General Fund cost of \$20 million ongoing.
- **Health Care Affordability Reserve Fund**—While ARPA provides substantial near-term relief to Californians purchasing health care through Covered California, the future of the enhanced federal assistance is uncertain. To partially backfill the loss of the more generous federal subsidies if they are not extended, or if other state health care affordability investments are explored in the future, the May Revision sets aside \$333.4 in a new Health Care Affordability Reserve Fund. The total equals estimated individual mandate penalty revenue in 2020-21 and 2021-22, less the 2021-22 cost of the zero-dollar premium plan proposal described above.

OTHER HEALTH AND HUMAN SERVICES ADJUSTMENTS:

- **Language Access**—The May Revision includes \$20 million one-time General Fund to improve and deliver language access services across the spectrum of Health and Human Services programs. This proposal would build on a 2021 Governor’s Budget proposal for the Health and Human Services Agency to develop and implement an HHS-wide policy framework to improve language access standards across programs and services.
- **Health Information Exchange Leadership**—The May Revision includes \$2.5 million one-time General Fund for Health and Human Services Agency to lead efforts and stakeholder engagement in building out information exchange for health and social services programs.
- **Health and Human Services Special Fund Loans**—The May Revision withdraws the proposed \$40 million loan from the Hospital Building Fund and proposes repaying \$156 million in budgetary loans from various special funds that were included in the 2020 Budget Act.

- **Office of Youth and Community Restoration**—The May Revision includes \$7.6 million General Fund in 2021-22 and \$7.2 million ongoing General Fund for 33 positions to stand up the Office of Youth and Community Restoration and perform the core functions laid out in SB 823 (Chapter 337, Statutes of 2020), including: (1) review of county's juvenile justice plans, (2) reporting on youth outcomes and identifying best practices, (3) providing technical assistance to counties, and (4) performing the ombudsperson duties.
- **Statewide Emergency Medical Services Data Solution**—This May Revision includes one-time \$10 million General Fund for the Emergency Medical Services Authority (EMSA) for planning and readiness activities to establish a statewide emergency services data infrastructure that strengthens real-time information sharing and data analytics for the state and locals, emergency medical services providers, and health care providers.
- **Emergency Capacity**—The May Revision includes \$10.8 million at EMSA to store and maintain critical emergency equipment and medical supplies acquired during the pandemic; and staff resources to improve the on-boarding, deployment, and training for emergency medical responders.

1991 AND 2011 REALIGNMENT

The programs for 1991 and 2011 Realignment are funded through two sources: state sales tax and vehicle license fees. These fund sources are projected to increase by 3.1 percent in 2020-21 and by 9.5 percent in 2021-22 compared to Governor's Budget estimates.

1991 Realignment Estimate at 2021 May Revision

Dollars in Thousands

2019-20 State Fiscal Year							
Amount	CalWORKs MOE	Health	Social Services	Mental Health	Family Support	Child Poverty	Totals
Base Funding							
Sales Tax Account	\$742,048	\$-	\$2,296,188	\$-	\$443,649	\$102,919	\$3,584,804
Vehicle License Fee Account	363,383	1,050,566	216,223	-	152,435	290,884	2,073,492
Subtotal Base	\$1,105,432	\$1,050,566	\$2,512,411	\$-	\$596,085	\$393,803	\$5,658,296
Growth Funding							
Sales Tax Growth Account:	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Caseload Subaccount	-	-	-	-	-	-	-
County Medical Services Growth Subaccount	-	-	-	-	-	-	-
General Growth Subaccount	-	-	-	-	-	-	-
Vehicle License Fee Growth Account	-	-	-	-	-	-	-
Subtotal Growth	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Total Realignment 2019-20¹¹	\$1,105,432	\$1,050,566	\$2,512,411	\$-	\$596,085	\$393,803	\$5,658,296
2020-21 State Fiscal Year							
Base Funding							
Sales Tax Account	\$742,048	\$23,890	\$2,296,188	\$-	\$419,759	\$102,919	\$3,584,804
Vehicle License Fee Account	363,383	1,016,415	216,223	-	186,586	290,884	2,073,493
Subtotal Base	\$1,105,432	\$1,040,305	\$2,512,411	\$-	\$606,346	\$393,803	\$5,658,297
Growth Funding							
Sales Tax Growth Account:	\$8,704	\$40,099	\$109,589	\$72,633	\$-	\$95,850	\$326,876
Caseload Subaccount	-	-	(109,589)	-	-	-	(109,589)
County Medical Services Growth Subaccount	-	-	-	-	-	-	-
General Growth Subaccount	(8,704)	(40,099)	-	(72,633)	-	(95,850)	(217,287)
Vehicle License Fee Growth Account	6,415	29,553	-	53,530	-	70,640	160,137
Subtotal Growth	\$15,119	\$69,652	\$109,589	\$126,163	\$-	\$166,490	\$487,013
Total Realignment 2020-21¹¹	\$1,120,551	\$1,109,958	\$2,621,999	\$126,163	\$606,346	\$560,293	\$6,145,310
<i>Change From Governor's Budget</i>	\$-	\$19,394	\$40,671	\$39,337	\$-	\$46,355	\$145,757
2021-22 State Fiscal Year							
Base Funding							
Sales Tax Account	\$750,753	\$67,400	\$2,405,777	\$72,633	\$416,348	\$198,769	\$3,911,680
Vehicle License Fee Account	369,798	1,045,968	216,223	53,530	186,586	361,524	2,233,629
Subtotal Base	\$1,120,551	\$1,113,368	\$2,621,999	\$126,163	\$602,934	\$560,293	\$6,145,309
Growth Funding							
Sales Tax Growth Account:	\$-	\$14,172	\$145,287	\$28,746	\$-	\$33,875	\$222,080
Caseload Subaccount	-	-	(145,287)	-	-	-	(145,287)
County Medical Services Growth Subaccount	-	-	-	-	-	-	-
General Growth Subaccount	-	(14,172)	-	(28,746)	-	(33,875)	(76,793)
Vehicle License Fee Growth Account	-	8,269	-	16,772	-	19,764	44,805
Subtotal Growth	\$-	\$22,440	\$145,287	\$45,518	\$-	\$53,639	\$266,885
Total Realignment 2021-22¹¹	\$1,120,551	\$1,135,809	\$2,767,287	\$171,681	\$602,934	\$613,932	\$6,412,194
<i>Change From Governor's Budget</i>	\$-	\$39,239	\$209,583	\$98,848	\$28,111	\$107,606	\$483,386

¹¹ Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.

2011 Realignment Estimate at 2021 May Revision

(\$ millions)

	2019-20	2019-20 Growth	2020-21	2020-21 Growth	2021-22	2021-22 Growth
Law Enforcement Services	\$2,603.9		\$2,633.8		\$2,838.0	
Trial Court Security Subaccount	559.1	0.0	567.0	\$20.4	587.4	13.2
Enhancing Law Enforcement Activities Subaccount	489.9	\$224.4	489.9	249.0	489.9	\$239.3
Community Corrections Subaccount	1,346.9	0.0	1,366.0	153.1	1,519.1	98.8
District Attorney and Public Defender Subaccount	41.0	0.0	41.6	10.2	51.8	6.6
Juvenile Justice Subaccount	167.0	0.0	169.3	20.4	189.8	13.2
<i>Youthful Offender Block Grant Special Account</i>	<i>(157.8)</i>	-	<i>(160.0)</i>	<i>(19.3)</i>	<i>(179.3)</i>	<i>(12.4)</i>
<i>Juvenile Reentry Grant Special Account</i>	<i>(9.2)</i>	-	<i>(9.3)</i>	<i>(1.1)</i>	<i>(10.5)</i>	<i>(0.7)</i>
Growth, Law Enforcement Services		224.4		453.2		371.1
Mental Health	\$1,120.6	0.0	\$1,120.6	\$19.0	\$1,120.6	12.2
Support Services	\$3,831.4		\$3,885.6		\$4,245.8	
Protective Services Subaccount	2,363.8	0.0	2,397.2	\$170.6	2,567.8	110.1
Behavioral Health Subaccount	1,467.6	0.0	1,488.4	189.6	1,678.0	122.3
<i>Women and Children's Residential Treatment Services</i>	<i>(5.1)</i>		<i>(5.1)</i>		<i>(5.1)</i>	
Growth, Support Services		0.0		379.2		244.6
Account Total and Growth	\$7,780.3		\$8,472.3		\$8,820.0	
Revenue						
1.0625% Sales Tax	\$7,060.0		\$7,721.4		\$8,077.9	
General Fund Backfill	6.0		12.0		12.9	
Motor Vehicle License Fee	714.3		738.9		729.2	
Revenue Total	\$7,780.3		\$8,472.3		\$8,820.0	

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).

HOUSING AND HOMELESSNESS

HOUSING

California's statewide housing shortage has been decades in the making—long before the COVID-19 Pandemic. In recent years, the state has made significant investments to bolster much-needed affordable housing production through tax credits, housing-related infrastructure grants, and financing loans. The pandemic further exacerbated the statewide housing shortage and impacted housing affordability.

The May Revision promotes and maintains stable housing through additional and expanded rental assistance, foreclosure prevention, and down payment assistance investments. Moreover, to continue the momentum on housing production, the Administration also proposes innovative ways to further plan, produce, preserve, and enhance the state's supply of long-term affordable housing.

The following May Revision concepts build upon the \$750 million in investments proposed in the Governor's Budget, for a total 2021-22 housing package of \$9.3 billion.

HOMEOWNER AND RENTER RELIEF

The pandemic brought unprecedented challenges for renters and homeowners. To provide much-needed economic relief and recovery, the state has sought to maximize federal funds and enact laws benefitting renters, small landlords, and homeowners.

In August 2020, the Governor signed Chapter 37, Statutes of 2020 (AB 3088), providing eviction protections for renters through March 1, 2021. To protect homeowners struggling to pay mortgages, the Administration also worked with financial institutions to provide a 90-day grace period of mortgage payments with no negative credit impacts, relief from fees and charges, and a 60-day moratorium on foreclosure sales. The Governor later extended these protections by supplementing up to 18 months of mortgage forbearance provided by the federal government for homeowners experiencing financial hardships in paying federally-backed mortgages.

Building on those measures, the May Revision proposes the following additional augmentations to provide additional relief.

CALIFORNIA'S COVID-19 RENT RELIEF PROGRAM

In January 2021, the COVID-19 Tenant Relief Act, Chapter 2, Statutes of 2021 (SB 91) was signed, creating the California COVID-19 Rent Relief Program. This program provides up to \$2.6 billion in federal rental assistance to those facing financial hardships as a result of the pandemic and extends the eviction protections through June 30, 2021. Subsequent to the state's program deployment in March 2021, the federal American Rescue Plan Act of 2021 (ARPA) provided for an additional \$2.6 billion to California for both state and local entitlement jurisdictions for a total of \$5.2 billion in federal rental relief aid.

The May Revision includes statutory amendments to maximize the use of available federal funds for rental, utilities, and housing-related expenses to help as many Californians as possible stay housed, while bolstering the economic resiliency of those hardest hit by the pandemic.

Additionally, the state continues to utilize \$331 million in National Mortgage Settlement funds for mortgage assistance. The state is also preparing to utilize \$1 billion from ARPA Homeowner Assistance Funds to the California Housing Finance Agency (CalHFA) to provide additional mortgage assistance, principal reductions, and qualified housing-related charges to provide housing stability.

EXPANDED HOMEOWNER AND RENTER LEGAL ASSISTANCE

To further protect homeowners and renters experiencing unprecedented economic hardships, the 2019 and 2020 Budget Acts appropriated \$51 million in grants to community-based organizations that offer eviction and foreclosure counseling, consultation, mediation, training, education, and representation.

As homeowners and renters continue to face economic challenges caused by the pandemic, the May Revision includes \$20 million in federal ARPA Coronavirus State Fiscal Recovery Funds for the next three years (\$60 million total) to the Judicial Council to continue providing legal assistance grants to over 100 legal service and self-help organizations.

INCREASING HOUSING PRODUCTION

The May Revision proposes \$1.75 billion one-time federal ARPA funds to help support HCD affordable housing projects. This will help more than 6,300 units of shovel-ready affordable housing move forward quickly rather than accumulating costs while waiting for a potential future tax credit. This effort will be combined with other homelessness proposals mentioned later in this Chapter.

ACCESSORY DWELLING UNIT FINANCING

Accessory Dwelling Units (ADUs) have become an increasingly popular and cost-efficient tool to create needed housing. Chapter 159, Statutes of 2019 (AB 101) provided \$19 million General Fund for CalHFA to finance ADUs for low- and moderate-income households, which is anticipated to begin in July 2021. To foster greater economic recovery and affordable housing, the May Revision includes an additional \$81 million one-time federal ARPA funds to expand CalHFA's ADU program to inject a total of \$100 million in available financing for ADUs. Because ADUs have quicker local approvals, this proposal will further expedite low-cost production and more quickly increase the housing units statewide.

SCALING UP DEVELOPMENT ON STATE EXCESS SITES

The state is committed to expanding and streamlining the development of housing on available excess state sites. To further encourage participation in the state excess lands program, the Governor's Budget proposed trailer bill language to permit phased and commercial development needed to develop more affordable housing.

To keep the momentum going on this effort, the May Revision proposes \$45 million in one-time federal ARPA funds that would scale up excess land development by providing funding for vital infrastructure for viable housing projects.

PROMOTING HOMEOWNERSHIP DURING THE AFFORDABILITY CRISIS

As the state economy recovers, the affordability crisis continues, and first-time homebuyers, particularly from disadvantaged communities, struggle to purchase a home. To encourage economic recovery, resiliency, and equity, the May Revision includes \$100 million one-time federal ARPA funds to CalHFA to expand its First Time Homebuyer Assistance Program, which helps first-time homebuyers with making a down payment, securing a loan, and paying closing costs on a home. The May Revision proposes to expand the program to lower-income households and expand CalHFA's lender network to help address the wealth gap, particularly in disadvantaged areas throughout the state.

ALTERNATIVE HOUSING PRODUCTION APPROACHES

The 2019 Budget Act provided \$125 million one-time General Fund for regional planning grants to assist local governments in planning and zoning to meet greater housing goals. The planning grants, administered by HCD in the Regional Early Action Planning Program (REAP), have been used by local and regional governments to plan for higher Regional Housing Needs Allocation targets for additional housing development, especially in infill areas, near public transit, and in ways that support the revitalization of existing communities and corridors. Building off the success of REAP, the May Revision proposes \$500 million one-time federal ARPA funds for HCD to provide additional planning and implementation grants to regional entities for infill developments, targeted towards the state's climate goals and reducing vehicle miles traveled.

In addition to planning investments and expanding the production of affordable housing, preservation also plays a key role in maintaining the state's affordable housing stock. As affordability covenants expire, previously state-funded affordable housing units risk becoming market-rate housing. Thus, the May Revision proposes a preservation effort with \$300 million one-time federal ARPA funds to sustain HCD legacy projects affordability requirements.

OTHER HOUSING INVESTMENTS

- **Construction Apprenticeships**—\$20 million one-time General Fund to connect job-seekers to housing apprenticeship opportunities in partnership with the University of California, California Conservation Corps, state and local workforce development boards, philanthropic organizations, and the building industry. By investing in people and building a pipeline to housing-related construction jobs,

more Californians will be able to experience economic resiliency and recovery while helping supply the labor force needed for expanding housing efforts. (More information can be found in the Labor and Workforce Development Chapter.)

- **Repairing and Maintaining Seasonal Farmworker Rental Housing**—\$20 million one-time General Fund for critical deferred maintenance needs and improved habitability at the Office of Migrant Services (OMS) centers. The state's OMS Centers provide affordable, seasonal rental housing near work locations for migrant farmworkers, a group disproportionately impacted by the pandemic. This proposal adds to the \$10 million included in the Governor's Budget for a total of \$30 million General Fund for OMS center deferred maintenance.

HOMELESSNESS

Over the past several years, the state has invested billions of dollars to provide critical housing supports and services to local jurisdictions for the homelessness population. The May Revision builds substantially on this investment by providing an additional \$4.7 billion reflecting a comprehensive approach to ending family homelessness, expanding access to housing, and providing additional housing supports for vulnerable populations. The following May Revision concepts add to the \$2.1 billion in investments proposed in the Governor's Budget, for a total 2021-22 homelessness package of \$6.8 billion.

Solving for homelessness takes a focused and unified approach, not only by the state, but also by local and federal governments. In order to address the needs, the services and supports must be coordinated and moving in tandem through each component of the service framework: prevention, shelter, housing, and long-term supportive services.

The COVID-19 Pandemic also provided a creative opportunity for the state to provide shelter for at-risk individuals to avoid being exposed to or contracting COVID-19. Project Roomkey allowed for unused hotels and motels to provide temporary non-congregate shelter during the pandemic, and similar properties across the state were made available to be acquired and converted into permanent housing through the Homekey Program. The state and local jurisdictions must use this opportunity to continue providing housing and providing supportive services to the state's most vulnerable populations.

ENDING FAMILY HOMELESSNESS

According to the 2020 Point-In-Time count, families are the fastest-growing segment of Californians experiencing homelessness. The May Revision includes proposals that would address family homelessness over five years by making significant investments in affordable housing for low-income families with children while simultaneously investing in safety-net programs (including CalWORKs), and health services by leveraging Medicaid.

- **Homekey Family Housing**—\$2.75 billion one-time funds over two years for the additional acquisition and rehabilitation of facilities through the Homekey program. Of this amount, \$1 billion is targeted for families experiencing homelessness or at risk for being homeless.
- **Challenge Grants & Technical Assistance**—\$40 million one-time General Fund available over 5 years, for the Homeless Coordinating Financing Council to provide grants and technical assistance to local jurisdictions to develop action plans that will address family homelessness and move the state closer to attaining functional zero family homelessness. Grants will be used to accelerate local jurisdictions' rehousing efforts that can demonstrate cross-system collaboration, multi-funder initiatives, and efforts that coordinate across funding streams and systems. This initiative strengthens the state's continued system-level improvements while local communities work toward eliminating family homelessness in an equitable and holistic manner.

As part of the state's comprehensive approach to ending family homelessness, the May Revision also includes investments for existing Department of Social Services (DSS) programs. These investments will provide intensive support services and housing assistance to help stabilize families, adults, and people with disabilities who experience homelessness over the next three years.

- **DSS Homelessness Supports**—The May Revision includes \$475 million General Fund in both 2021-22 and 2022-23 to expand the existing CalWORKs Housing Support program. This program assists CalWORKs families experiencing homelessness to secure and maintain permanent housing; services include financial assistance and housing related wrap-around supportive services. In addition, the May Revision also includes \$280 million General Fund in both 2021-22 and 2022-23 to expand the existing Bringing Families Home program. This program provides housing-related supports to eligible families experiencing homelessness in the child welfare system.

- **Behavioral Health Continuum Infrastructure**—The Governor's Budget proposed \$750 million one-time General Fund for competitive grants to qualified entities to construct, acquire, and rehabilitate real estate assets to expand the community continuum of behavioral health treatment resources. The May Revision increases the Governor's Budget proposal by \$10 million Coronavirus Fiscal Recovery Fund (CFRF) and shifts \$300 million General Fund to the CFRF. In addition, the May Revision includes \$1.4 billion (\$1.2 billion General Fund and \$220 million CFRF) for the program in 2022-23 (for more information, see the Health and Human Services chapter).

Combined with the \$1.75 billion in funding for HCD's backlogged housing projects and first-time homeownership assistance mentioned earlier in this Chapter, these proposals make housing affordable for families with the greatest need, while investing in intensive supportive services through a family empowerment model that honors a family's goals, aspirations and self-determination and relies on community networks of support. The proposal assumes increased ongoing federal investment in housing vouchers and other long-term investments in housing stability.

NON-CONGREGATE SHELTER TRANSITION TO PERMANENT HOUSING

Non-congregate shelter is proven to be a more effective interim housing intervention than congregate shelter. Since it was launched, Project Roomkey has provided safe shelter from the pandemic to over 36,000 Californians experiencing homelessness, many of whom are still residing in isolation/quarantine hotels. The May Revision includes \$150 million one-time General Fund to support the stability of the state's FEMA-funded non-congregate shelter population and transition of individuals from Project Roomkey into permanent housing following the September 2021 sunset of the federal reimbursement availability from the pandemic.

As the state continues to deploy resources for permanent housing, particularly those that have quickly launched through the Homekey program, this new funding will allow local governments to stabilize their non-congregate shelter sites in the event the federal government does not extend the FEMA cost-share, and transition individuals from Project Roomkey sites into permanent housing to minimize the number of occupants who exit into unsheltered homelessness.

The pandemic provided the state an opportunity through the Homekey Program to acquire and rehabilitate 6,000 units of permanent housing for housing at-risk individuals to avoid the spread of COVID-19. There continues to be strong local demand for more Homekey sites given the advantage of acquiring and utilizing additional permanent

housing units at a fraction of the time and cost of traditional new permanent housing. The May Revision builds on the continued success of the Homekey model by increasing funding for streamlined acquisitions of a broad array of building and housing types for both individuals and families experiencing homelessness.

The May Revision includes an additional \$2.75 billion in one-time funds over two years, for a total of \$3.5 billion for the Homekey Program. Of this amount, \$1 billion will be specifically targeted to families experiencing homelessness or at risk for being homeless as mentioned above.

SUPPORTING VULNERABLE POPULATIONS

With the number of elderly homeless Americans expected to triple in the next decade and to meet the complex needs of people with disabling conditions, the May Revision includes investments in new and existing programs administered by the Department of Social Services.

- **Housing and Disability Advocacy Program**—\$175 million General Fund annually through 2023-24 to better reach and house individuals who are eligible for but not currently receiving SSI/SSP through benefits advocacy and housing assistance.
- **Home Safe**—\$100 million General Fund annually through 2022-23 for the Home Safe program to provide access to health, safety, and housing supports for individuals involved in or at risk of involvement in Adult Protective Services.
- **Community Care Expansion**—An additional \$250 million one-time federal CFRF, for a total of \$500 million, to the Department of Social Services for competitive grants to qualified county and tribal entities for the acquisition and rehabilitation of adult and senior care facilities for those who are homeless or at-risk of becoming homelessness and have higher level of care needs.
- **Supportive Services for Formerly Homeless Veterans**—\$25 million one-time General Fund for the California Department of Veterans Affairs to administer a competitive grant program to support aging veterans and veterans with disabilities who have experienced chronic homelessness. This program will provide a higher level of on-site supportive services, such as in-home support to help with habitability, peer specialists to encourage veterans to engage in mental health care, and geriatric social workers to identify behavioral issues related to early onset dementia or similar cognitive issues. This program will support residents in permanent supportive housing

projects throughout California, primarily projects supported by Housing and Urban Development–Veterans Administration Supportive Housing (HUD VASH).

EXPANDED CALTRANS COORDINATION AND ADDRESSING ENCAMPMENTS

A portion of the state's unsheltered homeless population lives in encampments along streets and the state's highway system. It is critical that there be a coordinated approach between the state, local governments, and homelessness service providers to manage unhealthy and unsafe encampments and provide solutions to the thousands of unsheltered individuals living on local and state-owned land. The May Revision includes \$53 million in one-time General Fund resources to coordinate encampment outreach services to connect individuals living along California's streets and freeways with critical services, supports, and housing solutions.

- **Encampment Resolution Grants**—\$50 million one-time General Fund for the Homeless Coordinating and Financing Council (HCFC) to partner with local governments and assist them with resolving critical encampments and transitioning individuals into permanent housing.
- **Caltrans Encampment Coordinators**—\$2.7 million one-time General Fund for Caltrans Encampment Coordinators to mitigate safety risks at encampments on state property and to coordinate with the HCFC and local partners to connect these individuals to services and housing. These resources will also help Caltrans coordinate with the cleaning of trash and debris from encampment sites and inspection of encampment sites for potential damage to Caltrans infrastructure.

HOMELESSNESS COORDINATING AND FINANCING COUNCIL—ACCOUNTABILITY

In April 2021, the HCFC launched the first-ever statewide homelessness data warehouse—the Homeless Data Integration System (HDIS). HDIS streamlines homelessness data and analysis by combining information from 44 Continuums of Care into one single point of access.

Greater accountability is needed in the planning and expenditure of homelessness resources. The state and federal government have a role in setting policy and funding, but local governments and Continuums of Care are ultimately responsible for the implementation of these funds and their impact on preventing and ending

homelessness. Collectively, local governments must move away from strategies that seek to manage the problem and towards true systems-level solutions that prevent and end homelessness.

The May Revision includes \$5.6 million one-time General Fund for HCFC to conduct an assessment of local homelessness service providers and state funded homelessness programs. The assessment will provide a detailed view of the range of services and strategies that are utilized at the local level and help determine if state investments are aligned with local homelessness response systems.

TOTAL HOUSING AND HOMELESSNESS INVESTMENTS

Overall, as the state continues to recover and bolster long-term equity and resiliency, the May Revision continues to build upon its significant investments, in partnership with locals and support from the federal government, to keep expanding stable and affordable housing to individuals and families experiencing homelessness or at risk for homelessness. In total, the May Revision includes more than \$9.3 billion in housing resources and \$6.8 billion in homelessness resources in 2021-22, as detailed below.

2021-22 Affordable Housing Funding
(Dollars in Millions)

<i>Department</i>	<i>Program</i>	<i>Total Funding</i>
Department of Housing and Community Development	American Rescue Plan Act (ARPA) - Recovery and Infrastructure Investments	\$845.0
	Veterans and Affordable Housing Bond Act Programs (Prop 1)	\$556.0
	No Place Like Home Program	\$400.0
	Building Homes and Jobs Fund Programs (SB 2)	\$277.0
	Infill Infrastructure Grant Program Economic Recovery Investment	\$250.0 ^{1/}
	Federal Funded Programs for Housing	\$72.1 ^{2/}
	Veterans Housing and Homelessness Prevention	\$75.0
	Office of Migrant Services	\$35.6
	Various	\$22.0
California Housing Finance Agency ³	Single Family First Mortgage Lending	\$3,000.0
	Multifamily Conduit Lending	\$1,200.0
	Multifamily Permanent Lending	\$410.0
	Single Family Down Payment Assistance	\$260.0
	Mixed-Income Loan Program	\$85.0
	Accessory Dwelling Unit Financing	\$81.0 ^{4/}
	Special Needs Housing Program	\$15.0 ^{5/}
Tax Credit Allocation Committee	Low Income Housing Tax Credits (State)	\$625.0 ^{6/}
	Low Income Housing Tax Credits (Federal)	\$412.7 ^{7/}
	Farmworker Housing Assistance Tax Credits	\$4.2
Strategic Growth Council	Affordable Housing and Sustainable Communities	\$426.0 ^{8/}
Department of Veterans Affairs	CalVet Farm and Home Loan Program (Prop 1)	\$150.0
Judicial Council	Legal Assistance for Renters and Homeowners	\$20.0
Office of Emergency Services	Domestic Violence Housing First Program	\$23.0
	Transitional Housing Program	\$17.0
	Specialized Emergency Housing	\$10.0
	Domestic Violence Assistance, Equality in Prevention and Services, Human Trafficking Victim Assistance, North American Domestic Violence and Sexual Assault	- ^{9/}
California Department of Corrections and Rehabilitation	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	- ^{9/}
Department of Public Health	Housing Opportunities for Persons with AIDS (HOPWA)	\$5.0
	Housing Plus Program	\$1.0
	HIV Care Program	- ^{9/}
Total		\$9,277.6

1/ This is in addition to \$124 million in Proposition 1 for IIG.

2/ This amount reflects programs that receive federal funds, such as the Community Development Block Grant program.

3/ CalHFA is self-supporting and its single family and conduit lending programs do not rely on the state General Fund. Funding estimates are based on lending activities from 2019-20, available program resources, volume cap allocation, and multifamily lending pipeline projections.

4/ This is in addition to \$19 million provided for ADU financing from the 2019 Budget Act.

5/ Funding estimate represents voluntary allocations of local Proposition 63 funds from 16 participating counties.

6/ Includes the \$500 million state tax credit which will be appropriated on an annual basis.

7/ This represents the estimated 9 percent tax credits to be allocated, estimated amount of 4 percent credits to be awarded based on current data and remaining bond cap, and new 9 percent federal disaster credits in 2021.

8/ The Affordable Housing and Sustainable Communities program amount reflects 20 percent of projected Cap and Trade revenues.

9/ The state provides a number of wrap-around supportive services through these programs including housing, which cannot be separated from the program's overall budget.

2021-22 Homelessness Funding
(Dollars in Millions)

Department	Program	2021-22	2022-23	2023-24	Total Proposed at 2021-22 (over 3 years)
Department of Housing and Community Development	Continued Homekey Acquisitions	\$1,750	\$1,750	\$0	\$3,500.0
	Federal Funded Programs for Homelessness	\$139.2	\$139.2	\$139.2	\$417.6 ^{1/}
	Various backlogged projects	\$1,750.0	\$0.0	\$0.0	\$1,750.0 ^{2/}
	Foster Youth Housing Navigators	\$5.0	\$5.0	\$5.0	\$15.0
	Transitional Housing Program	\$8.0	\$8.0	\$8.0	\$24.0
Homeless Coordinating and Financing Council	Homeless Landscape Assessment	\$5.6	\$0.0	\$0.0	\$5.6
	Encampment Resolution Efforts	\$50.3	\$0.0	\$0.0	\$50.3
	Family Homelessness Challenge Grants	\$40.0	\$0.0	\$0.0	\$40.0
Office of Emergency Services	Various Homeless Youth Programs	\$1.0	\$1.0	\$1.0	\$3.0
	Youth Emergency Telephone Network	\$0.6	\$0.6	\$0.6	\$1.8
Department of Social Services	Community Care Expansion	\$500.0	\$500.0	\$0.0	\$1,000.0 ^{3/}
	CalWORKS Housing Support Program	\$570.0	\$475.0	\$0.0	\$1,045.0
	Housing and Disability Advocacy Program	\$200.0	\$175.0	\$175.0	\$550.0
	Bringing Families Home	\$280.0	\$280.0	\$0.0	\$560.0
	Home Safe Program	\$100.0	\$100.0	\$0.0	\$200.0
	Project Roomkey	\$150.0	\$0.0	\$0.0	\$150.0
Department of Health Care Services	Behavioral Health Continuum Infrastructure Program	\$1,005.7	\$1,447.2	\$2.1	\$2,455.0 ^{4/}
	Project for Assistance in the Transition from Homelessness	\$8.8	\$8.8	\$8.8	\$26.4
	California Advancing and Innovating Medi-Cal (CalAIM) (Complementary HHS Proposal)	N/A	N/A	N/A	N/A ^{5/}
Veteran's Affairs	Supportive Services for Formerly Homeless Veterans	\$25.0	\$0.0	\$0.0	\$25.0
Department of Transportation	Homeless Encampment Cleanup on the State Highway System	\$2.7	\$2.7	\$0.0	\$5.4
	Clean up California - additional Hazardous Material Removal	\$25.0	\$25.0	\$25.0	\$75.0
	Hazardous Material Removal at Encampments	\$20.6	\$20.6	\$20.6	\$61.8
California Community Colleges	Basic Needs Funding - Student Hunger and Homelessness Programs	\$100.0	\$100.0	\$100.0	\$300.0 ^{6/}
	Rapid Rehousing	\$9.0	\$9.0	\$9.0	\$27.0 ^{6/}
California State University	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15.0	\$15.0	\$15.0	\$45.0 ^{6/}
	Rapid Rehousing	\$6.5	\$6.5	\$6.5	\$19.5 ^{6/}
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15.0	\$15.0	\$15.0	\$45.0 ^{6/}
	Rapid Rehousing	\$3.5	\$3.5	\$3.5	\$10.5 ^{6/}
Total		\$6,786.5	\$5,087.1	\$534.3	\$12,407.9

1/ This amount reflects programs that receive federal funds, such as the Emergency Solutions Grant program. 2021-22 funding used as estimate for 2022-23 and 2023-24.

2/ Funding for HCD's backlog of various housing projects. Of the 2,859 units estimated to be developed, 542 will be for homelessness populations.

3/ This proposal includes \$550 million one-time General Fund and \$450 million one-time American Rescue Plan Act of 2021.

4/ Of the \$2.455 billion total funds (\$1.9 billion General Fund and \$530 million CFRF), a minimum of \$250 million one-time General Fund is available for facilities targeted to individuals with a serious mental illness who are deemed Incompetent to Stand Trial on a felony charge and a minimum of \$255 million one-time CFRF is available for facilities targeted to individuals under the age of 26.

5/ For 2021-22: Of the \$1.1 billion for CalAIM (\$520.8 million General Fund), \$187.5 million (\$93.8 million General Fund) is for Enhanced Care Management (ECM), \$47.9 million (\$24.0 million General Fund) is for In-Lieu of Services (ILOS), and \$300 million (\$150 million General Fund) is for ECM-ILOS Incentives. ECM, ILOS and ECM-ILOS Incentive proposals include a number of services, including services targeted to mitigating homelessness.

6/ These Basic Needs funding programs support basic needs partnerships for low-income students facing housing or food insecurity. These amounts exclude basic needs funding provided in the 2021-22 Governor's Budget to address student mental health and digital equity needs. Program funding for Basic Needs and Rapid Rehousing was provided on an ongoing basis in the 2019 Budget Act. The 2021-22 May Revision proposes no change to the level of funding provided.

CLIMATE CHANGE

In 2020, 9,000 wildfires burned over four million acres across the state, more than the 2017 and 2018 fire seasons combined and significantly higher than the most recent five-year average of acres burned. Hotter, drier conditions in the state's forests, driven by climate change and the consequences of a century-old legacy of fire suppression, have generated unparalleled fuel conditions that result in significant wildfire risk.

A second consecutive year of below-average precipitation has created drought or near-drought conditions throughout many portions of the state, and the 2021 fire season is on pace to rival last year's scale of wildfires. In addition to widespread drought, the below-normal snowpack is expected to melt off earlier than usual, leaving middle and upper elevations available for fire spread earlier in the season than usual.

The May Revision proposes \$11.8 billion in investments over multiple years to address and reduce the state's multi-faceted climate risks, ranging from water supplies, wildfires, heat and sea level rise.

WATER RESILIENCE AND DROUGHT

Climate change is intensifying the impacts of droughts on the state's communities, economy, and environment. The Administration's comprehensive vision to build water resilience in the face of climate change can be found in the Water Resilience Portfolio, which outlines actions to support California's water systems to cope with increasing

temperatures, shrinking snowpacks, rising sea levels, and more intense and frequent periods of drought.

After two very dry winters, storage in major reservoirs lags and the Sierra-Cascade snowpack, source of much of the water Californians use, is well under half of average levels. Many parts of the state are facing drought conditions. Experience from the last drought has demonstrated the value of preparing for potentially sustained dry conditions, improving our monitoring and forecasting capabilities, and many other lessons that are captured in the Administration's Report to the Legislature on the 2012-2016 Drought. Since the last drought, the state and local partners have strengthened drought resilience with prior state investments, implementation of the Sustainable Groundwater Management Act, establishment of the Safe and Affordable Fund for Equity and Resilience Program, and continued water conservation by Californians whose current statewide urban water use is 16 percent lower than at the beginning of the last drought.

To respond immediately to drought conditions in many parts of the state, prepare for escalating drought impacts in the case of a third consecutive dry winter, support communities and agriculture, stabilize habitats to support biodiversity, and build long-term water resilience, the Governor issued drought proclamations on April 21, 2021 and May 10, 2021, that directed state agencies to take immediate action to bolster drought resilience and prepare for impacts on communities, businesses and ecosystems, and included regional emergency declarations in the Russian River, Klamath River, Sacramento-San Joaquin Delta, and Tulare Lake Watersheds. The Drought Resilience Task Force will continue to coordinate drought preparedness and response across state government and with partners throughout the state. Consistent with the Administration's Water Resilience Portfolio and Governor's drought proclamations, the May Revision proposes an additional \$4.35 billion over multiple years (\$3.475 billion in 2021-22), which includes \$2.8 billion General Fund, \$1.54 billion in federal American Rescue Plan Act funds, and \$10.5 million bond and special funds. These investments build on the \$757 million included in the Governor's Budget for a total of \$5.1 billion in proposed water resilience investments.

The May Revision proposes a comprehensive strategy that invests in the following priorities:

- Providing access to safe drinking water, building water supply reliability, and improving flood protection;
- Providing immediate drought support;

- Enabling improved data collection and monitoring; and
- Restoring fish and wildlife habitat, reconnecting wildlife corridors, and removing barriers to fish passage.

Water Resilience Package
(\$ in millions)

Category	Department	Program	May Revision 2021-22
Drinking Water, Water Supply and Reliability, Flood	State Water Resources Control Board	Drinking Water/Wastewater Infrastructure	\$1,300
		PFAs Support (\$20 million over two years)	\$10
		Groundwater cleanup/Water Recycling (\$150 million over two years)	\$85
	Department of Water Resources	Salton Sea (\$220 million over two years)	\$50
		SGMA Implementation (\$300 million over two years)	\$200
		Water Conveyance (\$200 million over two years)	\$100
		Flood (\$140 million over two years)	\$70
		Watershed Climate Studies	\$25
		Aqueduct Solar Panel Pilot Study	\$20
		Oroville Pump Storage	\$200
Department of Food and Agriculture	State Water Efficiency and Enhancement Program	\$60	
Natural Resources Agency	Clear Lake Rehabilitation	\$5.7	
Immediate Drought Support	Various	Data, Research, and Communications	\$91
	Various	Drought Technical Assistance and Emergency Water Supplies	\$27
	Department of Conservation	Multi-benefit Land Repurposing	\$500
	Department of Water Resources	Small Water Suppliers Drought Relief & Urban Water Management Grants	\$300
	Various	Drought Permitting, Compliance, and Enforcement	\$38
	Department of Fish and Wildlife	Drought Fisheries and Wildlife Support	\$33
Nature Based Solutions	Natural Resources Agency	Water Resilience Projects (\$266 million over two years)	\$166
	Wildlife Conservation Board	Wildlife Corridors/Fish Passage (\$230 million over two years)	\$65
	Department of Water Resources	Habitat Restoration (\$200 million over two years)	\$100
	Department of Conservation	Riparian Restoration	\$30
Total			\$3,475

Drinking Water, Water Supply Reliability, and Flood—The May Revision proposes \$2.6 billion over multiple years to support the following:

- \$1.47 billion (\$85 million General Fund and \$1.39 billion federal funds) over two years to expand and protect water supplies by protecting drinking water and wastewater infrastructure, supporting local groundwater supply projects and planning, cleaning up contaminated groundwater, supporting water recycling projects, and installing treatment systems on drinking water wells contaminated by Per- and polyfluoroalkyl substances (PFAS).
- \$371 million General Fund over two years to facilitate groundwater recharge and capture of flood flows by repairing canals damaged by subsidence, support the state cost-share of critical federal urban flood risk reduction projects, and advance detailed, watershed-scale studies of likely climate effects to give local water managers better data for local decision-making, including rehabilitation strategies at Clear Lake.
- \$440 million General Fund over two years to better manage the energy consumption tied to water management, including a pilot study of solar panels over aqueducts and construction of a pipeline at the Oroville hydroelectric complex that would allow a pump-storage project to operate at greater capacity for the benefit of the statewide electrical grid. These investments also further the State's work to restore habitat and improve air quality at the Salton Sea.
- \$360 million (\$240 million General Fund and \$120 million federal funds) over two years to support Sustainable Groundwater Management Act implementation through groundwater projects and the State Water Efficiency and Enhancement Program.

Immediate Drought Support—The May Revision proposes \$989 million (\$949 million General Fund, \$30 million federal funds, and \$10 million bond and special funds) to meet current and likely future water supply needs while building regional capacity to endure dry conditions. These investments will fund multi-benefit land repurposing activities as part of the state's drought response and transition to sustainable use of groundwater; emergency drought relief projects that help secure and expand water supplies; small supplier and rural community drought contingency planning and preparedness projects; and local water resilience capacity building that includes outreach to disadvantaged communities. In addition, funding will support the repair and enhancement of the state's backbone water data infrastructure; a state cost-share on a federal desalination research hub; equipment; and limited-term

positions to help address drought impacts on state wildlife areas and to address the increased need for monitoring of species and permitting of projects.

Nature-Based Solutions—\$726 million General Fund to improve long-term ecological conditions on California waterways to help species cope with climate change. This includes infrastructure, program, and investments for environmental flows and habitat improvements in the state's largest watershed, which drains to the Sacramento-San Joaquin estuary; construction of wildlife overcrossings and undercrossings where road traffic kills sensitive species; and screening of migration corridors with natural habitat for species sensitive to human presence. This funding will also support the construction of projects that direct wildlife away from roadways; removal of fish passage impediments; and protection, restoration, and enhancement of working lands and riparian corridors through conservation easements and restoration projects on agricultural lands.

In addition to these investments, the May Revision includes \$1 billion in federal American Rescue Plan Act funding to assist with water arrearages for households that have not been able to pay their water bills due to the pandemic. (See the General Government and Statewide Issues Chapter for additional detail.)

WILDFIRE AND FOREST RESILIENCE

As California enters a second consecutive year of dry fuel conditions, resulting in drought or near-drought throughout many portions of the state, the 2021 fire season is on pace to rival last year's record number of acres burned.

To address the scale and urgency of these wildfire risks, the May Revision proposes to maintain the Governor's Budget proposal with \$708 million in 2021-22 to support the Forest Management Task Force's Wildfire and Forest Resilience Action Plan. This includes \$31 million to fully fund the Climate Catalyst Fund proposal that was not adopted in early action. The May Revision investments build on the \$536 million adopted in early action as part of Chapter 14, Statutes of 2021 (SB 85).

These investments result in a total \$1.24 billion wildfire and forest resilience funding over two years to improve public safety across California's most wildfire-vulnerable communities and significantly increase the pace and scale of forest management projects. This investment will also enable regional efforts to build a pipeline of wildfire resilience projects, expand fire-adapted homes and communities, improve stewardship on state lands, and create high-road jobs while jumpstarting small businesses that meet California's climate objectives.

Wildfire and Forest Resilience Expenditure Plan
(\$ in Millions)

Investment Category	Department	Program	Early Action 2020-21	Proposed 2021-22	Total
Resilient Forests & Landscapes	CAL FIRE	Forest Health Program	\$155	\$100	\$255
		Forest Improvement Program for Small Landowners	\$10	\$40	\$50
		Forest Legacy & Reforestation Nursery	\$8	\$17	\$25
		Urban Forestry	\$10	\$13	\$23
		Tribal Engagement	\$1	\$19	\$20
	State Parks, Fish & Wildlife & State Lands Commission	Stewardship of State-Owned Land	\$30	\$123	\$153
	Conservancies	Project Implementation in High-Risk Regions	\$69	\$61	\$130
Wildfire Fuel Breaks	CAL FIRE	CAL FIRE Unit Fire Prevention Projects	\$10	\$40	\$50
		Fire Prevention Grants	\$123	\$80	\$203
		Prescribed Fire & Hand Crews	\$15	\$35	\$50
	California Conservation Corps	Forestry Corps & Fuel Reduction Projects	\$0	\$20	\$20
	Department of Conservation	Regional Forest & Fire Capacity	\$50	\$60	\$110
Community Hardening	Cal OES & CAL FIRE	Home Hardening	\$25	\$0	\$25
	CAL FIRE	Defensible Space Inspectors	\$2	\$6	\$8
	CAL FIRE & University of California	Land Use Planning & Public Education Outreach	\$0	\$7	\$7
Science-Based Management	CAL FIRE	Ecological Monitoring, Research & Adaptive Management	\$3	\$17	\$20
	Natural Resources Agency	Remote Sensing	\$0	\$15	\$15
	Air Resources Board & Water Board	Permit Efficiencies	\$0	\$4	\$4
Forest Sector Economic Stimulus	IBank & GO-Biz	Climate Catalyst Fund & Market Strategy	\$16	\$33	\$49
	CAL FIRE	Workforce Training	\$6	\$18	\$24
	Office of Planning & Research	Market Development	\$3	\$0	\$3
Total			\$536	\$708	\$1,244

The May Revision also proposes to augment resources for the Department of Forestry and Fire Protection (CAL FIRE) to provide a surge in firefighter staffing. (See Emergency Response Chapter for additional details.)

CLIMATE RESILIENCE

Climate policies and programs in California have cut carbon emissions, created jobs, catalyzed innovation and spurred partnerships across the United States and around the world, all while prioritizing public health and equity. As California drives toward carbon neutrality, the state is committed to protecting people and nature from the impacts of climate change such as catastrophic wildfire, sea level rise, drought, extreme heat and flooding. Climate-related disasters are occurring at an increasing speed and scale.

The May Revision proposes to further advance the Governor's goal of building a climate resilient California with an additional investment of \$1.3 billion General Fund over multiple years (\$784 million in 2021-22) in projects and programs to support communities that are facing the impacts of climate change today and advancing efforts to conserve 30 percent of our lands and coastal waters by 2030.

This investment package focuses its resources specifically in communities where resources are most needed. This includes disadvantaged and low-income communities who are often the hardest hit by climate change, and other health, environmental, and economic challenges. These investments will provide necessary support for these communities while providing opportunities to leverage local, federal, and private investment opportunities.

Climate Resilience Package
(\$ in millions)

Category	Department	Program	May Revision 2021-22
Heat	California Natural Resources Agency	Urban Greening (\$200 million over two years)	\$100
	Department of Community Services and Development	Low Income Weatherization	\$50
	California Energy Commission	BUILD Program (\$100 million over two years)	\$50
Sea Level Rise	Ocean Protection Council	Coastal Wetland Restoration (\$200 million over two years)	\$100
	Department of Parks and Recreation	State Parks Sea Level Rise Adaptation Strategy	\$11.5
Community Resilience	Strategic Growth Council	Transformative Climate Communities (\$420 million over three years)	\$140
		Regional Climate Collaboratives (\$20 million over two years)	\$10
	Office of Planning and Research	Climate Adaptation & Resilience Planning Grants (\$25 million over two years)	\$15
		Vulnerable Communities Platform & CalAdapt Mapping	\$5
	California Environmental Protection Agency	Environmental Justice Initiative (\$25 million over two years)	\$15
Other	Department of Conservation	Oil Well Abandonment and Remediation	\$200
		Biomass to Hydrogen/Biofuels Pilot	\$50
	Various	Fifth Climate Assessment	\$22
	Air Resources Board	Fluorinated Gas Reduction Incentive Program	\$15
Total			\$784

Heat—\$350 million General Fund over two years to support communities vulnerable to the impacts of extreme heat through funding for urban greening projects, accelerating deployment of low global warming potential appliances in low-income households eligible for energy efficiency upgrades, and supporting strategic greening of new near-zero emission low-income residential buildings. These programs strengthen protections for California's most vulnerable by cooling communities, reducing energy costs, improving air quality, and safeguarding public health and safety.

Sea Level Rise—\$211.5 million General Fund over two years to protect communities from sea-level rise and flooding through coastal wetland restoration, and increasing coastal resilience of State Parks to advance coastal resilience as outlined in the State Parks Sea Level Rise Adaptation Strategy. Sea level rise and flooding threatens public health and safety, public and private property, critical infrastructure and valuable coastal habitats. Coastal wetlands can provide protection against sea-level rise and flooding by buffering the built environment from extreme tides and storms while providing additional benefits of increased biodiversity, carbon sequestration, and public access opportunities.

Community Resilience—\$495 million General Fund over three years to provide investments that align economic resilience with the State's climate goals, empower vulnerable communities, and support the leadership capacity of key regional and local stakeholders. This includes funding to support the Strategic Growth Council's Transformative Climate Communities Program, which funds place-based, catalytic projects that serve as a model for equitable, community-driven infrastructure investments in the most disadvantaged communities of California. Additionally, funding is proposed to support the Regional Climate Collaboratives program, Environmental Justice Initiative, and Climate Adaptation and Resilience Planning Grants, which support local and community participation in and development and implementation of resilience plans and associated projects.

The May Revision also proposes an additional \$287 million General Fund for projects and programs that support the State's climate goals including funding for the development of the state's Fifth Climate Assessment; plug and abandon orphaned oil and gas wells and decommission attendant facilities that could pose a danger to life, health, water quality, wildlife, or natural resources; and to expand the reach of the Air Resources Board's program to promote the adoption of low-global warming potential refrigerant technologies.

ZERO EMISSION VEHICLE ACCELERATION

California is committed to developing the zero-emission vehicle (ZEV) market equitably, not only as a foundational tool to protect public health and combat climate change, but as a focal point of economic development and job creation. Today, California is home to 34 ZEV-related manufacturers and over 360 unique ZEV-related companies, and in 2020, ZEVs became the state's number one export.

The May Revision builds on the Governor's Budget and proposes \$826 million in additional investments that accelerate the state toward meeting climate and transportation goals established in Executive Order N-79-20 and consistent with California's Zero Emission Vehicle Market Development Strategy. The Strategy is designed to galvanize all relevant stakeholders—from industry to non-governmental organizations, to all levels of government and academia—around the four pillars of the ZEV market: Vehicles, Infrastructure, End Users, and Workforce.

Totaling \$1.8 billion in 2021-22, and \$3.2 billion over three years, the ZEV investments in the Governor's Budget and May Revision not only push progress in each market pillar, but increase private sector confidence and enable increased participation in the market, allowing the zero emission industry to capitalize on scale. These investments, coupled with investments in the Labor and Workforce Development Chapter, create economic development and job opportunities in a sector primed for rapid expansion and to fuel California's recovery—helping to bring down the cost of deployments globally—while maintaining California's competitive advantage as the hub of zero emission manufacturing and deployment.

Zero Emission Vehicle Package

(\$ in Millions)

Investment Category	Department	Program	Governor's Budget	May Revision 2021-22	Total 2021-22
Low Carbon Transportation & ZEV Strategy		Clean Trucks, Buses & Off-Road Equipment	\$315	\$87	\$402
	Air Resources Board	Clean Cars 4 All & Transportation Equity Projects (\$400 million total)	\$150	\$0	\$150
		Clean Vehicle Rebate Project (\$400 million total)	\$0	\$134	\$134
		Drayage Trucks & Infrastructure (\$470 million total)	\$0	\$160	\$160
	Air Resources Board & California Energy Commission	Drayage Pilot Project	\$0	\$65	\$65
		Transit Buses & Infrastructure (\$290 million total)	\$0	\$100	\$100
		School Buses & Infrastructure (\$450 million total)	\$0	\$150	\$150
	California Energy Commission	Clean Transportation Program/ ZEV Infrastructure	\$500	(\$500)	\$500
		ZEV Manufacturing Grants (\$250 million total)	\$0	\$125	\$125
	GO-Biz	ZEV Market Development Strategy	\$0	\$5	\$5
Total			\$965	\$826	\$1,791

The May Revision proposes funding for programs that improve air quality and drive recovery through economic development and job creation such as expansion of zero emission drayage trucks, transit buses, and school buses, as well as the requisite charging and fueling infrastructure to enable these deployments. These investments will target disadvantaged communities who have disproportionately borne the negative impact of poor air quality. In parallel, the May Revision includes additional funding for zero emission vehicle rebate programs that provide more equitable access to ZEVs for low- and moderate-income households.

The Governor's Budget included the securitization of approximately \$1 billion of future revenues (including \$500 million of bond expenditures to meet the state's 2025 ZEV goals) to increase the pace and scale of market-enabling electric vehicle charging and hydrogen fueling stations, funded by an extension of both the California Energy Commission's Clean Transportation Program and other existing fees scheduled to sunset

in 2024, to support incentive programs for cleaner vehicles. The May Revision maintains the extension of existing fees which are necessary for providing a sustainable funding source for priority programs, but replaces the securitization of future revenues with \$500 million one-time General Fund to support the Commission's Clean Transportation Program. This funding will close the existing light-duty ZEV infrastructure gap for 2025 and further support infrastructure for medium-duty and heavy-duty vehicles and equipment such as transit and school buses, last-mile delivery trucks, regional and long-haul goods movement, transport refrigeration units, and port vehicles.

Other significant investments include:

- **Heavy-Duty Zero Emission Vehicles and Supporting Infrastructure**—\$1.4 billion one-time General Fund and special funds over the next three years to deploy over 1,000 zero emission drayage trucks, 1,000 zero emission transit buses, and 1,000 zero emission school buses in underserved rural school districts. These investments will prioritize projects that directly benefit priority populations and improve air quality in low-income and disadvantaged communities. This funding builds on \$315 million included in the Governor's Budget for Clean Truck, Bus, and Off-Road Equipment.
- **Light-Duty Zero Emission Vehicle Adoption**—\$650 million one-time General Fund over the next three years to invest in consumer adoption of ZEVs through the Clean Vehicle Rebate Program and statewide expansion of Clean Cars 4 All, with a focus on low-income and disadvantaged communities. This funding is in addition to \$150 million provided in the Governor's Budget Cap and Trade Expenditure Plan.
- **Zero Emission Vehicle and Infrastructure Manufacturing**—\$250 million General Fund one-time over two years for manufacturing and supply chain grants to expand California's nation leading ZEV manufacturing footprint, administered by the Clean Transportation Program. This investment may be coupled with High Road Training Partnerships to increase access to high-quality jobs for workers, and increase the level of highly-skilled employees for employers.
- **ZEV Market Development Strategy Implementation**—\$5 million one-time General Fund to accelerate implementation of the ZEV Market Development Strategy's focus on increasing awareness and access to ZEVs in the hardest to reach communities and expanding tools that help convert this awareness into decisions to drive or ride in ZEVs.

The May Revision also proposes adjustments to the Governor's Budget Cap and Trade Expenditure Plan to shift funding included in the 2020-21 early action package to fiscal year 2021-22. This maintains critical investments to protect public health in

disadvantaged communities, including \$325 million one-time to support the Community Air Protection Program (AB 617), which reduces emissions in communities with disproportionate exposure to air pollution through targeted air monitoring and community emissions reduction programs.

ENERGY

California has long led the nation and the world in setting ambitious renewable energy and climate policies, working toward a clean economy that is healthier and more equitable. Achieving its energy goals will improve public health so that the benefits of cleaner, more efficient energy are enjoyed by all Californians, and support economic growth and job creation.

INVESTMENTS TO ACCELERATE PROGRESS ON THE STATE'S CLEAN ENERGY GOALS

The May Revision includes \$912 million (\$905 million General Fund, \$5 million reimbursements, and \$2 million special funds) to accelerate California's progress on meeting its clean energy goals and better position California as a leader in advancing clean technologies and as a leading partner with the federal administration in tackling climate change and stimulating the economy.

Major investments include:

- \$35 million General Fund to carry out critical resource and transmission planning to support the unprecedented levels of clean energy buildout needed to meet the state's energy and climate goals,
- \$350 million General Fund to support pre-commercial long duration storage projects that are critical to the success of California's efforts to decarbonize the electricity system,
- \$250 million General Fund for energy efficiency in the industrial sector,
- \$125 million General Fund in the Food Production Investment Program to reduce energy use at food production facilities,
- \$20 million General Fund to spur environmentally responsible development of offshore wind energy, and

- \$110 million General Fund in green hydrogen production to accelerate the transition away from using fossil fuels to produce hydrogen and to displace the use of gas at power plants.

ENERGY RESOURCES PROGRAMS ACCOUNT (ERPA)

The California Energy Commission (CEC), which is the state's primary energy policy and planning agency, administers programs that leverage technology to meet consumer needs while using less energy. These programs have saved California consumers billions of dollars over the last few decades.

ERPA is the main fund supporting the CEC. Its revenues are linked to the sale of metered electricity. As building and appliance energy efficiency produces customer savings and flattens statewide electricity consumption, ERPA revenues have decreased and the costs have been borne by fewer and fewer consumers.

To more equitably distribute the costs among ratepayers, the May Revision proposes to raise the statutory cap on the ERPA surcharge, tie the statutory cap to the Consumer Price Index, and extend the surcharge to apply to behind-the-meter electricity consumption.

This increase will generate \$4.5 million in additional revenues in 2021-22 and approximately \$9 million annually thereafter to offset recent revenue decreases, and will allow the CEC to continue playing a critical role in creating the energy system of the future.

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SUSTAINABLE AGRICULTURE

California is the largest agricultural producer in the nation, generating \$50 billion in revenue in 2019. Farms underpin the economy of much of rural California, and the state's nearly 70,000 farmers and ranchers produce a broad diversity of over 400 crops and agricultural products. As a land-based industry, agriculture is threatened by the effects of climate change, including decreased water availability, increased floods, increased pest pressure, and changing weather. These impacts are already occurring and are expected to continue putting pressure on California's farmers, affecting agricultural productivity and the economic health in many rural communities.

The COVID-19 Pandemic disruptions to the food supply chain and drought have created additional challenges for the agricultural sector. To address these challenges, farmers and ranchers continue to innovate by adopting agile technology, expanding in local and global markets, and developing sustainable, climate-smart agricultural practices.

The May Revision builds on the \$285 million included in the Governor's Budget and proposes an additional \$641 million over two years (\$491 million in 2021-22) for a total \$926 million (\$776 million in 2021-22) in strategic investments to support California's agriculture industry as it addresses continued challenges while also producing nutritious food and advancing the state's climate resilience objectives.

Category	Program	Governor's Budget (in millions)	May Revision (in millions)	Total 2021-22 (in millions)
Healthy, Resilient, and Equitable Food Systems	California Farm to School Incubator Grant Program	\$10	\$20	\$30
	California Nutrition Incentive Program	\$0	\$15	\$15
	Healthy Refrigeration Grant Program	\$0	\$20	\$20
	Senior Farmers Market Nutrition Program	\$0	\$0.5	\$0.5
	Urban Agriculture Program	\$0	\$12	\$12
Climate Smart Agriculture for Sustainability and Resiliency	Agricultural Diesel Engine Replacement & Upgrades (\$363 million over two years)	\$170	\$43	\$213
	Healthy Soils	\$30	\$70	\$100
	Sustainable California Grown Cannabis pilot program	\$0	\$9	\$9
	Livestock Methane Reduction	\$0	\$60	\$60
	Pollinator Habitat Program	\$0	\$30	\$30
	Technical Assistance and Conservation Management Plans	\$0	\$20	\$20
	Transition to Safer, Sustainable Pest Management	\$11.8	\$0	\$11.8
	Incentives for Alternatives to Agricultural Burning in the San Joaquin Valley	\$0	\$150	\$150
Economic Recovery & High-Road Job Growth	Climate Catalyst Fund	\$50	\$0	\$50
	Technical Assistance Program for Underserved Farmers	\$6.7	\$2	\$8.7
	Impact Assessment and Alignment of Regulatory Reporting Requirements for Agriculture	\$6	\$0	\$6
	Fresno-Merced Future of Food Innovation Initiative	\$0	\$30	\$30
	New and Beginning Farmer Training and Farm Manager Apprenticeships Program	\$0	\$10	\$10
Total		\$285	\$491	\$776

HEALTHY, RESILIENT, AND EQUITABLE FOOD SYSTEMS

The pandemic has exacerbated an existing problem of food insecurity across California with nearly one in ten Californians reporting a reliance on food banks. Food deserts, or areas with limited access to affordable, quality, and nutritious foods, have become increasingly prevalent. At the same time, the pandemic has also disrupted the food

supply chain—from farms, restaurants, and other food businesses—exposing the fragility of the food security safety net, supply-chain, and distribution systems. California has an opportunity to invest in programs that are successful in fighting hunger while also building local and regional markets through the purchase of healthy local produce that boosts the local farming economy, employs food system workers, and accelerates climate adaptation and resilience.

The May Revision builds on the \$10 million included in the Governor's Budget and proposes an additional \$68 million one-time General Fund to increase investments to improve access to nutritious, local, California-grown food, and to provide critical resources to bolster local and regional supply chains, especially for small and medium producers. This includes investments in a suite of programs at the Department of Food and Agriculture, including the California Nutrition Incentive Program, Senior Farmer's Market Nutrition Program, Healthy Refrigeration Grant Program, Farm to School program and funding for a new program to assist urban farmers and community-based organizations in revitalizing urban food systems by investing in urban farms, technical assistance, urban food hubs, and training to increase access, address food security, and create jobs in low-income and historically underserved communities.

CLIMATE SMART AGRICULTURE FOR SUSTAINABILITY AND RESILIENCY

Building on California's leadership in reducing greenhouse gas emissions and protecting communities and natural places from climate impacts, the May Revision builds on the \$262 million included in the Governor's Budget and proposes an additional \$532 million one-time (General Fund and Greenhouse Gas Reduction Fund), for a total \$794 million package to advance climate smart agriculture, improve drought resiliency, fund alternatives to agricultural burning, increase pollinator habitat on working lands, and support conservation planning for a more resilient and robust agricultural system. This includes a new program to incentivize legacy outdoor cannabis growers to participate in the collection of data to benchmark best practices that reduce the environmental impact of cannabis water and energy use; pest management and fertilizer practices; and enhance soil health.

The May Revision also maintains the Cap and Trade funding proposed in the Governor's Budget for agricultural diesel engine replacement and upgrades (Funding Agricultural Replacement Measures for Emission Reductions or FARMER Program) and Healthy Soils

Program and shifts funding included in the Governor's Budget Cap and Trade Expenditure Plan 2020-21 early action package to fiscal year 2021-22.

The May Revision also includes key climate and drought resilience investments that also benefit agriculture, such as additional funding for the State Water Efficiency and Enhancement Program that includes technical assistance for farm water efficiencies, and additional funding to support Sustainable Groundwater Management Act implementation (See the Climate Change Chapter for additional detail).

ECONOMIC RECOVERY AND HIGH-ROAD JOB GROWTH

As the economy recovers from the pandemic, it is important to support equitable economic recovery for all, including rural communities, small and underserved producers, and farmworkers. Approximately three out of four California farmers operate on less than \$100,000 in annual sales, many of whom lost significant revenue as markets were disrupted and still face significant market challenges. Farmworkers have been among the most vulnerable workers in California, lacking access to pathways to upward mobility.

The May Revision builds on the \$12.7 million included in the Governor's Budget and proposes an additional \$42 million General Fund in new investments to support economic recovery, resiliency, and high-road job growth through technical assistance to underserved farmers, new farmer training and manager apprenticeships, and the Fresno-Merced Future of Food Innovation Initiative.

NATURAL RESOURCES

The Natural Resources Agency consists of 26 departments, boards, commissions, and conservancies responsible for administering programs to conserve, restore, and enhance the natural, historical, and cultural resources of California. The May Revision includes total funding of \$11.4 billion (\$8.9 billion General Fund, \$1.6 billion special funds, \$886 million bond funds) for the programs included in this Agency. The Agency's departments help the state become more climate resilient, expand equitable access to parks and wildlands, and conserve California's remarkable biodiversity. The May Revision includes investments in each of these areas, and several related items are referenced in the Emergency Response, Statewide and Climate Change Chapters.

OUTDOOR ACCESS FOR ALL

Six of every ten Californians live in park-poor neighborhoods and four of every ten Californians have no access to open space within walking distance of their home. Building on \$82 million proposed in the Governor's Budget, the May Revision proposes an additional \$256.2 million (\$253.1 million General Fund, \$3.1 million special funds) to expand outdoor access for all Californians.

These May Revision investments expand environmental education; enhance safe, reliable access to state parks, public lands, coasts, and other natural, historic, and cultural resources; and increase recreation opportunities. Significant adjustments include:

- **Outdoor Education**—\$108.1 million (\$105 million one-time General Fund and \$3.1 million Environmental License Plate Fund) for outdoor environmental education and access programming through the Outdoor Equity Grants Program and expansion of existing K-12 programs. These programs will support outdoor environmental education for underserved youth statewide, development of new curriculum, and construction of new state parks' facilities that support environmental education programs.
- **Statewide Park Development and Community Revitalization Program**—\$125 million one-time General Fund to invest in establishing and revitalizing community open spaces. These grants fund new parks, the beautification of existing parks, and recreation opportunities in underserved communities across the state. This funding complements the \$200 million available over two years for the Urban Greening Program (see the Climate Change Chapter for more on the Urban Greening Program).
- **Explore the Coast Grant Program**—\$14 million one-time General Fund for the Coastal Conservancy to expand coastal access programming statewide.
- **Innovative Pilot Programs**—\$9.1 million one-time General Fund to launch a State Parks pilot to expand parks pass distribution, especially for youth in disadvantaged communities. The pilot would include a “California State Park Adventure” program for fourth graders and new statewide partnerships with the California State Library and California Department of Social Services.

ENHANCING AND RESTORING THE STATE PARK SYSTEM

The May Revision includes \$507.3 million (\$403.8 million one-time General Fund and \$103.5 million one-time federal reimbursements) for the enhancement and restoration of state parks facilities statewide.

- **Wildfire Restoration**—\$217 million (\$113.5 million one-time General Fund and an estimated \$103.5 million one-time federal reimbursements) for fire restoration projects in the 115,000 acres burned across 23 state park units by multiple fires in the unprecedented 2020 wildfire season. These funds will be used for planning, removal of remaining post-fire hazards, and rebuilding the parks in a manner that reflects the best science to ensure these parks are more climate-resilient, while also addressing access and equity issues.

- **Deferred Maintenance**—\$165 million one-time General Fund for investment in deferred maintenance at state parks. With the \$20 million one-time General Funds included in the Governor's Budget, this proposal provides a total of \$185 million for deferred maintenance projects throughout the state, including cottage rehabilitation at Crystal Cove State Park, lighthouse restoration at Pigeon Point Light Station State Historic Park, and road reconstruction at Border Field State Park to enable improved access and enhanced visitor experience (see General Government and Statewide Issues Chapter for more information on deferred maintenance).
- **Indian Heritage Center**—\$95.3 million one-time General Fund for transfer to the Natural Resources and Parks Preservation Fund for the California Indian Heritage Center. This proposal restores the original set-aside for the project, reversing the one-time General Fund savings implemented in the 2020 Budget.
- **Sacramento Railyards**—\$30 million one-time General Fund for various capital projects at the historic Sacramento Railyards.

DEPARTMENT OF FISH AND WILDLIFE

California is a global biodiversity hotspot, with more types of plants and animals than almost anywhere else in the world. This natural abundance is increasingly under threat from climate change. The Department of Fish and Wildlife serves as a trustee for California's natural resources and is key in implementing the Governor's Executive Order N-82-20 to maintain California's rich biodiversity through continued conservation and protection. The Department has been directed to take on increasing mandates to protect habitat, endangered species, and public trust resources. To provide a transparent process to identify sustainable funding solutions and strategies to address increasing mandates, the Department implemented a Service Based Budget (SBB) Initiative and worked with stakeholders to identify current service levels and activities, cost estimates, and staffing requirements to meet the Department's mission and statutory requirements, and perform an analysis of the Department's existing revenue structure.

To advance implementation of the SBB Legislative Report recommendations and the mission of the Department, the May Revision proposes \$3.8 million ongoing General Fund to continue the Cutting Green Tape Initiative and \$80.9 million one-time (\$75.9 million General Fund and \$5 million Environmental License Plate Fund) to deliver more effective and efficient services with limited-term and temporary-help staff, make

strategic investments in equipment and technology, address a deferred maintenance backlog, and advance process improvements. These one-time investments build upon the \$41.8 million one-time General Fund included in the Governor's Budget and help the Department continue to improve mission levels of service. Significant one-time investments proposed for May Revision include:

- **Protecting California's Endangered Species**—\$53.8 million and 31 positions, over five years, to directly address endangered species within California and make measurable progress on conservation of these species.
- **Enhancing Stewardship of Refuges, Preserves, and other State Lands**—\$7.5 million and 8 positions, over five years, to address management and oversight on the lands and facilities it manages to conserve native wildlife, threatened and endangered species, sensitive habitats, and to provide for public use and enjoyment.
- **Wolf Conflict Program**—\$3 million to increase the Department's ability to work with rural communities to set up a compensation program that compensates livestock producers for the loss of productivity due to depredation events resulting from the return of the grey wolf to California.
- **Drift Gill Net Transition Program**—\$1.3 million to address payments to voluntary participants to complete the Drift Gill Net Transition Program pursuant to Chapter 844, Statutes of 2018 (SB 1017).
- **Improving Care for Injured Wildlife**—\$350,000 to develop a feasibility study for a state-of-the-art Wildlife Health Laboratory to address and care for wildlife throughout California.
- **Deferred Maintenance**—\$15 million to address its backlog of deferred maintenance projects on state-owned lands and facilities.

ENVIRONMENTAL PROTECTION

The California Environmental Protection Agency's programs promote the state's economy in a sustainable manner by reducing greenhouse gas emissions, enhancing environmental quality, and protecting public health.

The Secretary coordinates the state's regulatory programs and provides fair and consistent enforcement of environmental law. The May Revision includes a total of \$8.8 billion (\$1.2 billion General Fund, \$4.8 billion special funds, \$2.8 billion federal funds, and \$16.8 million bond funds) for programs included in this Agency.

The Administration's climate resilience efforts are referenced in the Climate Change Chapter.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL REFORM

Since 2019, the Department has improved its stewardship of public resources by conducting a comprehensive review of its programs and making significant improvements to the quality and timeliness of its services. However, the Department needs sustainable ongoing funding to reduce toxic chemicals, particularly in vulnerable communities. To prevent toxic contamination going forward, the May Revision will accelerate progress toward the cleanup of contaminated properties. Furthermore, through the reform proposal included in the Governor's Budget and built upon in the May Revision, the Department will be able to make progress toward better and more

timely permit decisions, increase enforcement against those who violate hazardous waste control laws, and compel the use of safer chemicals in consumer products.

IMPROVING GOVERNANCE AND TRANSPARENCY

The May Revision maintains the Governor's Budget governance and fiscal reform proposal to improve governance and transparency and provide long-term fiscal stability for the Department of Toxic Substances Control.

The May Revision proposes \$6 million one-time General Fund to address workload gaps identified in the Department's workload analyses. Specifically, these additional resources will support: (1) implementation of the Violation Scoring Procedures regulations to increase transparency and accountability for inspections of hazardous waste management facilities so that those facilities are operating in a protective manner, and (2) efforts to keep California's statutes and regulations in compliance with federal requirements to maintain the state's federal Resource Conservation and Recovery Act authorization. This funding is contingent on the enactment of the governance and fiscal reform proposal and will be funded by the General Fund in 2021-22 until increased fee revenues are realized in 2022-23.

CONTAMINATED SITE CLEANUPS

In conjunction with governance and fiscal reform and to support community development and job creation, the May Revision proposes an additional \$200 million over two years beginning in 2022-23. Combined with \$300 million in the Governor's Budget, this proposal will provide a total of \$500 million General Fund over multiple years to accelerate the cleanup of contaminated properties in impacted communities. This investment will be allocated throughout California, using a risk-based approach founded on health-based criteria. This funding is contingent upon enactment of the Administration's governance and fiscal reform package which will support the Department in providing proper governance and resources to administer these duties.

EXIDE LEAD-ACID BATTERY FACILITY

Building on the \$31.4 million one-time General Fund proposed in the Governor's Budget, the May Revision proposes an additional \$291 million General Fund over three years, to clean up additional properties with specified lead contamination levels near the former Exide facility in the City of Vernon. To date, the state has provided over \$251 million General Fund for residential cleanup and other costs associated with Exide.

The Exide bankruptcy settlement allowed Exide to walk away from its obligations to complete the closure of the facility; however, the Administration remains committed to pursuing cost recovery from responsible parties for Exide. The May Revision maintains one-time funding of \$14 million General Fund, and \$2.5 million ongoing funding from the Lead-Acid Battery Cleanup Fund, for these and future cost recovery efforts.

The state continues to monitor the progress of the facility closure, which is being conducted by a trustee, pursuant to a court order, with financial assurance trust funds. In the event that the trust funds are fully expended, the May Revision proposes \$132 million one-time General Fund to continue cleanup at the facility under the management of the trustee.

DEPARTMENT OF PESTICIDE REGULATION

PESTICIDE NOTIFICATION NETWORK

California has the most robust state pesticide regulatory program in the nation, jointly administered by the Department of Pesticide Regulation and local county agricultural commissioners. Where pesticides are applied, the Department and the county agricultural commissioners strictly enforce pesticide regulatory requirements, including prohibitions against pesticide drift, so that pesticide applications are safe and effective. Despite these efforts, pesticide drift sometimes occurs during application and can harm the public, workers, environment, and neighboring crops. Consistent with the Governor's Budget proposal to accelerate the transition away from using toxic chemicals and protect the health of community residents, the May Revision proposes \$10 million one-time General Fund to implement a statewide infrastructure network to provide equitable access to important information about local pesticide use. The notification system will enable residents to take common-sense measures, such as closing windows or avoiding an application site, to further protect themselves and particularly sensitive populations from potential pesticide exposure. The Department is launching a process this summer to develop and adopt the statewide regulations necessary for advanced public notification of certain pesticide applications.

CIRCULAR ECONOMY

A circular economy recognizes waste as a resource, and by shifting the state's focus to reuse and recycle materials that would otherwise be thrown away, a more resilient and renewable economy can be built in California. These goals require additional

investments in recovery, recycling and remanufacturing in California, including programs designed to target innovators who are creating new jobs and recycling industries. Food rescue in disadvantaged communities reduces short-lived climate pollutant emissions and helps to feed the one in four Californians that struggle with food insecurity. Since 2018, the state has helped local organizations and jurisdictions provide 115 million meals, create more than 350 local jobs, and reduce methane emissions equal to taking more than 20,000 cars off the road for a year from recovered food that was destined for landfill.

The May Revision proposes \$130 million one-time General Fund to support the development of infrastructure required to process recyclables and manufacture products from recyclable material. Historically, California has shipped recyclable material to other nations, which contributes to the global carbon footprint. These investments will help reduce global carbon emissions and generate the feedstock to attract remanufacturing companies to California.

The May Revision proposes the following one-time General Fund investments:

INVESTMENTS IN DISADVANTAGED COMMUNITIES

- **Edible Food Recovery**—\$5 million for the Food Waste Prevention and Rescue Grant Program to establish new or expand existing food waste prevention projects to reduce landfill methane emissions and benefit disadvantaged communities.
- **Composting Opportunities**—\$5 million to create or expand community composting opportunities and jobs that serve disadvantaged communities.

ORGANIC WASTE INFRASTRUCTURE

- **Organic Waste Infrastructure**—\$55 million to provide grants for new composting and anaerobic digester facilities and to expand capacity at existing wastewater facilities to increase organic waste recycling capacity, provide funding for co-digestion, and reduce methane emissions from landfills.

RECYCLING INFRASTRUCTURE

- **Recycling Technology Feasibility Grants**—\$15 million to provide grants to companies that are in the research, development, feasibility, or pilot phase of recycling projects that are interested in locating in California.

- **Climate Catalyst Fund: Recycling Infrastructure**—\$50 million to provide low-interest loans to attract recycling and reuse businesses to California. These loans would be designed to align with existing tax incentives already offered by the state.

With these investments, California will create jobs and make measurable progress towards the state's climate and recycling goals by leading the world in building robust markets for recycled commodities by providing early investments in the companies that are innovating new and clean technologies. Additionally, the Department of Resources Recovery and Recycling will create an Office of Innovation in Market Development and Remanufacturing within existing resources to work cooperatively with the Governor's Office of Business and Economic Development to identify and support businesses that foster development and deployment of new technologies and create high-road jobs in recycling and remanufacturing in California.

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JUDICIAL BRANCH

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, and the Judicial Council. The trial courts are funded with a combination of General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. Other levels of the Judicial Branch receive most of their funding from the General Fund. The May Revision includes total funding of \$4.6 billion (\$2.7 billion General Fund and \$1.9 billion other funds) in 2021-22 for the Judicial Branch, of which \$1.2 billion General Fund is provided to support trial court operations. The Judicial Council is responsible for managing the resources of the Judicial Branch.

TRIAL COURT OPERATIONS

The Judicial Branch has had to significantly change its operations to protect the public from the spread of COVID-19 while also maintaining access to justice. Actions taken by the Judicial Council and all levels of court administration include extending court deadlines, suspending jury trials, using technology to conduct proceedings remotely, and suspending evictions and foreclosures. These actions have resulted in more limited operations while the courts modified processes and procedures to adapt to the COVID-19 Pandemic, and in some instances, resulted in periods of courtroom or courthouse closures.

These changes have delayed normal court operations and resulted in a backlog of criminal and civil cases. The Administration is committed to providing the Judicial Branch the necessary resources to address this backlog and provide timely access to

justice. Earlier this year the Governor and the Legislature agreed to restore \$176.9 million for the trial courts and \$23.1 million for the state-level judiciary. These restorations will allow courts to re-open temporarily closed courtrooms and process case backlogs which have accumulated during the pandemic. In addition, the Governor's Budget included significant adjustments to address other cost pressures, freeing up resources for trial courts to focus on addressing the case backlog. Specifically, the Governor's Budget included \$72.2 million ongoing General Fund for trial courts to address inflationary cost increases and \$53.5 million ongoing General Fund for maintenance, utility, and lease costs for trial court and Courts of Appeal facilities.

The May Revision provides two additional proposals to further address the case backlog. First, it includes \$30 million one-time General Fund to support the Early Disposition Readiness Conference Program. In the fall, the Chief Justice initiated this program to expedite adjudications by making temporary assigned judges available to complete readiness conferences to resolve low-level misdemeanors or felony cases before going to trial, providing victims and offenders a more timely resolution. While the Chief Justice provides temporary judges to courts that opt-in to this voluntary program, not all courts have resources available to provide staff to support these judges. As such, many courts have been reluctant to opt-in to the program. The proposed funding would remove this financial impediment and thereby support the early resolution of certain criminal cases. Second, the May Revision proposes language in the budget that would allow the Judicial Council to request additional funding, up to \$60 million, in the event that the above augmentations are insufficient to address the case backlog. This funding, which would be subject to approval by the Department of Finance upon review of data demonstrating a persistent case backlog, could be used to procure resources such as additional staff or space to process cases.

FINE AND FEE DEBT FORGIVENESS

During the Great Recession, the state increased the fines, fees, assessments, and surcharges levied on individuals convicted of criminal offenses including traffic infractions, to generate funding for specific state and local programs and services. The Judicial Council estimates these fines and fees generated approximately \$1.2 billion in revenue in 2019-20.

In recognition of the financial hardship this has placed on low-income individuals, the Legislature and the Administration have worked to implement various changes to existing law and the budget. The 2018 Budget Act included \$3.4 million General Fund for the Judicial Council to implement an eight-court pilot program allowing indigent

and low-income individuals to apply online to have their fines and fees from traffic infractions reduced in accordance with their ability to pay. Chapter 92, Statutes of 2020 (AB 1869), eliminated the ability of state and local agencies to impose certain administrative fees for criminal offenses beginning July 2021. Furthermore, the Governor's Budget also included \$12.3 million General Fund in 2021-22, increasing to \$58.4 million beginning in 2024-25 and ongoing to expand the online ability to pay pilot program statewide for both traffic and non-traffic infractions. This approach will provide targeted relief for low-income individuals for whom such penalties present a major financial hardship.

While these measures provide prospective relief, many low-income Californians currently owe hundreds, or even thousands, of dollars in debt for previously imposed fines and fees. Low-income Californians have been disproportionately impacted by the COVID-19 Pandemic and they should not have to choose between paying these debts and providing basic necessities such as housing and health care for themselves and their families. As such, the May Revision includes \$300 million one-time federal American Rescue Plan Act of 2021 (ARPA) funds to support additional relief for low-income Californians in the form of a debt forgiveness program to eliminate debt owed on existing fines and fees for traffic and non-traffic infraction tickets issued between January 1, 2015 and June 30, 2021. Specifically, under this program an individual could apply to have 100 percent of their debt forgiven upon submission of an application verifying their low-income status. The one-time funding covers implementation costs for the trial courts and the backfill of lost revenues that would have otherwise been allocated for court operations and to local governments.

STATEWIDE INITIATIVE TO REDUCE PRETRIAL DETENTION

Detaining individuals prior to trial, such as those who do not have an ability to pay for a release bond, can carry unintended consequences for those not yet convicted of a crime. Individuals can lose jobs, housing, or custody of their children, and are more likely to plead guilty. These negative consequences are disproportionately borne by minority communities and women. For example, one 2017 study found that women held in pretrial detention on misdemeanor charges are more likely to plead guilty than men.

Both the immediate impacts of detention and the much longer lasting record of conviction can be significant. To address these issues, the Administration is committed to efficiently minimizing pretrial detention while maintaining public safety. These essential measures will reduce racial and socio-economic disparities in the criminal justice system and reduce unnecessary incarceration.

JUDICIAL BRANCH

The May Revision includes \$140 million General Fund in 2021-22 and \$70 million ongoing to expand a pretrial pilot program funded with one-time resources in the 2019 Budget Act. Specifically, this funding will provide all 58 courts and county supervision agencies with the resources necessary to support judicial officers in making pretrial release decisions that impose the least restrictive conditions while maintaining public safety and assisting individuals in returning to court, and implementing appropriate monitoring practices and the provision of services for released individuals.

The Judicial Council will distribute the funds and provide judicial education and technical assistance to the courts on practices and programs related to pretrial decision-making. The Judicial Council will also evaluate the pretrial programs and practices and provide regular reports to the Legislature.

By establishing a statewide structure, this proposal will promote equity across counties and prevent disparate "justice by geography."

OTHER SIGNIFICANT JUDICIAL BRANCH INVESTMENTS

The May Revision also makes the following significant adjustments:

- **May Revision Infrastructure Package: One-time Deferred Maintenance**—\$158 million one-time General Fund in 2021-22 to support deferred maintenance projects in trial courts and Courts of Appeal. This brings the total one-time funding for deferred maintenance to \$188 million in 2021-22.
- **Legal Aid for Renters in Landlord-Tenant Disputes and Homeowners to Avoid Foreclosure**—\$20 million federal ARPA funds annually for three years (\$60 million total) to provide legal aid services for renters and homeowners to avoid eviction and foreclosure. Specifically, these additional funds will provide free legal services for landlord-tenant issues, including legal assistance for counseling, renter education programs, and preventing evictions and foreclosures as discussed in the Housing and Homelessness Chapter.
- **Shasta County Superior Court Security**—\$330,000 General Fund in 2021-22 and \$660,000 ongoing thereafter to support trial court security costs for a new courthouse scheduled to open in January 2022. Court security is provided by the Shasta County Marshal's Office.

CRIMINAL JUSTICE

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) incarcerates people convicted of the most violent felonies, supervises those released to parole, and provides rehabilitation programs to help them reintegrate into the community. The Department strives to facilitate the successful reintegration of the individuals in its care back to their communities equipped with the tools to be drug-free, healthy, and employable members of society by providing education, treatment, and rehabilitative and restorative justice programs. The May Revision proposes total funding of \$13.6 billion (\$13.3 billion General Fund and \$347 million other funds) for CDCR in 2021-22.

The COVID-19 Pandemic has affected every aspect of prison operations and the state has taken swift action to mitigate the spread of the virus. These actions have significantly impacted current population projections. The Governor's Budget projected an overall incarcerated adult average daily population of 95,324 in 2021-22. Spring projections now estimate an incarcerated adult average daily population of 106,259, an increase of 10,935. This is primarily because CDCR has resumed intake of individuals sentenced to prison but who remain in county jails awaiting transfer to state prison.

The Governor's Budget projected an overall parolee average daily population of 45,924 in 2021-22. The average daily parolee population is now projected to be 48,269, an increase of 2,345, or approximately 5 percent.

COVID-19 UPDATE

The number of active COVID-19 cases across CDCR's prison system has declined dramatically statewide since the height of the COVID-19 Pandemic. In December 2020, CDCR reported as many as 10,600 active incarcerated adult COVID-19 cases and 3,250 active staff COVID-19 cases. As of May 6, 2021, CDCR was tracking 17 active incarcerated adult cases and 183 active staff cases. One of the primary drivers of CDCR's success in combatting the further spread of COVID-19 has been the roll-out of COVID-19 vaccines to incarcerated individuals and staff, consistent with Department of Public Health Guidelines. CDCR began distributing vaccines in December 2020. At the end of April 2021, approximately 26,000 staff (about 40 percent) and 62,000 incarcerated people (about 65 percent) had received complete courses of a COVID-19 vaccine.

As of April 2021, the Division of Juvenile Justice (DJJ) within CDCR was reporting no active COVID-19 cases among youth. A total of 204 cases have resolved since June 2020, with no reported serious symptoms or deaths. Vaccinations are currently being offered to DJJ youth 18 and older, and DJJ has been working to distribute approved vaccines to DJJ youth that are 16 years and older consistent with Food and Drug Administration guidance.

CDCR has also continued to take proactive measures and precautions to protect the incarcerated population and staff, which includes continuing regular testing, observing physical distancing protocols, utilizing masks and other personal protective equipment, and providing extra cleaning and sanitation services. CDCR has performed over 2.9 million COVID-19 tests since the beginning of the pandemic.

Given improvements in CDCR's containment of the virus, CDCR recently re-opened visitation at all of its institutions. Visitors are generally asked to provide vaccine documentation or recent COVID-19 test results, but CDCR is also offering visitors the opportunity to have COVID-19 tests performed on-site if available so they can enter the institutions.

CDCR has incurred costs of approximately \$840.4 million during 2019-20 and 2020-21 to support direct and indirect COVID-19-related response activities, including testing of staff and incarcerated individuals, cleaning, tents, and personal protective equipment purchases. By the end of 2020-21, CDCR expects to spend approximately \$326.3 million more to support response operations. The May Revision includes \$407.9 million one-time General Fund in 2021-22 to continue COVID-19 activities and fund related contracts and purchases.

Although the number of active cases has been reduced significantly since the height of the pandemic, CDCR remains vigilant regarding the potential risks and will continue current response operations for the foreseeable future with the goal of preventing any further spread of COVID-19.

INCREASED INTAKE TO STATE PRISONS

In late March 2020 the state halted intake of incarcerated persons from county jails to reduce the risk of COVID-19 entering the state prison system. CDCR resumed intake on a limited basis in late August, although public health conditions subsequently necessitated halting intake again in late November. In January 2021, CDCR resumed intake with continued precautions including requiring testing and symptom screening prior to intake, and instituting a mandatory 14-day quarantine period in its reception centers. Since then, intake has remained open, and has increased over time, as public health conditions have allowed.

The suspension of intake has resulted in greater numbers of incarcerated persons being held in county jails. In circumstances where CDCR cannot accept the intake of an individual from a county jail, the state is required to reimburse counties for holding those individuals. As of March 15, 2021, the state has provided approximately \$121.1 million General Fund to county sheriffs for this purpose. This reflects payments for individuals held in county jails from March 2020 through December 2020, and reimbursements will continue until such time that all incarcerated individuals are transferred to state prison. Current projections suggest a total of \$98.3 million in additional reimbursements will be issued by June 30, 2021, and \$97.5 million will be issued in 2021-22 as the backlog is gradually reduced and then eliminated.

PRISON CAPACITY AND CLOSURES

The adult prison population has steadily declined over many years, presenting opportunities for CDCR to eliminate its reliance on contract prison capacity. CDCR terminated its final remaining contract to house incarcerated persons out of state in June 2019. In addition, CDCR terminated six of seven in-state contracts by October 2020, and the Governor's Budget reflected closing the final in-state contract correctional facility by May 2021. Consistent with the 2020 Budget Act, the Department plans to close Deuel Vocational Institution in Tracy by September 2021, achieving savings of \$119 million General Fund in 2021-22, and \$150.3 million General Fund annually beginning in 2022-23.

The Department also plans to close the California Correctional Center in Susanville, by June 30, 2022. The closure of this facility is estimated to save the state \$122 million General Fund in 2022-23 and ongoing.

EXPANSION OF REHABILITATIVE OPPORTUNITIES

The Administration is committed to increasing access to rehabilitative and reentry programs with the goal of improving post-release outcomes for incarcerated individuals and reducing recidivism. CDCR's academic, vocational, and rehabilitative programs are critical to preparing incarcerated individuals to successfully reenter their communities following their release from prison. A number of investments have been made in recent years that enhance these programs with the goal of improving public safety through rehabilitation. The Governor's Budget proposed \$23.2 million General Fund in 2021-22, and \$18.4 million ongoing, to further these efforts by enabling CDCR to purchase 37,000 laptops and support associated information technology infrastructure to provide incarcerated individuals with greater access to educational programs and opportunities both inside and outside of the classroom. The May Revision builds on recent investments in rehabilitative programming through the proposals described below.

REIMAGINING THE PRISON SYSTEM

Norway is globally recognized for its model corrections system, demonstrated through its low rate of recidivism and successful post-release outcomes. Norway's model is distinguished by the level of access to educational and life and job skill training opportunities, the use of innovative and trauma-informed rehabilitative practices, and the community and campus-like look and feel of the prison environment. The May Revision includes \$13.7 million General Fund in 2021-22, and \$3 million ongoing, to expand programming and undertake facility improvements at Valley State Prison (VSP), guided by the Norway model, with the goal of achieving similar success in rehabilitating incarcerated individuals and preparing them for life outside of the institution. VSP will serve as a pilot for re-envisioning and transforming the state's correctional system.

Specifically, these resources will enable CDCR to:

- Install two new modular buildings to accommodate additional educational and rehabilitative activities for incarcerated individuals.

- Create two new baccalaureate degree programs—one general education program and one focused on Science, Technology, Engineering, and Mathematics (STEM).
- Add new vocational and career technical training opportunities, including multimedia (video, music, and podcasts) production and construction licensing and certification programs.
- Provide additional laptops, complementary to the Governor's Budget proposal, for the incarcerated population's use to support digital literacy development and access to educational offerings.

The Governor's Budget included \$2 million ongoing General Fund to establish a Youth Rehabilitative Offender Community at VSP to focus on providing enhanced rehabilitative services to youth. This proposal builds on this investment and will facilitate a further transformation at VSP.

To further promote these efforts system-wide, the May Revision includes \$34.8 million one-time General Fund to replace existing metal dayroom furniture with more comfortable furniture for positive programming and non-designated program facilities and female institutions. This change will create a more welcoming and community-like atmosphere for incarcerated persons, thereby transitioning from a typical institutional environment to a more rehabilitative setting.

INCREASED VISITATION OPPORTUNITIES

Another challenge faced by many incarcerated persons upon release is the loss of family and community connections during their time of incarceration. Visitation provides incarcerated persons with the opportunity to establish and maintain a continuum of social support, including parent-child relationships, which are critical for successful reentry. In-person visiting is linked to lower recidivism rates and fewer parole violations. The 2020-21 Governor's Budget proposed to expand visitation before the outbreak of COVID-19 necessitated reconsideration.

The Administration remains committed to facilitating strong ties between incarcerated individuals and their families and social support networks. Unfortunately, the pandemic necessitated the temporary suspension of in-person visiting. To mitigate the negative effects of this suspension, CDCR provided incarcerated persons with the ability to correspond with loved ones through free telephone and video visitation opportunities. In December 2020, the Department implemented weekend video visiting at all

institutions to allow incarcerated individuals to engage in virtual contact with their friends and family.

In April 2021, CDCR resumed in-person visiting, which will continue in conjunction with video visiting. To support increased in-person visiting, the May Revision includes \$20.3 million ongoing General Fund to add a third day of in-person visitation on Fridays at all institutions (visiting is currently limited to Saturdays and Sundays). In addition, this funding will provide visitors with free transportation on select days throughout the year to all prisons via chartered busses.

STATEWIDE IMPLEMENTATION OF FIXED VIDEO SURVEILLANCE SYSTEMS

Audio visual surveillance is integral to CDCR's ability to monitor activity within its institutions and maintain a safe environment for the incarcerated population and staff. Effective surveillance systems have the capacity to facilitate contraband interdiction and support inquiries and investigations into allegations of staff and incarcerated individual misconduct. These systems generally serve as a deterrent for improper or illicit activities, thereby improving safety and enhancing operations within the institutions. CDCR initiated the process of replacing its older analog camera systems with modern fixed security camera systems at High Desert State Prison and Central California Women's Facility, and portions of San Quentin State Prison and California State Prison, Sacramento.

The May Revision includes a total of \$212.3 million General Fund over three years, and \$11 million ongoing, to install modern fixed security cameras at 24 additional institutions. This proposal, along with existing efforts underway, will effectuate a roll-out of new audio visual surveillance systems at all institutions statewide. These resources and complementary funding included in the *Armstrong* court compliance proposal described below will enable CDCR to install fixed security cameras at nine to ten institutions per year over the next three years. The deployment of this technology will transform surveillance across the prison system and greatly increase CDCR's capacity to operate safe and effective prisons.

ALLEGATIONS OF STAFF MISCONDUCT AND DISCRIMINATION COMPLAINT PROCESSES

The May Revision invests the resources identified below to further enhance CDCR's programs and processes dedicated to proactively addressing staff misconduct and discrimination when it occurs. These investments will enable CDCR to make

institution-specific and system-wide reforms and improvements with the goal of continuing to increase accountability and transparency. As identified below, the May Revision includes \$3.7 million General Fund in 2020-21, \$89.3 million in 2021-22, and \$36.8 million ongoing to support these efforts.

ARMSTRONG COURT COMPLIANCE CONTINUATION AND ALLEGATION INQUIRY MANAGEMENT SECTION IMPROVEMENTS

In March 2021, the US District Court for the Northern District of California ordered CDCR to develop a plan to implement remedial measures at five institutions—including Kern Valley State Prison; California Institution for Women; California State Prison, Corcoran; Substance Abuse Treatment Facility and State Prison, Corcoran; and California State Prison, Los Angeles. The measures include: (1) deploying body-worn cameras by the end of July 2021; (2) installing fixed security cameras throughout the five prisons on staggered timelines through December 2021; (3) modifying staff complaint and disciplinary processes; and (4) increasing supervisory staff and training. The May Revision includes \$3.7 million General Fund in 2020-21, \$80.5 million in 2021-22, and \$28 million ongoing, to enable CDCR to undertake these changes and achieve compliance with the recent court order.

The *Armstrong* court issued a similar order in September 2020 requiring CDCR to complete the same reforms outlined above at Richard J. Donovan Correctional Facility. The Governor's Budget proposed \$13.5 million General Fund in 2020-21, \$10.1 million in 2021-22, and \$6.9 million ongoing to implement these measures.

Additionally, CDCR is in the process of implementing a number of improvements to its Allegation Inquiry Management Section (AIMS) process. The 2019 Budget Act included \$9.8 million ongoing General Fund and 47 positions to establish the AIMS Program within the Office of Internal Affairs to conduct inquiries into certain specified allegations of staff misconduct that previously would have been reviewed at the institution level. The AIMS process was specifically designed to facilitate a fair, transparent, and unbiased process with a centralized staffing model dedicated to performing staff allegation inquiry functions.

CDCR has continuously evaluated the AIMS Program over the past year to identify areas of improvement and ways to further enhance the review process. Accordingly, the May Revision includes \$8 million ongoing General Fund and 40 positions to expand the AIMS process to cover all use of force allegations against staff as well as allegations of staff misconduct that fall under the federal Prison Rape Elimination Act. Additionally, CDCR will establish a centralized screening process by redirecting existing staff to triage

all allegations of staff misconduct to determine the appropriate routing based on the type of allegation and related circumstances, as opposed to each institution independently performing this function, which will help to create greater consistency in the handling of staff complaints.

CDCR is also reviewing the existing regulations governing the AIMS process to determine areas for potential improvement and refinement for this relatively new program. CDCR expects to pursue regulatory updates in the coming months consistent with its commitment to realizing the best possible staff allegation inquiry process.

DISCRIMINATION COMPLAINT TRACKING

The May Revision proposes \$815,000 General Fund in 2021-22 and \$804,000 ongoing and 6 positions to expand CDCR's Civil Rights Operations/Equal Employment Opportunity program, which centrally handles discrimination complaints. This proposal will assist CDCR in complying with directives and guidelines from the California Department of Human Resources to implement the statewide Discrimination Complaint Tracking System. This proposal was included in the 2020-21 Governor's Budget, but was partially withdrawn in the 2020-21 May Revision due to the pandemic-induced recession.

MENTAL HEALTH CARE IMPROVEMENTS

In 2017-18, the responsibility for operating three Psychiatric Inpatient Program (PIP) facilities, which primarily served CDCR patients, was shifted from the Department of State Hospitals to CDCR with the goal of improving patient care, reducing wait times, and creating additional efficiencies. Consistent with the transfer of this oversight, the 2017-18 Budget realigned \$250.4 million and 1,977.6 positions from the Department of State Hospitals to CDCR.

To further enhance PIP operations and better address CDCR's unique operational needs, the May Revision includes \$37.7 million General Fund in 2021-22, and \$35.9 million ongoing, and 264.1 positions to standardize staffing models across the five CDCR-operated PIPs and support targeted staffing increases to perform operationally critical functions. This includes resources to add clinicians, nurses, custody staff, and administrative staff to provide the comprehensive suite of services necessary to best serve PIP patients.

Additionally, the May Revision includes \$3.7 million ongoing General Fund to add supervisory capacity within the Statewide Telepsychiatry Program. This program has

grown considerably in recent years and become an important component of the delivery of mental health care services. Currently, telepsychiatrists within the program are managed by on-site supervisors, which requires the redirection of these supervisory positions from their existing duties and responsibilities and support of on-site psychiatry staff. Additionally, this structure does not recognize the unique operational functions of the telepsychiatry program. Accordingly, this proposal will add dedicated telepsychiatry supervisors to enhance program operations and provide for improved on-site and telepsychiatry service delivery.

INVESTMENTS IN THE PAROLE HEARING PROCESS

ADDITIONAL BOARD OF PAROLE HEARINGS WORKLOAD

The May Revision includes \$3.1 million ongoing General Fund to increase the number of Board of Parole Hearings commissioners from 17 to 21 to alleviate a significant backlog of hearings and maintain a consistent level of service as the number of required hearings continues to rise.

The increase in the number of hearings and a growing backlog are related to several factors. For example, recent legislation has expanded youthful offender parole hearings for individuals sentenced up to the age of 25 and expanded the Elderly Parole Program to reduce eligibility from age 60 to age 50. In addition, recent court decisions and the high number of postponements in 2020—2,648, or more than double the number in 2019—have increased the number of upcoming required hearings. Without additional Commissioners and resources, the Board projects a backlog of nearly 4,000 hearings by June 30, 2023.

The proposal also includes statutory changes to permit the Board of Parole Hearings to conduct video conference hearings currently authorized through an Emergency Executive Order, which allows for more hearings by reducing travel time for commissioners, as well as associated costs. Remote hearings have also allowed easier access for participation by victims and next of kin. For example, in February 2020, 127 victims or next of kin participated in the parole hearing process. In February 2021, 343 victims or next of kin participated.

VICTIM SUPPORT

Corresponding with the anticipated increase in the number of parole hearings, the May Revision also includes \$1.3 million ongoing General Fund to deliver services for victims

during the parole hearing process. The staff and resources will also enable CDCR to expand existing initiatives such as the Victim Offender Dialogue program.

The parole hearing process is often confusing, stressful, and traumatic for victims. Victims who attend parole hearings are often confronted with details of the most painful and traumatic experience of their lives and many face significant fear for their personal safety if the incarcerated person is released. Explaining the parole process to victims in a sensitive and informative manner in advance of a parole hearing increases victims' understanding of the process. It can also increase their overall satisfaction and trust in the criminal justice system.

FACILITY AND INFRASTRUCTURE IMPROVEMENTS

Maintaining facility infrastructure is essential to the health, safety, and rehabilitative goals for those who live and work in state prisons.

The Governor's Budget included \$33.6 million General Fund over two years for roof replacement projects at California State Prison, Los Angeles County as part of a multi-year plan to replace aging and deteriorating roofs across the state prison system.

The May Revision includes an additional investment of \$50 million one-time General Fund in 2021-22 to address CDCR's significant backlog of deferred maintenance projects. Taken with the Governor's Budget proposal, this will provide \$100 million in total funding for CDCR deferred maintenance projects.

DIVISION OF JUVENILE JUSTICE

Consistent with Chapter 337, Statutes of 2020 (SB 823), the Division of Juvenile Justice (DJJ) will stop the intake of wards on June 30, 2021, with limited exceptions. The May Revision reflects an estimated average daily population of 732 wards in 2020-21 and 613 wards in 2021-22, which represents a decrease of 68 and 116 wards in 2020-21 and 2021-22, respectively, as compared to the Governor's Budget estimates. Taken with the Governor's Budget estimates, this will result in estimated savings of \$10.1 million General Fund in 2021-22.

To facilitate the realignment of youth offenders from the state to counties, the Board of State and Community Corrections is in the process of distributing \$9.6 million in one-time funds in 2020-21 for the Regional Youth Programs and Facilities Grant Program as authorized by SB 823. In addition, SB 823 established the Juvenile Justice Realignment

Block Grant Program, which will result in annual appropriations to be allocated to counties to serve realigned youth, including \$45.7 million in 2021-22 growing to \$211.9 million in 2024-25 and annually thereafter.

Recent pending legislation, Senate Bill 92, makes critical changes to support SB 823 implementation and enable counties to provide appropriate rehabilitative and supervision services to realigned youth starting July 1, 2021. This includes establishing a framework for county secure youth treatment facilities, consistent with intent language included in SB 823. SB 92 also specifies a closure date for DJJ of June 30, 2023, and requires DJJ to develop a plan by January 1, 2022 for the transfer of remaining DJJ youth.

PINE GROVE YOUTH CONSERVATION CAMP STATE AND LOCAL PARTNERSHIPS

The May Revision proposes statutory changes to create opportunities for state and local partnerships to maintain firefighting operations at the Pine Grove Youth Conservation Camp in Amador County. This will enable juvenile courts to assign local youth to Pine Grove without committing them to DJJ and authorize counties to contract with the state to place youth offenders at Pine Grove. This action is consistent with the intent expressed in SB 823 to continue operations at Pine Grove given the camp provides critical reentry and job training to justice-involved youth.

LOCAL PUBLIC SAFETY

The May Revision includes the following significant adjustments:

California Violence Intervention and Prevention (CalVIP) Grant Program—The Governor’s Budget included baseline funding of \$9 million ongoing General Fund for the CalVIP program, which 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. The May Revision includes an additional \$100 million one-time General Fund across the next three fiscal years for the Board of State and Community Corrections to expand this program. These funds will help to make California a national leader by supporting violence prevention efforts within communities that focus on those at the highest risk of violence.

Proposition 47 Savings—Voters passed Proposition 47 in November 2014, which 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. The Department of Finance currently estimates net General Fund savings of \$116.2 million, an increase of \$1.4 million over the estimated savings at the Governor's Budget. These funds will be allocated according to the formula outlined in the initiative, which requires 65 percent be allocated for grants to public agencies to support various recidivism reduction programs (such as mental health and substance use services), 25 percent for grants to support truancy and dropout prevention programs, and 10 percent for grants for victims' services.

Post Release Community Supervision—The May Revision includes \$23.6 million one-time General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision (PRCS) as a result of the implementation of Proposition 57. This is an increase of \$4.1 million from the amount estimated in the Governor's Budget and is largely attributable to recently promulgated regulations that expanded good conduct credit earning opportunities.

DEPARTMENT OF JUSTICE

As chief law officer of the state, the Attorney General has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice (DOJ). The Department provides legal services on behalf of the people of California; serves as legal counsel to state agencies; provides oversight, enforcement, education, and regulation of California's firearms laws; provides evaluation and analysis of physical evidence; and supports data needs of California's criminal justice community. The May Revision includes total funding of approximately \$1.1 billion, including \$365.9 million General Fund, to support the DOJ.

POLICE USE OF FORCE INVESTIGATIONS

Chapter 326, Statutes of 2020 (AB 1506) requires a state prosecutor to investigate incidents of officer-involved shootings that result in the death of an unarmed civilian, and makes the Attorney General the state prosecutor unless otherwise specified or named. The Governor's Budget included \$13 million General Fund in 2021-22, increasing to \$13.5 million ongoing, to establish three teams, one in each of the northern, central, and southern regions of California, to conduct these investigations across the state. The May Revision includes an additional \$2.3 million General Fund in 2021-22 and \$2.1 million ongoing beginning in 2022-23 to provide supportive services to survivors of those killed in

officer-involved shootings investigated by DOJ pursuant to AB 1506, and add one additional investigative team in the southern region, bringing the total to four.

The Administration is committed to working with DOJ on the successful implementation of AB 1506 and has proposed statutory changes that will allow the Director of Finance to augment the overall appropriation in 2021-22 if workload exceeds the level of resources provided to conduct investigations of officer-involved shootings.

The May Revision also includes the following significant adjustment:

- **Chapter 289, Statutes of 2020 (AB 2699)**—\$982,000 General Fund in 2021-22, \$912,000 in 2022-23, \$2.9 million in 2023-24, \$3 million in 2024-25, and \$1.9 million in 2025-26 to gather information about unsafe firearms transactions involving peace officers, develop information technology infrastructure to maintain a database of such transactions, and conduct investigations to verify that transactions are being appropriately recorded.

OFFICE OF EMERGENCY SERVICES SECURITY AND DOMESTIC VIOLENCE GRANTS

NONPROFIT SECURITY GRANT PROGRAM

The May Revision proposes \$50 million one-time General Fund for the California State Nonprofit Security Grant Program, to assist nonprofit organizations that have historically been targets of hate-motivated violence. This program, administered by the Office of Emergency Services (Cal OES), provides support for target hardening and other physical security enhancements to nonprofit organizations that are at high risk of violence and hate crimes based on ideology and beliefs.

VICTIMS OF CRIME ACT SUPPLEMENTAL FUNDING

The May Revision proposes \$100 million one-time General Fund for Cal OES to supplement federal funding supporting a variety of services for domestic violence victims. Domestic violence and sexual abuse have increased during the pandemic. Police data across US cities indicated a 10- to 27- percent increase in domestic violence during the pandemic. At the same time, the amount of funding that California is receiving in Victims of Crime Act federal funding—which supports a variety of programs including rape crisis programs, domestic violence housing, victim witness

programs, and child advocacy centers—has declined in recent years. This one-time augmentation will allow existing programs to continue, while building capacity to handle the increased need.

DIGITAL TRANSFORMATION AND RESULTS ORIENTED GOVERNMENT

TECHNOLOGY MODERNIZATION

The Administration continues to reimagine the way Californians access information and conduct government transactions. Building upon past efforts and lessons learned from the pandemic, continuing to invest in technology will move the state closer to achieving the goals identified in the California Technology Strategic Plan, Vision 2023. Vision 2023 aims to deliver: easy-to-use, fast, dependable and secure public services; equitable and inclusive public services; common technology solutions that are easy to use across government; digital government more quickly and effectively; and empower multi-disciplinary teams to support the state's technology infrastructure.

CALIFORNIA DEPARTMENT OF TECHNOLOGY

The California Department of Technology (CDT) is working to improve and modernize the way Californians interact with government. To facilitate rapid and effective support for state entities interacting with state residents, CDT continues to develop strategies to lead the way for modernizing technology solutions.

The COVID-19 Pandemic revealed weaknesses in the state's technology infrastructure while also demonstrating the state's ability to quickly repair that infrastructure as well as add new services to it. To build on these successes, the May Revision includes \$50 million

one-time General Fund, available for expenditure through 2023-24, to fund technology modernization solutions. These modernization initiatives will be identified and approved by CDT and the Department of Finance through CDT's assessments of existing technology systems and the evaluation of strategic technology modernization proposals submitted by departments. The Governor's Budget included \$11.4 million ongoing General Fund in 2021-22 (\$9.4 million General Fund in 2022-23 and \$6.4 million General Fund in 2023-24 and ongoing) to conduct assessments of existing critical systems and identify technology solutions that will mitigate potential risks. The solutions will be prioritized based on evaluation criteria including the overall return on investment of the solution (e.g., risk reduction, financial return, quality of service improvement), demonstrated capacity of the sponsoring department to deliver solutions successfully, implementation timeline, and alignment with statewide goals (e.g., Vision 2023). Once the solutions are identified by CDT and approved by Finance, the modernization funding allows for immediate remediation of risks through quick and efficient solution implementations.

In addition to funding the development of modernization solutions, CDT will, when appropriate, expend funds in an iterative manner to improve fiscal accountability—CDT will monitor the progress of iteratively developed solutions and expend additional funds only when they are progressing successfully. Investments will be modest compared to the totality of typical modernization requests and targeted to support efforts and teams seeking to prove the viability of faster and more effective modernization methods. The funding is expected to support the implementation of approximately 15 solutions.

CDT is taking steps to modernize and improve the way in which individuals engage with state government via the Internet. Partnering with the Office of Digital Innovation (ODI), CDT will transform CA.gov into a customer-focused portal for government services making it easier for residents to find information and complete transactions. The May Revision includes limited-term funding of \$2.3 million General Fund for 2021-22 through 2022-23 to create a dedicated team at CDT to support continued development of the CA.gov web portal, and improve CDT capacity to onboard agency websites to the new statewide web enterprise platform. These types of partnerships have proven to be successful at the federal level through the services provided by 18F. 18F, like ODI, specializes in delivering human-centered digital services while the entities it partners with provide the content expertise regarding the service itself. This approach also supports Vision 2023's goal of building a multi-disciplinary team.

CDT is also working on a pilot project to discover and test issues associated with federating a single digital ID beginning with two state entities (to be determined). The May Revision includes limited-term funding of \$1.1 million General Fund in 2021-22

through 2022-23 for this effort. Upon completion of the pilot, CDT will evaluate the potential use of this technology statewide to enhance cohesion between state programs and improve the user experience for Californians.

ACCELERATED MODERNIZATION AT THE DEPARTMENT OF MOTOR VEHICLES

In the years prior to the pandemic, the Department of Motor Vehicles (DMV) began significant efforts to streamline its processes in anticipation of the federal REAL ID deadline. Efforts included expanded kiosk deployment, launching a redesigned, responsive website, adding the ability to accept credit cards at field offices, and improving employee training to focus on customer service. The May Revision includes proposals that continue these improvement efforts amidst changing conditions—including the ongoing pandemic and changing federal requirements. The May Revision also includes resources for a new Mobile Identity (mID) Program.

REAL ID

The federal REAL ID enforcement deadline was recently extended by 19 months from October 2021 to May 2023; however, the number of REAL IDs DMV will need to issue has not changed. Accordingly, the May Revision dedicates \$409 million in one-time General Fund resources and 3,455 temporary positions over the next four years to complete the one-time workload associated with addressing the federal REAL ID mandate. As travel was restricted during the pandemic, applications for REAL IDs dropped below previously estimates. However, as the economy reopens, the DMV anticipates a return to the increased REAL ID workload experienced pre-pandemic.

DMV MODERNIZATION

During the pandemic, the DMV has transformed many of its systems and processes, including operationalizing a virtual field office and enabling new and expanded online services for web and mobile devices. Almost 95 percent of all DMV transactions can now be done through one of DMV's virtual channels, creating additional capacity and reducing wait times in its field offices to handle transactions that require an in-person visit such as getting a REAL ID.

To accelerate the modernization of DMV, the May Revision includes \$54 million one-time Motor Vehicle Account to begin the Digital Experience Platform project, a five-year, \$308 million, comprehensive replacement of DMV's 1970s-era legacy information technology systems. This upgrade will bring DMV into the 21st century by providing a modern customer experience that will reduce field office outages, allow for

more streamlined online services, and enable the DMV to adapt more nimbly to future changes and needs.

The May Revision also includes \$103 million one-time General Fund to accelerate a range of additional modernization efforts.

- **Mobile Identity Program**—\$10 million to establish the Mobile Identity (mDL) Program, which will allow California residents to obtain a digital driver's license/ID that can be conveniently and securely accessed through a smartphone. The mDL will be a convenient way for users to verify their identity or age in the same way a physical driver's license or identification card is used. The mDL can be used to access government services and for other purposes over time as businesses and organizations develop ways to accept the mDL. The mDL will be rolled out in a series of pilots with the goal of refining and expanding the use of this innovation across state services while maintaining security and privacy. Additional use cases will be piloted as the technology is accepted in both the public and private sectors.
- **Digital Acceleration**—Approximately \$50 million that will enhance the overall customer experience of DMV customers both at field offices and through the DMV's other virtual channels. These efforts include increased shifts to automation, such as contactless REAL ID processing, operational efficiencies such as scheduling and process analytics software, and conversion from paper to digital workflow.
- **Facilities**—Approximately \$40 million for office upgrades and reconfigurations that will result in more efficient space allocation that will drive lower facility needs ongoing.
- **Talent Acceleration**—\$3 million for statewide training and e-learning enhancements for all DMV employees to provide a consistent experience across all DMV offices.

ADDITIONAL MODERNIZATION PROJECTS

In addition to CDT and DMV, several departments have significant modernization projects underway. With a focus on implementing additional online services to the residents of California, improvements to existing business processes and less reliance on legacy systems—these efforts shift the state towards its digital transformation goals. The May Revision includes the following proposals:

- The Employment Development Department (EDD) is reimagining its Benefits System Modernization (BSM) project that was paused in September 2020 due to recommendations from the EDD Strike Team. The May Revision includes \$11.8 million

one-time General Fund in 2021-22 to reengage the planning effort to incorporate knowledge learned from the pandemic, while continuing to focus on delivering service improvements to the claimant experience.

- The Franchise Tax Board (FTB) continues the second phase of its tax systems modernization effort with the Enterprise Data to Revenue 2 (EDR2) project. EDR2 will expand modeling and enterprise case management to Audit and Collection workloads, adds functionality to MyFTB, and decommissions multiple legacy systems. The May Revision includes an additional \$32.8 million one-time General Fund for 2021-22. The Governor's Budget already included \$55.6 million one-time General Fund for the first year of project implementation.
- The Department of Consumer Affairs continues its business modernization efforts for several more boards and bureaus. The Business Modernization Cohort 2 builds upon technology solutions from the previous cohort and will bring additional online services for professional licensing applicants such as application submission, electronic payments, and interactive dashboards. The May Revision includes \$5.5 million one-time Special Funds in 2021-22 to continue project planning efforts and begin implementation.
- The Department of Transportation will add geospatial capability and enhance safety analysis functionality to improve collection and reporting of highway inventory and traffic safety data as required by federal mandates through its Transportation System Network Replacement Project. The May Revision includes \$5.5 million one-time Special Funds for 2021-22 to begin the first year of project implementation.
- The Department of Social Services continues to develop and implement the Child Welfare Services—CA Automated Response and Engagement System project. Included in the May Revision is \$71.3 million one-time funding (\$39.4 million General Fund and \$31.8 million Federal Funds). Using an iterative development methodology and user-centered design, it will replace the existing legacy system and aid child welfare stakeholders in assuring the safety, permanency, and well-being of children at risk of abuse and neglect.

MAKING GOVERNMENT MORE EFFICIENT

The COVID-19 Pandemic provided an opportunity for the state to test in real time a statewide telework program. The emergency facilitated a new way to conduct state

business—remotely—one that had not been utilized this broadly before. It required the state to revisit government processes resulting in greater operational efficiencies.

Departments and agencies within the Executive Branch were directed to identify potential reductions through operational efficiencies, including reductions of discretionary programs, lease space, travel, and contracts, as well as reductions in operating costs as a result of increased telework. The May Revision includes a reduction of \$278.8 million ongoing (\$50.4 million ongoing General Fund) to capture a 5-percent permanent reduction in most state operations expenditures. Of the \$278.8 million ongoing reduction, \$139.4 million ongoing (\$41 million ongoing General Fund) is attributable to telework efficiencies.

IDENTIFY AND PURSUE OPPORTUNITIES FOR ONGOING TELEWORK

Departments and agencies continue re-examining their workforce to identify classifications and positions that can telework permanently or part-time, without disruption to serving the people of California. The Government Operations Agency (GovOps) is working on a pilot with the Financial Information System for California (FI\$Cal) to implement a hoteling strategy to better manage its office space and reduce the department's leasing costs. More than a dozen state entities expressed interest in pursuing similar strategies after panel discussions facilitated by GovOps.

REDUCE AND RECONFIGURE OFFICE SPACES

The Department of General Services (DGS) continues to evaluate the state's portfolio of leases and opportunities for reconfiguring space needs to determine which agencies and departments may be able to release state space due to the implementation of telework. DGS has developed space guidelines and planning principles to help guide departmental discussions on telework and space planning post COVID-19. DGS has also implemented a "moratorium" on new space requests and lease renewals; any client agency requesting space must account for future telework before DGS processes the request for new space.

DGS has reduced the space allocations of state departments in the new office building projects completing construction in 2021, as well as the majority of those planned for renovation as proposed in the Governor's Budget. For instance, the Natural Resources Agency is leveraging telework to reduce its space needs upon relocation to its new headquarters building in August 2021. The new headquarters building will serve 4,408 staff with over 1,100 shared spaces.

DGS has conducted outreach to its largest customers with respect to telework, and is actively working with a number of client agencies to reevaluate their space needs. DGS is developing recommendations for each agency that considers factors such as programs, rental rates, location, and lease terms. Specifically, DGS is working with the CDT—which will join DGS at its headquarters location in June 2021 as DGS reduces its own footprint. DGS is also working with FI\$Cal, Department of Child Support Services, Department of Toxic Substances Control, Unemployment Insurance Appeals Board, Department of Social Services, Department of Rehabilitation, and the Department of Transportation.

Additionally, DGS has completed a concept study for the adaptive reuse of existing state office buildings into affordable housing.

REDUCE TRAVEL AND FLEET COSTS

DGS recently established a statewide policy on installing and utilizing Telematics devices (a small GPS device that tracks distance, time, location, speed, etc.) in state vehicles, which when fully implemented, will better assist the state in managing its fleet vehicles, resulting in reduced fuel and maintenance costs and minimized accidents.

While the policy is expected to achieve net savings to the state in the long-term, the May Revision includes 3-year limited term funding—\$3.7 million (\$2.7 million General Fund) in 2021-22 and \$2.7 million funding (\$2.1 million General Fund) in 2022-23 and 2023-24—and four positions for four departments. This temporary funding will allow the Department of Parks and Recreation, Department of Fish and Wildlife, California Conservation Corps, and Department of Forestry and Fire Prevention to install the Telematics devices and quantify the devices' cost efficiency, without constraining their budgets. The May Revision also includes provisional language for one-time 2021-22 funding of \$1.4 million from the Motor Vehicle Account for the California Highway Patrol (CHP) to install the Telematics devices. Access to this one-time funding is contingent on CHP and DGS confirming that there are no impediments to CHP implementing the Telematics policy.

To continue realizing government efficiencies in travel, DGS will implement a Travel Airfare Policy, which includes cost-saving measures that will require state employees to: (1) book non-refundable airfare; (2) purchase airfare at least 7 days prior to travel; and, (3) utilize unused airline ticket credits first, prior to purchasing new airline tickets. Under the policy, state employees will be required to submit justification for any

non-compliance, and DGS will provide semi-annual reporting to state departments notifying them of any policy non-compliance.

EQUITY AND INCLUSION

As part of transforming state operations, California is prioritizing equity and inclusion. The state's first Chief Equity Officer at the Government Operations Agency was proposed in the Governor's Budget with \$290,000 ongoing General Fund. In part, this position will help oversee the implementation of equity recommendations from the California Leads as an Employer initiative; work with CalHR to recommend changes to close the gender and racial pay gaps in the state workforce, and work with the state's Chief Data Officer to gather and report data about state workforce. The May Revision includes an additional \$300,000 ongoing General Fund to fund two additional staff to support the Chief Equity Officer.

LABOR AND WORKFORCE DEVELOPMENT

Despite marked economic improvements in recent months, the state's labor market continues to be impacted by the negative effects of the COVID-19 Pandemic—especially in certain sectors and populations. Hiring has begun to recover across the state and California's unemployment rate has improved to 8.3 percent in March 2021, down from a high of 16 percent in April 2020.

To help continue this trend toward recovery, the May Revision includes a \$1.1 billion Jobs Package—an investment in regions and local collaboratives to support communities across California in planning and implementing economic and workforce development strategies that support the state. This will assist the state as it recovers from the economic impacts of the pandemic, while meeting the state's commitments to equity, carbon neutrality, sustainable economic growth, and the creation of high road jobs.

Continued investment in programs supporting jobs is needed given the continued unemployment levels resulting from the pandemic. And given the experience with unemployment insurance claims, the May Revision also includes significant one-time resources to help address challenges facing the Employment Development Department (EDD).

BUILDING ECONOMIC RESILIENCE

As regions across the state recover from the economic impacts of the pandemic, it is critically important that they have the tools and financial support to move California toward a more sustainable, resilient, and inclusive future. Transitioning regional economies to meet a climate-resilient, carbon neutral, and equitable economic future requires strong state support for bottom-up planning and implementation of high road economic growth strategies that recognize and build on existing industries, regional diversity, and current and emerging workforce.

Supporting regions in the high road transition toward a more sustainable, resilient, and inclusive economy is foundational to the state's economic security, the ability to manage climate risks and capture opportunities in leading on the broader climate agenda, and equity and prosperity for all Californians.

The entire Jobs Package leverages the significant climate-smart infrastructure investment proposed in other sections of the May Revision, including for zero-emission vehicles (ZEV) infrastructure, climate resilience, transit systems, advanced biomass projects, and oil well capping and remediation.

COMMUNITY ECONOMIC RESILIENCE FUND

The May Revision includes \$750 million one-time federal American Rescue Plan Act of 2021 (ARPA) funds for the Community Economic Resilience Fund (Fund), which will be established to support regional and local planning and implementation of strategies to adapt to and seize the opportunities that come with a changing economy.

Building on the Administration's Just Transition Roadmap, scheduled to be published in July 2021, the Fund will provide financial support to regional and local stakeholder collaboratives to plan and implement region- and industry-specific economic transition strategies, with a specific focus on supporting high road industries, quality job creation, and workforce strategies in those sectors or regions most affected by the state's transition to carbon neutrality, such as Kern County.

The Fund will include dedicated planning and implementation funding for High Road Transition Collaboratives across California's diverse regions. These collaboratives will bring communities together through an inclusive process to produce a roadmap for economic growth that prioritizes the creation of accessible, high-quality jobs in future-looking industries. These include but are not limited to jobs in "advanced energy" industries such as renewable energy, ZEVs, or energy efficiency; in future-looking

industries such as carbon removal, advanced manufacturing and agriculture, climate restoration and resilience; and a wide range of other industries critical to the state's long-term economic growth.

The Fund will focus on High Road Transition Implementation Grants so that planning results in action. Strategies will be tied to the Budget's direct infrastructure investments across multiple categories—housing, transportation, advanced energy, broadband, and natural resources—all of which will prioritize the creation of high quality jobs for regions across the state. And they will work, within each of those industries, through the High Road Training Partnerships included in this package.

WORKFORCE TRAINING AND INDUSTRY PARTNERSHIPS

Getting Californians back to work is the key to a broad based and equitable labor market recovery. The pandemic resulted in record unemployment rates, and the impacts to the state's labor market will be realized for years. Particularly at risk are those at the edge of the labor market, such as young adults, women, people of color, and those with barriers to employment. These groups are typically the first to experience the effects of an economic downturn and the last to recover.

The May Revision focuses on one-time investments for the Labor and Workforce Development Agency (Labor Agency) that build on previous initiatives to support sustainable projects in infrastructure, education, and job creation. The package also includes new investments for the California Workforce Development Board (Workforce Board) to align programs with the California Community Colleges and expand direct workforce training and job placement services for approximately 50,000 additional Californians over the next five years.

SKILLS TRAINING

The May Revision includes significant resources to expand the state's workforce development programs and partnerships. These proposals center around a commitment to expanding “earn-and-learn” and other industry-based training strategies to allow Californians to advance their skills and earning potential without having to forego income necessary to support themselves and their families. The May Revision includes \$160 million for these purposes:

- **Employment Training Panel**—\$50 million one-time General Fund for the Employment Training Panel (ETP) to support training opportunities for new and incumbent workers and address skills gaps in economically disadvantaged regions. These resources will

allow the ETP program to provide training resources to industries it traditionally has not addressed, including health care, information technology, advanced manufacturing, as well as training targeted toward public sector jobs.

- **High Road Training Partnerships**—\$90 million for the Workforce Board to fund additional High Road Training Partnership (H RTP) opportunities. This builds upon the \$25 million proposed in the Governor's Budget, totaling \$115 million for H RTPs. These training partnerships up-skill the current workforce while creating pathways for new hires and prioritize workers from disadvantaged communities, including justice-involved and disconnected and at-risk older youth.
- **Construction Apprenticeships**—\$20 million for the Workforce Board to develop apprenticeships in residential construction. These apprenticeships will be the result of a partnership between the state and local workforce boards, the University of California and California Community Colleges, philanthropic organizations, and the housing industry, and will build upon existing programs to ensure these opportunities can be deployed quickly.

Many of these programs will target those industries hit hardest by the pandemic, such as hospitality and property services. These sectors were among the first to experience the hardships and economic impact of the pandemic, and include workers in hotels, convention centers, sports arenas, airports, and office buildings. These industries employ significant numbers of women, immigrants, and people of color. Other partnerships will target industries in transition, such as advanced manufacturing, or those critical to the state's other policy efforts, including healthcare; trade, transportation, and logistics; forestry and agriculture; and construction, including residential construction.

STRENGTHENING CALIFORNIA COMMUNITY COLLEGES WORKFORCE DEVELOPMENT STRATEGIES

In addition to the Workforce Board's skill training programs for workers impacted by the pandemic, the May Revision provides \$157 million one-time General Fund to foster new cooperative efforts between workforce programs and the California Community Colleges (CCCs).

The CCCs serve nearly 2.1 million students annually and play a critical role in educating and training the skilled workforce needed for the state to meet its changing needs. The May Revision provides one-time investments for collaboration between the CCCs and the Workforce Board:

- \$50 million one-time General Fund for the Workforce Board to create industry-based and worker focused programs in healthcare, cybersecurity, and other growing sectors. These will establish HRTPs on an accelerated timeline to align with community college pathways to bridge California students into good jobs. These flexible programs will give workers the skills they need to compete in the coming decades. In addition, the May Revision proposes \$10 million Proposition 98 General Fund for CCCs to align their programs with these HRTPs.
- \$50 million one-time General Fund to the Workforce Board to fund regional equity and recovery partnerships between regional community college consortia and regionally organized workforce boards. Working from existing regional and industry planning, successful partnerships will assess regional hiring demand for good quality jobs and then design short-term targeted education, training, and job placement. The May Revision also includes an additional \$10 million Proposition 98 General Fund for the CCCs to participate in these efforts.
- \$42 million General Fund to the ETP to leverage existing community college contract education units to provide small businesses with new and incumbent employee training and accelerate their recovery.
- \$15 million one-time General Fund for building a shared data infrastructure between the Chancellor's Office and the Labor Agency as a foundational piece of this relationship. This infrastructure will simplify collaboration, job outcomes, and other data gathering elements.

In addition, the May Revision includes \$20 million one-time Proposition 98 General Fund for the community colleges to pilot a competency-based education model and expand work-based learning and programs for targeted industries.

OTHER WORKFORCE INVESTMENTS

As referenced in the Higher Education Chapter, the May Revision:

- Proposes \$1 billion in one-time American Rescue Plan Act of 2021 funds for the California Student Aid Commission to establish a one-time grant program to support displaced workers seeking reskilling and up-skilling opportunities, educational opportunities, or to support some of the costs to start a business.
- Allocates the \$250 million one-time General Fund set-aside in the Governor's Budget to support linkages between higher education and employment to establish a grant

program to support between five and eight regional collaboratives, modeled after the Fresno K-16 Education Collaborative.

EMPLOYMENT DEVELOPMENT DEPARTMENT

During the pandemic, the federal government enacted temporary wage replacement programs for workers typically ineligible for unemployment insurance (UI) benefits. As the pandemic continued, federal legislation provided unemployed workers additional time to regain employment by maintaining extended UI benefits. As a result, over the last 14 months, UI claims increased as Californians filed over 22 million claims with the EDD, which issued over \$140 billion in benefits.

As EDD worked to manage this unprecedented level of claims, it also began implementing the recommendations from the EDD Strike Team, which the Governor had tasked with creating a blueprint for improvements to and modernization of the UI program. The EDD took steps to address the top four priorities, creating dashboards that measured the daily UI claims processes, procuring an identity verification solution, adopting and implementing plans to address claims, and providing a document upload system for applicants. EDD has continued to work on the implementation of the additional Strike Team and audit related recommendations.

However, deferred workloads, benefit renewal workload, and other administrative issues remain. The May Revision includes \$305.4 million in 2021-22 and an additional \$14.7 million in 2022-23, as detailed below, to address the immediate challenges EDD faces while also building long-term, sustainable, and flexible processes that will modernize and strengthen the Department's efforts, allowing it to best serve the people of California.

ADDRESSING DEFERRED AND PROSPECTIVE WORKLOADS

The May Revision includes \$276.3 million one-time General Fund to enable the EDD to address deferred workloads and the ongoing work associated with claim volume and benefit renewals, extensions, and recertifications. Absent additional resources, EDD estimates that there are over 11 million work items—including determinations, employer protests, screening benefit crossmatch data, and identity documentation—to be addressed that will take approximately 3.5 years to complete. The May Revision includes resources for contract services to complete the workload in approximately 12 months.

IMPROVING ACCESS TO EDD SERVICES

The pandemic has exposed many of EDD's antiquated processes and outdated infrastructure, resulting in a delay or inability for many Californians to access UI benefits. This has been especially true for those in hard-to-reach communities, including the seven million non-English speaking Californians. The May Revision includes the following investments to improve EDD's infrastructure and claimants' experiences:

- **Language Access**—\$21 million over two years to improve education and outreach in communities requiring multilingual access to EDD services and programs by:
 - Dedicating resources to translation services to create a multilingual access portal to EDD's website and to translate forms and notices.
 - Establishing a multilingual access unit and expanding existing interpretive services.
 - Providing grants to community-based organizations for outreach and education to Limited English Proficient communities.
- **Unemployment Insurance Navigators**—\$11.4 million in 2021-22 and 2022-23 to support trained staff in the America's Job Centers of California. These staff will provide in person guidance to individuals filing benefit claims, particularly helping those without the technology or ability to access the EDD's online resources.
- **Direct Deposit**—\$11 million over two years for the EDD to develop and implement a direct deposit option for Unemployment Insurance, Disability Insurance, and Paid Family Leave claimants. This option will make the disbursement of benefits faster and simpler for claimants, who will avoid the extra process needed to transfer funds between a debit card and bank account.

RE-IMAGINING BENEFIT SYSTEMS MODERNIZATION

EDD has spent years preparing to modernize its benefit systems. The pandemic has emphasized the importance of these efforts while also informing a future approach that considers the lessons learned from the pandemic to improve services. The May Revision includes \$11.8 million one-time General Fund to reengage the planning and modernization of the Department's information technology systems. This revised effort will focus on improving the experience of those filing for unemployment benefits.

UNEMPLOYMENT INSURANCE TRUST FUND

Although the federal government has funded many emergency benefits, the core of the UI program is state funded. The federal Families First Act allowed states to borrow from the federal UI trust fund with no interest until December 31, 2020. Subsequently, the Continued Assistance Act further waived interest through March 14, 2021, and the federal American Rescue Plan Act of 2021 again waived interest payments until September 6, 2021. In addition, based on the improving economic conditions and the decreasing unemployment rate, the EDD estimates that California will have a \$24.3 billion UI deficit at the end of 2021, down from a projected \$48.3 billion at the Governor's Budget. This, along with federal interest rate postponements, reduces the estimated UI loan interest payment to a projected \$36 million for federal fiscal year 2021.

TRANSPORTATION

The May Revision proposes significant investments in both new transportation infrastructure and maintenance of existing infrastructure. Building upon the more than \$18 billion in investments proposed in the Governor's Budget, the May Revision proposes over \$11 billion of state investment in the transportation system to lead to an equitable recovery that will competitively position the state to pursue significant federal investment that aligns with the American Jobs Plan and other federal budget priorities.

The investments will create quality jobs, accelerate new transportation options and better connectivity throughout the state, support clean transportation projects to achieve our climate goals, and attract new federal investment, often doubling the amount spent from state and local sources.

More specifically, these investments:

- Move the state away from yesterday's fossil fuel-based technologies to tomorrow's cleaner transportation technologies, including zero-emission vehicles and the associated infrastructure.
- Advance projects statewide to improve rail and transit, bringing California's transportation network into this century—including advancement of the nation's first truly high-speed rail project.
- Help complete high-priority projects to move people throughout the state seamlessly in time for the Los Angeles Olympics in 2028.

TRANSPORTATION

- Accelerate vital safety projects and important “fix-it-first” projects on state highways and bridges, and target critical highway/rail grade separations and grade crossing improvements on key corridors throughout the state.
- Improve safety and access for bicyclists and pedestrians.
- Create thousands of good-paying jobs, reduce at least 26 million metric tons of CO₂ from the environment, and make investments that address inequities in the transportation system by improving transportation choice and access in disadvantaged communities.

In addition to these proposed investments, Caltrans continues to use the substantial increase in transportation revenues provided through SB 1 to address the backlog of maintenance and repairs on the state highway system. Although reduced travel during the COVID-19 Pandemic resulted in marginally lower fuel excise tax revenues than previously forecast, Caltrans was able to take advantage of reduced traffic and unanticipated bid savings to accelerate projects, and continues to move forward with numerous transportation projects using available funding. The May Revision proposes an additional 548 state and contract engineering positions for Caltrans to take advantage of recent bid savings and continue to accelerate projects, further reducing its repair and maintenance backlog on the state's primary highway assets.

California also continues to make significant investments in sustainable transportation infrastructure. In July 2021, the Transportation Agency will release the Climate Action Plan for Transportation Infrastructure (CAPTI). The CAPTI framework is directed by the Governor's Climate Executive Orders N 19-19 and N 79-20. The Action Plan is the product of a collaborative effort that included a robust stakeholder engagement process. By integrating a diverse array of perspectives, this Action Plan is meant to be a holistic framework for aligning state transportation investments with climate goals, while improving public health, and prioritizing equity. The framework includes overarching guiding principles as well as investment strategies as California moves to a more sustainable transportation system.

INFRASTRUCTURE PACKAGE

President Biden's proposed American Jobs Plan will provide a once-in-a-generation investment in broad infrastructure improvements to strengthen the nation's economy and prepare for lasting growth and prosperity. In addition to the American Jobs Plan, federal legislation to reauthorize and increase funding for surface transportation programs is expected this year, with increased spending expected in federal

discretionary programs for which California will be well-positioned to compete. The state is uniquely positioned to take advantage of these funds based on its clean transportation leadership and ongoing funding commitments. With the enactment of programs like Cap and Trade and SB 1, the state will be ready to leverage state dollars to match and maximize the federal investment.

To further enhance the state's position and readiness for these anticipated funds, the May Revision proposes investing an additional \$11 billion in the transportation system and related zero-emission vehicle (ZEV) efforts (see Climate Resilience Chapter for additional ZEV details). The transportation infrastructure package includes roadway fix-it-first projects, High-Speed Rail and other rail, transit and active transportation projects throughout the state, enhanced safety projects, and projects to support connectivity in advance of the 2028 Los Angeles Olympics.

- **Los Angeles Olympics**—\$1 billion General Fund to deliver critical projects in time for the 2028 Olympic Games.
- **Priority Transit and Rail Projects**—\$1 billion General Fund for transit and rail projects statewide that improve rail and transit connectivity between state and regional/local services.
- **Active Transportation**—\$500 million General Fund to advance projects that increase the proportion of trips accomplished by walking and biking, increase the safety and mobility of non-motorized users, advance efforts of regional agencies to achieve greenhouse gas reduction goals, enhance public health, and benefit many types of users, especially in disadvantaged communities.
- **High Priority Grade Separations and Grade Crossing Improvements**—\$500 million General Fund to support critical safety improvements throughout the state.
- **High-Speed Rail**—\$4.2 billion Proposition 1A to complete high-speed rail construction in the Central Valley, advance work to launch service between Merced and Bakersfield, advance planning and project design for the entire project, and leverage potential federal funds.
- **State Highway Rehabilitation and Local Roads and Bridges**—\$2 billion (\$1.1 billion special funds through 2028, and \$968 million federal funds) to support the advancement of priority State Highway Operation and Protection Program (SHOPP) projects, Interregional Transportation Improvement Program (ITIP) projects, and local road and bridge investments.

- **Zero-Emission Rail and Transit Equipment Purchases and Infrastructure**—\$407 million (\$100 million General Fund, \$280 million Public Transportation Account, and \$27 million federal funds) to demonstrate and purchase or lease state-of-the-art, clean bus and rail equipment and infrastructure that eliminate fossil fuel emissions and increase intercity rail and intercity bus frequencies.
- **Zero-Emission Buses and Trucks**—\$1.4 billion (\$1.3 billion General Fund, \$87 million Air Pollution Control Fund) to demonstrate and purchase or lease green buses and trucks. These funds are budgeted outside of the transportation budget and are included and described in the Climate Resilience Chapter.

CLEAN CALIFORNIA INITIATIVE

The May Revision also includes the new Clean California Initiative in which Caltrans will partner with local governments in a statewide beautification effort. One-time funding of \$1.5 billion General Fund will be used for a three-year effort to clean up garbage statewide, beautify the state's transportation network, educate the public about the harms of litter, and create long-lasting litter deterrents. Integral to this effort are close partnerships with local entities, with a focus on increasing resources dedicated to eliminating trash and implementing measures to reduce future litter, creating a cleaner, healthier California. The initiative will also provide resources to beautify the state highways and local roads with regional art and other projects that will serve as community gateways. Thousands of jobs will be created through this initiative in state and local government, as well as the private sector and will provide lasting benefits to communities—especially underserved communities.

Across California, in underserved communities, urban and rural areas, this plan will result in:

- Over one million cubic yards and 17,000 tons of litter eliminated.
- Numerous beautification and litter abatement projects on the state's transportation system.
- Thousands of low barrier jobs for people experiencing or exiting homelessness, at-risk youth, veterans, and those re-entering the workforce post-incarceration.
- Hundreds of art installations that will have a lasting impact, creating jobs and opportunities for local artists and students.

Local streets and roads, along with state highways and freeways, will be positively impacted by this proposal, from eliminating litter to engaging local communities, to quickly implementing sustainable and green beautification projects that incorporate installations by local artists and help transform dilapidated roadsides into unifying spaces.

This effort will consist of:

- \$418 million for litter abatement activities, strengthening trash collection efforts by Caltrans and partners to eliminate over one million cubic yards of trash from state routes, increasing access to waste facilities and providing free monthly disposal days.
- \$430 million for state beautification projects, implementing sustainable, green beautification projects that enhance safety and transform dividing highways into public spaces that unify communities.
- \$444 million for local beautification projects, supporting communities, students, and local artists by working together to create meaningful, livable spaces and establishing a local grant program to match efforts that enhance communities and reduce litter on local streets, tribal land, and near transit centers.
- \$75 million for grants for hundreds of art installations on the state and local transportation system.
- \$50 million for a public education campaign and outreach to schools and students.
- \$83 million over three years for project design, construction, local support and engagement, and administration required to deliver this initiative.

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GENERAL GOVERNMENT AND STATEWIDE ISSUES

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

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

As a result of the COVID-19 Recession, reductions in state employee compensation costs and deferrals to negotiated general salary increases were necessary to balance the 2020 Budget Act. At the 2020 May Revision, declining revenues and fiscal uncertainty required difficult budget reductions, including the state asking employees through collective bargaining to defer scheduled pay increases and agree to a pay reduction.

State employees stepped up at a time of uncertainty and all 21 bargaining units successfully reached agreements to achieve the necessary savings through the Personal Leave Program (PLP) 2020. As part of the PLP 2020 agreements, 19 of the 21 bargaining units agreed to continue the state employee compensation reductions and defer pay increases through the 2021-22 fiscal year.

Although long-term fiscal risk remains high, the near-term revenue picture has drastically improved thanks to higher-than-anticipated tax revenue and additional federal funding from multiple stimulus bills. Given the May Revision revenue projections, for

some bargaining units, employee compensation reductions and pay deferrals will end automatically by provisions of their PLP 2020 agreements. The California Department of Human Resources is inviting the remaining bargaining units through collective bargaining to discuss revising the PLP 2020 agreements.

The May Revision includes \$164.5 million ongoing (\$83.4 million ongoing General Fund) for collectively bargained pay increases that were not deferred, increases related to minimum wage changes in Chapter 4, Statutes of 2016 (SB 3), and adjustments to the health and dental contributions based on the new 2022 estimated premiums and updated enrollment for active state employees.

Collective bargaining negotiations will continue with three bargaining units representing attorneys and administrative law judges, scientists, and health and social services employees, whose contracts expired in July 2020. The Administration recently began bargaining with the union representing craft and maintenance employees, and will commence bargaining with the union representing firefighters in late spring 2021, whose contracts expire in summer 2021.

STATE RETIREMENT CONTRIBUTIONS

The May Revision includes the following for retirement contributions:

- State contributions to the California Public Employees' Retirement System (CalPERS) state plans have increased by a net total of \$550 million (\$247 million General Fund) relative to the Governor's Budget. The Governor's Budget included \$5.5 billion (\$3 billion General Fund) one-time funding. The adjustment assumes state employee compensation reductions will not continue through the 2021-22 fiscal year.
- The Governor's Budget included \$1.5 billion in one-time Proposition 2 debt repayment funding in 2021-22 to further reduce the unfunded liabilities of the CalPERS state plans. Due to an increase in the estimated availability of Proposition 2 debt repayment funding, the May Revision increases this proposed payment to \$1.9 billion. Any supplemental payment made toward the state's CalPERS unfunded liability is estimated to result in a minimum long-term gross savings ratio of 2:1.
- State contributions to the California State Teachers' Retirement System (CalSTRS) increased by \$4.9 million General Fund, relative to the Governor's Budget, due to a revision in reported compensation for K-12 and community college teachers. The Governor's Budget included \$3.9 billion one-time General Fund for required contributions. Consistent with the Governor's Budget proposal, this contribution

amount includes a one-time \$174 million payment to offset the reduction in the state's contribution in 2020-21 to allow the funding plan to stay on track to be fully funded by 2046.

- The May Revision maintains the Governor's Budget proposal to include a one-time \$410 million Proposition 2 supplemental pension payment to be paid to CalSTRS in 2021-22 toward the state's share of the CalSTRS Defined Benefit Program's unfunded liability. This payment is estimated to result in \$1.1 billion gross savings to the state through 2045-46.
- Relative to the Governor's Budget, state contributions to the Judges' Retirement System (JRS) II decreased by \$0.6 million one-time General Fund. This decrease is attributed to a decrease in the JRS II employer contribution rate. The Governor's Budget included \$86.4 million one-time General Fund for required contributions.

STATE HEALTH CARE BENEFITS

The state is projected to spend \$6.8 billion ongoing on health care benefits in 2021-22 for more than 850,000 state employees, retirees, and their eligible dependents. This includes \$2.7 billion for retiree health care benefits for 2021-22, which has grown by 73 percent compared to what the state paid in 2012-13 (\$1.6 billion).

Through the collective bargaining process, the state's 21 employee bargaining units agreed to prefund retiree health benefits. Additionally, as determined annually by CalHR, related excluded and exempt employees also prefund retiree health benefits. As a result, more than \$3.8 billion is currently set aside in the prefunding trust fund to pay for future retiree health benefits, which has an estimated \$91.9 billion unfunded liability to be paid down by 2046. By the end of 2021-22, the trust fund balance will approach \$5.7 billion in assets.

The Budget includes \$310 million one-time Proposition 2 funding for the employer's share of General Fund prefunding contributions and an additional \$616 million one-time Proposition 2 funding to help reach full funding for retiree health benefits by 2046. Because employee prefunding contributions are suspended in 2020-21 due to the PLP 2020, \$616 million one-time will be provided by the state employer on behalf of employees, based on the actuarial liability for each bargaining unit.

The State Retirement and Health Care Contributions Figure provides an historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the

Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and health care benefits.

State Retirement and Health Care Contributions ^{1/ 2/ 3/}
(Dollars in Millions)

	CaIPERS	CSU CaIPERS	CaISTRs	JRS	JRS II	LRS ^{5/}	Active Health & Dental ^{6/}	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding ^{7/}
2012-13	\$2,948	\$449	\$1,303	\$160	\$51		\$2,567	\$1,365	\$222	
2013-14	3,269	474	1,360	188	52	\$1	2,697	1,383	225	\$22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 ^{8/}
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	84	1	3,255	1,759	313	394
2019-20	5,946	716	3,323	242	91	1	3,371	1,844	326	562
2020-21	4,925	680	3,428 ^{4/}	225	86	1	3,665	2,023	357	600
2021-22 ^{9/}	5,363	677	3,862	193	86	1	4,018	2,335	410	1,292 ^{10/}

^{1/} The chart does not include contributions for University of California pension or retiree health care costs.

^{2/} The chart does not reflect the following pension payments: \$6 billion supplemental payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), additional payments to CalPERS and CalSTRS authorized in Chapter 33, Statutes of 2019 (SB 90), and Chapter 859, Statutes of 2019 (AB 118), and Proposition 2 payments to CalPERS and CalSTRS.

^{3/} In addition to the Executive Branch, this chart includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in the CalPERS column include statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

^{4/} As part of the 2020 Budget Act, the Teachers' Retirement Board's statutory authority to adjust the state contribution rate for fiscal year 2020-21 was suspended. The amount shown excludes the additional \$297 million in supplemental pension payment from Proposition 2 debt payment funding authorized in the Budget.

^{5/} The state continues to make employer contributions to the Legislators' Retirement System. CalPERS reported the estimated 2021-22 contribution amount is \$87,680.

^{6/} These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and the California State University (CSU).

^{7/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

^{8/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

^{9/} Estimated as of the 2021-22 May Revision. Of the total estimated 2021-22 contributions, contributions sourced from the General Fund are estimated to be \$2,556 million for CalPERS, \$677 million for CSU CalPERS, \$1,887 million for Active Health and Dental, and \$926 million for OPEB Prefunding. Fiscal year 2021-22 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are all General Fund costs.

^{10/} Amount includes \$616 million to help ensure full funding by 2046, which is provided by the employer on behalf of the employees, based on the actuarial liability for each bargaining unit, since employee prefunding contributions were suspended in 2020-21 due to the Personal Leave Program 2020.

CANNABIS

The Governor's Budget proposes the consolidation of the functions and positions of the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health into a new stand-alone Department of Cannabis Control within the Business, Consumer Services, and Housing Agency beginning July 1, 2021. This consolidation seeks to simplify participation in the legal market and support the successful and safe operation of cannabis businesses in compliance with state law. The May Revision builds on this effort by:

- Creating a Deputy Director of Equity and Inclusion to further the Department's mission to implement progressive cannabis policies and license and regulate commercial cannabis activity in a way that best protects public health, safety, the environment, and local communities throughout the state.
- Proposing additions to the statutory changes put forward earlier this year. Chief among these is language to extend the Department's ability to issue new provisional cannabis licenses by six months, to July 1, 2022, make explicit environmental compliance requirements before annual licensure, and require the Department to promulgate regulations identifying steps that must be taken for provisional licensees to show progress toward achieving annual licensure. As of early April 2021, approximately 82 percent of the state's cannabis licensees held provisional licenses. Absent this extension, it is possible that a significant number of these licensees could fall out of the legal cannabis system, significantly curtailing the state's efforts to facilitate the transition to a legal and well-regulated market.

CANNABIS LOCAL JURISDICTION ASSISTANCE GRANT PROGRAM

To help local governments and aid licensees in successfully and swiftly moving from provisional licensure into annual licenses, and to do so in a way that supports the environmental compliance requirements, the May Revision includes \$100 million one-time General Fund to establish a local jurisdiction assistance grant program for cannabis. The grant program is intended to:

- Aid local governments in processing substantial workloads associated with transitioning businesses to a regulated market.
- Incentivize local governments to modify their permitting methods to better align with the state's effort to remove barriers to licensure.

- Support provisional license holders by allowing local governments to pass through funding to applicants for purposes of assessing and mitigating environmental impacts.
- Provide more financial assistance to licensed cultivators and localities that license them, as both often experience enhanced environmental compliance and resource challenges when transitioning operations to annual licensure.
- Provide enhanced support to eligible jurisdictions that are implementing social equity programs.

This grant program targets funds in a way that seeks to maintain stability across the supply chain and distributes these one-time resources to a significant number of jurisdictions implementing local equity programs, transitioning larger populations of legacy operators to the regulated market, and/or that are located in areas rich in natural resources and require additional capital to meet environmental compliance standards.

SIGNIFICANT ADJUSTMENT

- The May Revision includes \$9 million one-time General Fund for the new Sustainable California Grown Cannabis pilot program. The program will collect data to establish benchmark best practices in: (1) reducing the environmental impact of cannabis water and energy use; (2) pest management and fertilizer practices; and (3) enhancing soil health.

UPDATED ALLOCATION OF THE CANNABIS TAX FUND

Proposition 64 specified the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis and the past effects of its criminalization. Once these priorities have been met, the remaining funds are allocated to youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities. The May Revision estimates \$629.1 million will be available for these purposes in 2021-22, and the structure of these allocations is unchanged from 2020-21:

- Education, prevention, and treatment of youth substance use disorders and school retention—60 percent (\$377.5 million)
- Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation—20 percent (\$125.8 million)
- Public safety-related activities—20 percent (\$125.8 million)

These figures reflect a total increase of \$185.9 million compared to the Governor's Budget estimate.

INVESTMENTS IN THE ARTS

CALIFORNIA ARTS COUNCIL

The California Arts Council's mission is strengthening arts, culture, and creative expression as the tools to cultivate a better California for all. The Arts Council administers grants and programs to support the state's arts and cultural communities through the development of partnerships with the public and private sectors to enhance the cultural, educational, social, and economic growth of California. The Arts Council supports local arts infrastructure and programming statewide through grants, programs, and services. This year, the California Arts Council is prioritizing grant funding to nurture and heal our communities through the arts; keep the doors of our arts and cultural institutions open; protect jobs in the creative field; and to preserve our cultural heritage, our stories, and our culture bearers.

CALIFORNIA CREATIVE CORPS PILOT PROGRAM

The Governor's Budget included \$15 million one-time General Fund (\$5 million in 2020-21 and \$10 million in 2021-22) to implement the California Creative Corps Pilot Program to fuel positivity and inspire safe and healthy behavior across California's diverse populations through a media, outreach, and engagement campaign to increase vaccine adoption.

The May Revision includes a total investment of \$60 million one-time General Fund in 2021-22, to be spent over three years, to implement the California Creative Corps Pilot Program. This includes shifting the \$5 million proposed in 2020-21 to 2021-22, and increasing the total amount available in 2021-22. This additional investment will allow the Arts Council to expand the media outreach and engagement campaign to

include: (1) public health awareness messages to stop the spread of COVID-19; (2) public awareness related to water and energy conservation, and emergency preparedness, relief, and recovery; (3) civic engagement, including election participation; and (4) social justice and community engagement.

CREATIVE YOUTH DEVELOPMENT GRANT PROGRAMS

The Arts Council has several grant programs that support creative youth development through arts education and arts workforce development. These programs include Youth Arts Action, Artists in Schools, Arts Education Exposure, JUMP StArts, and Arts Integration Training. In 2020-21, the Arts Council awarded more than \$12 million to 705 grantees in these programs.

The May Revision includes \$40 million one-time General Fund in 2021-22, to be spent over three years, to support the Arts Council's existing Creative Youth Development programs. The Arts Council will use partnerships between community-based organizations, educators, and local artists to expand participation in these programs statewide.

CLEAN CALIFORNIA

As referenced in the Transportation Chapter, the May Revision includes the new Clean California initiative to clean and beautify the state's transportation network. Among other things, the initiative provides resources to beautify the state highways and local roads with regional art and other projects. The Department of Transportation will collaborate with the Arts Council to distribute funding to artists, schools, and students to install art projects in transportation areas that can serve as gateways to communities and can enhance the character of a community, while creating new safe public space.

INFRASTRUCTURE PROJECT ACCELERATIONS

The Governor's Budget, including spring revisions, proposed approximately \$1.9 billion to support infrastructure projects statewide, excluding transportation infrastructure. The May Revision provides an additional one-time \$318 million (\$312.5 million General Fund and \$5.5 million General Obligation Bonds) to accelerate projects that were previously planned for funding in future years or deferred indefinitely due to funding constraints.

Accelerated projects include the following:

- Three court replacement and renovation projects for the Judicial Council.
- Five area office replacement projects for the California Highway Patrol.
- Six office replacement or reconfiguration projects for the Department of Motor Vehicles.
- Two helitack base replacements and other new construction projects for CAL FIRE.
- Two facility upgrade projects at California School for the Deaf and California School for the Blind, Fremont and one at the California School for the Deaf, Riverside.
- Eight projects for the California Community Colleges.

STATEWIDE DEFERRED MAINTENANCE

A fall 2020 survey of state departments indicated that the statewide deferred maintenance need totals approximately \$66.9 billion, 72 percent of which was reported by the Department of Transportation (\$36.2 billion) and the Department of Water Resources (\$12 billion).

The Governor's Budget included one-time resources of \$600 million General Fund for the most critical of these statewide deferred maintenance needs. The May Revision includes additional one-time resources of approximately \$1.4 billion (\$648 million General Fund, \$550 million federal American Rescue Plan Act (ARPA) Capital Project Fund, and \$162 million federal ARPA Coronavirus State Fiscal Recovery Fund) for a total of approximately \$2 billion for statewide deferred maintenance in 2021-22. This investment will help to address the statewide backlog of deferred maintenance and will reduce the need to build costlier new infrastructure.

The one-time resources of approximately \$2 billion for statewide deferred maintenance in 2021-22 will be provided to the entities listed below:

- University of California—\$325 million
- California State University—\$325 million
- California Community Colleges—\$250 million
- Department of Water Resources—\$237 million
- Judicial Branch—\$188 million
- Department of Parks and Recreation— \$185 million

- Department of State Hospitals—\$100 million
- Department of Corrections and Rehabilitation—\$100 million
- Department of Forestry and Fire Protection—\$50 million
- Department of General Services—\$50 million
- Housing and Community Development, Office of Migrant Services, Farmworker Housing—\$30 million
- State Special Schools—\$25 million
- California Military Department—\$15 million
- Department of Fish and Wildlife—\$15 million
- Department of Veterans Affairs—\$15 million
- California Highway Patrol —\$10 million
- Department of Motor Vehicles—\$10 million
- Department of Developmental Services—\$5 million
- Exposition Park—\$5 million
- Office of Emergency Services—\$5 million
- Department of Food and Agriculture—\$2 million
- Employment Development Department—\$2 million
- California Conservation Corps—\$1 million

COVID-19 PANDEMIC WATER ARREARAGES RELIEF

Many Californians experienced a substantial loss of income resulting from business closures, reduced work hours or wages, or layoffs related to the pandemic. This hindered their ability to make payments for essential water service and had the potential to subject them to water service shutoffs for non-payment. As part of the emergency response to protect Californians during the pandemic, the Governor issued Executive Order N-42-20, which prohibited water shutoffs for residential customers. As a result of this necessary action, many Californians have accumulated arrearages, and water systems' revenues have been impacted. The May Revision proposes \$1 billion one-time, federal ARPA funds, for direct payments to water systems to alleviate individuals' household water debt accrued during the pandemic and aid water

systems' recovery from their revenue loss, especially small systems already struggling prior to the emergency.

CALIFORNIA VOLUNTEERS

As the State Service Commission for California, California Volunteers manages programs and initiatives aimed at increasing the number of Californians engaged in service and volunteering. The May Revision includes significant investments to expand service opportunities for all Californians.

CALIFORNIANS FOR ALL COLLEGE SERVICE PROGRAM

The May Revision includes \$285.2 million one-time (\$239.4 million federal ARPA funds and \$45.8 million General Fund) to create the Californians for All College Service Program in partnership with the University of California, California State University, California Community Colleges, and private California university systems. This program provides 12,500 part-time service opportunities to college students in critical issue areas such as climate action, education and youth development, specifically tutoring and mentoring, health, and disaster response. Modeled after the pilot Civic Action Fellowship (launched by California Volunteers in 2020), this program will create debt-free college pathways for low-income students. Californians for All College Service Program students will have both the opportunity to receive a stipend of up to \$7,000 and scholarship of up to \$3,000, while gaining valuable experience serving in their communities. This program intends to unite young Californians of all backgrounds in service, and specifically creates opportunities for AB 540 eligible individuals to serve their communities.

YOUTH WORKFORCE DEVELOPMENT

The May Revision includes \$200 million federal ARPA funds for grants to cities and counties to create or expand youth employment opportunities. The funding, which will be administered by California Volunteers, will be provided both directly to large cities on a per capita basis, and to other cities and counties through a competitive grant process. This funding is to help youth gain valuable work experience by increasing employment opportunities, such as part-time work or summer jobs.

SIGNIFICANT ADJUSTMENTS

- **Student Success Coach Grant Program**—\$15 million one-time General Fund to create a grant program that will establish student success coaches in communities to nurture relationships with K-12 students and collaborate with teachers to help prepare students with skills and mindsets to achieve their goals.
- **California Climate Action Corps Program**—\$4.7 million General Fund annually in 2021-22, 2022-23, and 2023-24, and \$823,000 ongoing thereafter, to create service opportunities to take on climate action such as urban greening, food waste recovery, and wildfire prevention.
- **STEM Teacher Recruitment Grants**—\$3 million one-time General Fund to provide grants to help recruit STEM professionals into the teaching profession by connecting them with teaching, tutoring and speaking opportunities in K-12 schools. These grants are intended to address the shortage of STEM teachers in California by providing learning and training opportunities for potential future teachers, especially in under-resourced communities.
- **Statewide Emergency Response Framework**—\$1.3 million ongoing General Fund to maintain an emergency response framework to prepare and train for future disaster response.

STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2021-22 limit is estimated to be \$125.7 billion. The revised limit is the result of applying the growth factor of 4.75 percent to the prior year limit. The revised 2021-22 limit is \$8.1 billion above the \$117.6 billion estimated in January. A substantial portion of the increase is attributable to changes in the following factors:

- Per Capita Personal Income
 - January Percentage Growth: 1.71 percent
 - May Revision Percentage Growth: 5.73 percent
- State Civilian Population
 - January Percentage Growth: 0.25 percent
 - May Revision Percentage Growth: -0.48 percent

- K-14 Average Daily Attendance
 - January Percentage Growth: -0.34 percent
 - May Revision Percentage Growth: -1.57 percent

Current law requires the state to absorb any amount of funding in excess of local school and community college district limits. The Administration has updated its January calculation of the 2021-22 limit to recognize \$4.6 billion of combined room in local school and community college district spending limits. The Administration has not accounted for this room previously, even though \$19.4 billion in school district spending that exceeds local limits is projected to count towards the state's limit in 2021-22. The Administration will propose technical statutory changes to reflect the treatment.

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ECONOMIC OUTLOOK

Just over a year after the unprecedented economic losses induced by the COVID-19 Pandemic in March and April 2020, the nation and California have both started on the path to recovery. However, there still is a long way to go to reach pre-pandemic levels. Since the height of the COVID-19 Recession in April 2020, and a full year into the recovery through April 2021, the nation has added back 14.1 million jobs—63.3 percent of the 22.4 million jobs lost in March and April 2020. Similarly, as of March 2021, California has added back 1.2 million jobs—43.7 percent of the 2.7 million jobs lost in March and April 2020. Despite these strides, U.S. and California nonfarm employment were still around 6 percent and 9 percent lower than pre-pandemic levels, respectively, in March 2021, roughly equal to the respective peak-to-trough drop during the Great Recession.

With low COVID-19 positivity rates, one-third of Americans and Californians fully vaccinated as of early May, and additional federal and state actions taken to support the recovery in the six months since the Governor's Budget forecast was finalized, the nation and the state are expected to recover to pre-pandemic levels of nonfarm employment by the end of 2022 and by mid-2023, respectively. This is significantly faster than the more than six years it took to recover during the Great Recession. Recovery of low-wage sectors, however, is expected to lag as these sectors bore the brunt of the recession, accounting for nearly three out of four jobs lost in March and April 2020. While the overall outlook has been significantly upgraded since the Governor's Budget was published in January 2021, downside risks to the forecast remain, including potentially

worsening public health conditions due to COVID-19 variants and vaccine hesitancy and the possibility of a stock market correction.

REGAINING GROUND AFTER AN UNPRECEDENTED CONTRACTION

The pandemic caused a one-of-a-kind recession with both demand and supply side impacts and a sudden drop in economic activity in March and April 2020. U.S. real GDP contracted by 31.4 percent in the second quarter of 2020—the largest recorded drop in history on a seasonally-adjusted annualized rate basis (SAAR)—and both the U.S. and California lost a record number of nonfarm payroll jobs. The federal government responded with various measures to mitigate the impacts of the pandemic, including the \$2.2 trillion CARES Act in March 2020, followed by the \$900 billion Consolidated Appropriations Act in December 2020, and the \$1.9 trillion American Rescue Plan Act in March 2021. Extensions to unemployment insurance benefits and emergency unemployment insurance programs were enacted, including the first ever Pandemic Unemployment Assistance program (PUA) for individuals who do not qualify for traditional unemployment insurance benefits, including self-employed and independent contractors. The PUA program and extended benefits are scheduled to expire in early September 2021. State and federal eviction and foreclosure moratoria are instated through the end of June 2021 to protect renters and property owners who have been unable to stay current on their payments due to pandemic-related hardships. Finally, California also took several actions to support impacted Californians, including the \$7.6 billion Golden State Stimulus package which incorporated more than \$2 billion for the California Small Business COVID-19 Relief Grant Program.

These actions helped support recovery from the historically deep economic contraction. After the record 31.4 percent-drop in the second quarter of 2020, U.S. real GDP rebounded by a record 33.4 percent SAAR in the third quarter and continued to grow in the subsequent two quarters, albeit at slower rates. As of the first quarter of 2021, U.S. real GDP recovered to just above the 2019 second quarter level but remained lower than the pre-recession peak in fourth quarter of 2019.

As is often the case during economic contractions, government expenditures increased and were up one percent over the fourth quarter of 2019 level by the first quarter of 2021. Exports decreased and remained 11.2 percent below pre-recession levels in the first quarter of 2021 as countries across the globe were impacted by the recession and international trade was restricted. Exports have been declining since various tariffs were introduced in 2018, a trend that was exacerbated by

the recession. As of the first quarter of 2021, exports were at around 2013 levels. Private investment was 2.4 percent higher than its pre-recession level in the first quarter of 2021.

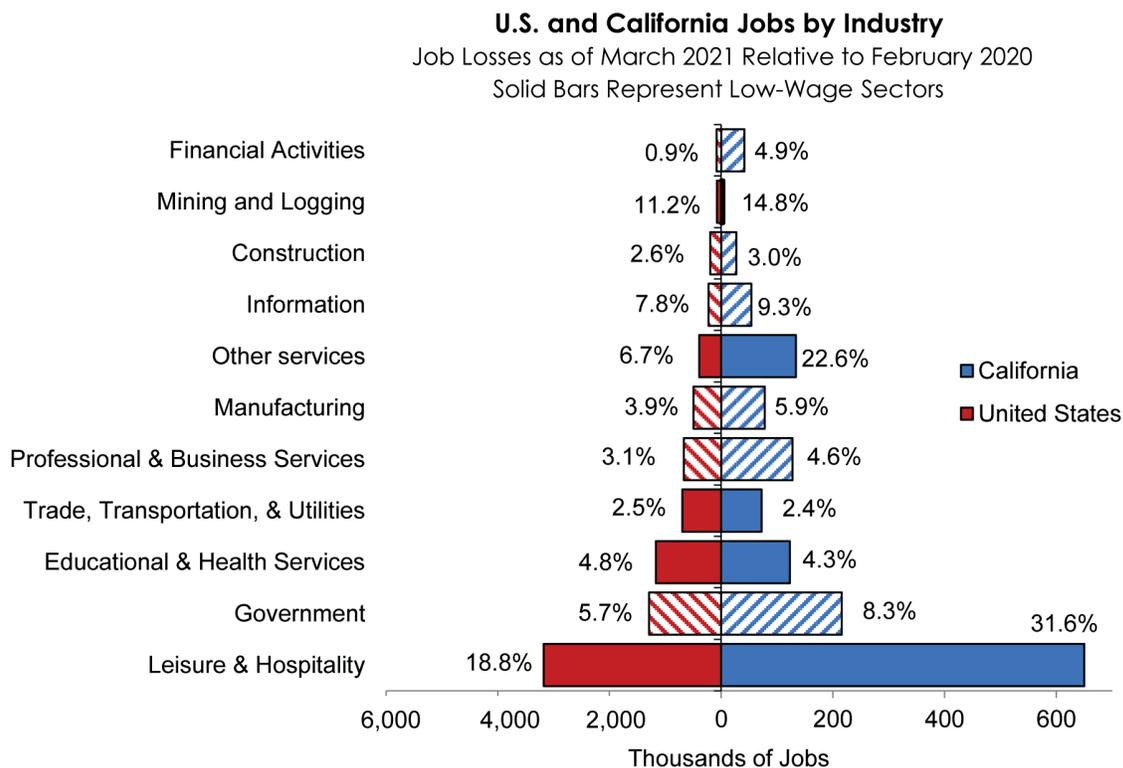
The recovery story for GDP revolves around personal consumption expenditures, which account for over two-thirds of GDP. In particular, consumption of goods surpassed pre-recession levels in the third quarter of 2020, and continued to steadily grow to 12.5 percent above pre-recession peak by the first quarter of 2021. With consumption of services remaining at 5.7 percent below the pre-recession level, overall consumption was 0.1 percent below the fourth quarter of 2019 level in the first quarter of 2021. These patterns illustrate the uneven impacts of the recession, with high-income households fueling economic activity through purchases of goods such as motor vehicles and parts, furnishings and household durable equipment, and recreational goods, while millions of Americans who worked in low-wage sectors remained unemployed.

Two months after marking a record low unemployment rate of 3.5 percent, the U.S. unemployment rate peaked at a historic high of 14.8 percent in April 2020. The U.S. unemployment rate decreased to 6.1 percent in April 2021, 2.6 percentage points higher than the pre-pandemic level in February 2020. Despite twelve months of improvement, there were 7.6 million fewer employed individuals and around 3.5 million fewer Americans in the labor force in April 2021 than in February 2020.

California trends broadly mirrored the nation, however, the state historically experiences a larger economic contraction than the nation during recessions. As with the nation, from a low of 4.3 percent in February 2020, the California unemployment rate reached a record-high of 16 percent in April 2020 before decreasing to 8.3 percent through March 2021. There were 1.2 million fewer employed Californians and more than half a million fewer people in the labor force in March 2021 than in February 2020.

For both the state and the nation, the nonfarm employment contraction during the recession was much larger and more sudden than during the Great Recession. The large labor force decreases in 2020 were unique to the recession. Many were forced to drop out of the labor market in order to care for children and relatives as schools and childcare facilities closed. Historically, labor force participation is fairly stable and people tend to stay in and enter the labor force even as employment decreases in order to meet their economic needs. The U.S. lost a whopping total of 22.4 million nonfarm jobs in March and April 2020, and as of April 2021, national nonfarm jobs were still at around 2016 levels. Similarly, after a record two-month loss of 2.7 million jobs in March and April 2020, California added 1.2 million jobs through March 2021, bringing nonfarm jobs back to August 2015 levels.

Low-wage sectors, defined as a sector that has an average wage below the overall nonfarm average wage, accounted for nearly three-quarters of all nonfarm job losses despite only making up a little less than half of all nonfarm jobs. Four out of the 11 major sectors are low-wage: leisure and hospitality, other services, educational and health services, and trade, transportation and utilities. As of March 2021, low-wage sector jobs remained significantly lower than February 2020 levels (7.2 percent and 11.4 percent lower for the U.S. and California, respectively) compared to their high-wage counterparts (3.9 percent and 6 percent lower for the U.S. and California, respectively). All major industry sectors remained below their pre-recession levels in March 2021, with leisure and hospitality significantly lagging in recovery due to the sector incurring a disproportionately large shock in the second quarter of 2020. (See figure on U.S. and California Jobs by Industry.)

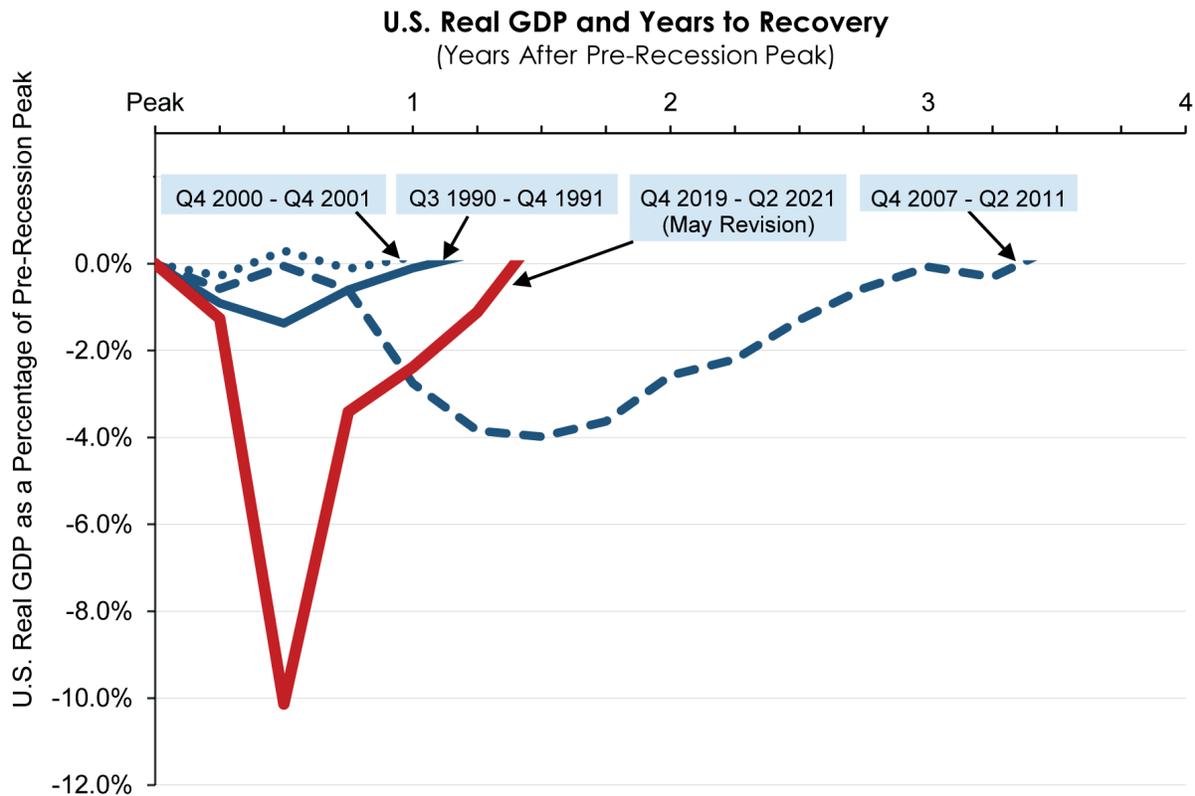


Source: U.S. Bureau of Labor Statistics;
CA Employment Development Department, Labor Market Information Division.

THE NATION

The U.S. forecast incorporates developments and improvements in public health conditions as well as all enacted federal stimulus packages and assistance measures as of April 2021. U.S. real GDP is projected to return to pre-pandemic levels by mid-2021,

just one-and-a-half years after its pre-recession peak in the fourth quarter of 2019. This is only slightly longer than the early 1990s and early 2000s recessions, and is much shorter than the nearly four-year recovery of the Great Recession. (See figure on U.S. Real GDP and Years to Recovery.)



Lines start from the quarter of each pre-recession peak.

Source: U.S. Bureau of Economic Analysis; CA Department of Finance, May Revision Forecast.

Following an annual contraction of 3.5 percent in 2020, U.S. real GDP is projected to grow by 6.2 percent in 2021 before slowing to 2.2 percent in 2023 and 2.3 percent in 2024. (See figure on Selected Economic Indicators.) Real GDP growth is expected to remain largely driven by consumption (contributing nearly four-fifths of total GDP growth on average through 2024), followed by investment (contributing over one-fifth). Government expenditures are projected to make a small positive contribution that is offset by a small negative contribution from net exports, as imports are projected to grow faster than exports.

While real GDP is expected to recover by the second quarter of 2021, a return to full employment, which generally takes longer, is projected to occur towards the end of 2022. The U.S. unemployment rate is projected to decrease from an annual average of

Selected Economic Indicators

	2018	2019	2020	Forecast			
				2021	2022	2023	2024
United States							
Nominal gross domestic product, \$ billions	\$ 20,612	\$ 21,433	\$ 20,937	\$ 22,742	\$ 24,191	\$ 25,253	\$ 26,420
Real gross domestic product, percent change	3.0%	2.2%	-3.5%	6.2%	4.3%	2.2%	2.3%
<i>Contributions to real GDP growth</i>							
Personal consumption expenditures	1.9%	1.6%	-2.6%	4.7%	3.2%	1.9%	1.9%
Gross private domestic investment	1.1%	0.3%	-0.9%	2.2%	1.0%	0.1%	0.5%
Net exports	-0.3%	-0.2%	-0.1%	-1.2%	0.1%	0.2%	-0.1%
Government purchases of goods and services	0.3%	0.4%	0.2%	0.5%	0.0%	0.0%	0.1%
Personal income, \$ billions	\$ 17,852	\$ 18,552	\$ 19,691	\$ 20,797	\$ 20,944	\$ 21,804	\$ 22,853
Corporate profits, percent change	0.2%	2.3%	-3.5%	21.3%	1.2%	4.7%	5.3%
Housing permits, thousands *	1,329	1,386	1,452	--	--	--	--
Housing starts, thousands	1,248	1,295	1,395	1,547	1,393	1,274	1,262
Median sales price of existing homes ~	\$ 261,600	\$ 274,600	\$ 300,200	--	--	--	--
Federal funds rate, percent	1.8%	2.2%	0.4%	0.1%	0.1%	0.1%	0.3%
Consumer price index, percent change	2.4%	1.8%	1.2%	2.5%	1.8%	2.0%	2.1%
Unemployment rate, percent	3.9%	3.7%	8.1%	5.2%	3.8%	3.6%	3.5%
Civilian labor force, millions	162.1	163.5	160.7	162.0	164.4	166.2	167.8
Nonfarm employment, millions	148.9	150.9	142.3	146.7	151.3	153.5	155.0
California							
Personal income, \$ billions	\$ 2,515	\$ 2,632	\$ 2,814	\$ 2,927	\$ 2,935	\$ 3,070	\$ 3,213
Exports of goods, percent change *	3.6%	-2.3%	-10.3%	--	--	--	--
Housing permits, thousands	116	110	105	116	122	128	135
Housing unit net change, thousands	85	78	95	--	--	--	--
Median sales price of existing homes ~	\$ 569,480	\$ 592,230	\$ 659,380	--	--	--	--
Consumer price index, percent change	3.7%	3.0%	1.7%	2.5%	2.2%	2.8%	3.0%
Unemployment rate, percent	4.3%	4.2%	10.2%	7.6%	5.8%	4.8%	4.3%
Civilian labor force, millions	19.3	19.4	18.8	19.0	19.6	19.9	20.1
Nonfarm employment, millions	17.2	17.4	16.2	16.4	17.2	17.7	18.0
<i>Percent of total nonfarm employment</i>							
Mining and logging	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Construction	5.0%	5.1%	5.3%	5.4%	5.3%	5.3%	5.3%
Manufacturing	7.7%	7.6%	7.8%	7.8%	7.5%	7.3%	7.2%
Trade, transportation, and utilities	17.7%	17.5%	18.0%	18.3%	17.7%	17.4%	17.2%
Information	3.2%	3.2%	3.4%	3.4%	3.3%	3.3%	3.3%
Financial activities	4.9%	4.8%	5.0%	5.0%	4.9%	4.8%	4.7%
Professional and business services	15.5%	15.6%	16.1%	16.1%	16.0%	16.1%	16.1%
Educational and health services	15.9%	16.1%	16.8%	16.9%	16.7%	16.8%	16.9%
Leisure and hospitality	11.6%	11.7%	9.2%	9.1%	10.3%	10.8%	11.2%
Other services	3.3%	3.3%	3.0%	3.0%	3.2%	3.3%	3.3%
Government	15.0%	14.9%	15.3%	15.0%	15.0%	14.8%	14.6%

Forecast based on data available as of April 2021.

Percent changes calculated from unrounded data.

Source: *U.S. Census Bureau; ~ California Association of Realtors; CA Department of Finance, May Revision Forecast.

8.1 percent in 2020 to 5.2 percent in 2021 and to continue to gradually fall to 3.5 percent by 2024. The U.S. labor force is expected to reach 2019 levels in 2022. U.S. nonfarm jobs are expected to recover to pre-pandemic levels by the fourth quarter of 2022, led by jobs in high-wage sectors recovering in the first quarter of 2022. Manufacturing, a high-wage sector, and two low-wage sectors, retail trade and leisure and hospitality, are not projected to recover within the forecast window, or through the end of 2024.

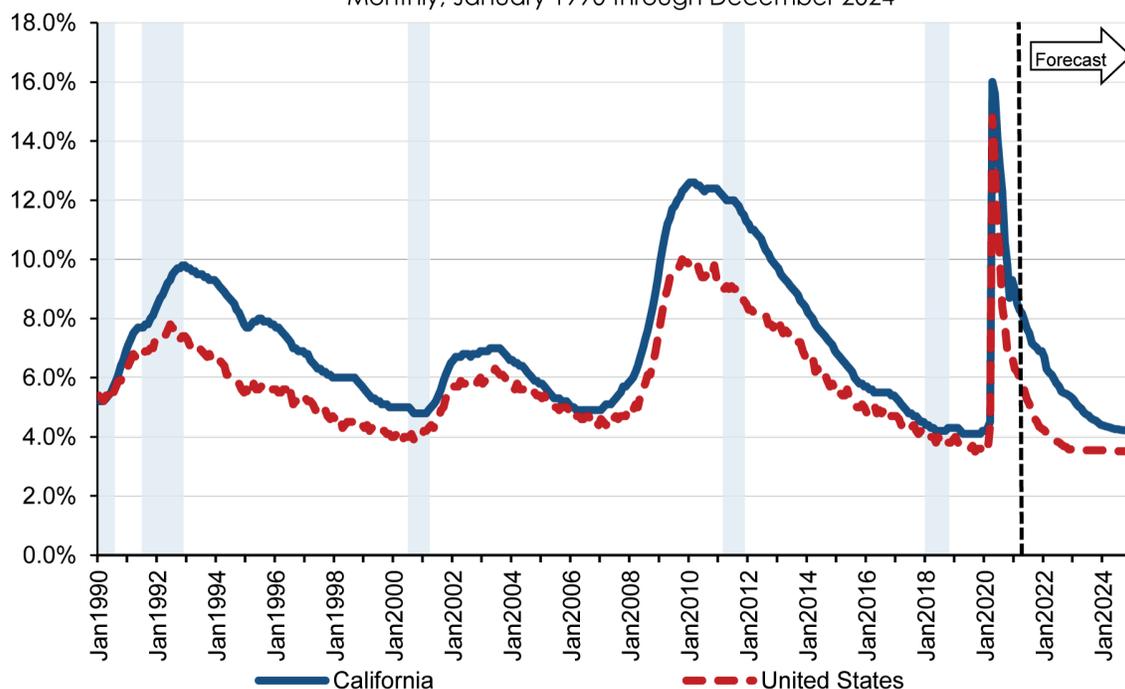
U.S. headline inflation as measured by the consumer price index (CPI) slowed to 1.2 percent in 2020, the lowest rate since 2015. With increased economic activity in 2021 and gasoline prices recovering from 2020 lows, U.S. headline inflation is projected to rebound to an average of 2.5 percent in 2021. Inflation is then expected to slow to 1.8 percent in 2022 before gradually increasing to 2.1 percent by 2024. Core CPI, which excludes food and energy, slowed to 1.7 percent in 2020 and is projected to accelerate to 1.9 percent in 2021 and 2.3 percent by 2024. Interest rates have remained near zero since March 2020 and the Federal Reserve is expected to begin raising rates in mid-2024 when inflation surpasses the Federal Reserve's long-run average inflation target of 2 percent, as measured by the core personal consumption expenditures price index (PCE). Inflation as measured by core PCE is historically slightly slower than as measured by core CPI.

CALIFORNIA

In addition to incorporating recent public health developments and enacted federal stimulus, the California forecast reflects additional state assistance and actions enacted through April 2021.

California's unemployment rate is projected to broadly follow U.S. trends of steady decline but at a slightly higher level throughout the forecast window. California's unemployment rate is projected to return to pre-pandemic levels in 2024, substantially faster than during the early 1990s recession and the Great Recession. This is due to the unique nature of the recession and to the unprecedented federal and state assistance allocated to support the recovery. (See figure on U.S. and California Unemployment Rates.)

U.S. and California Unemployment Rates
 Monthly, January 1990 through December 2024

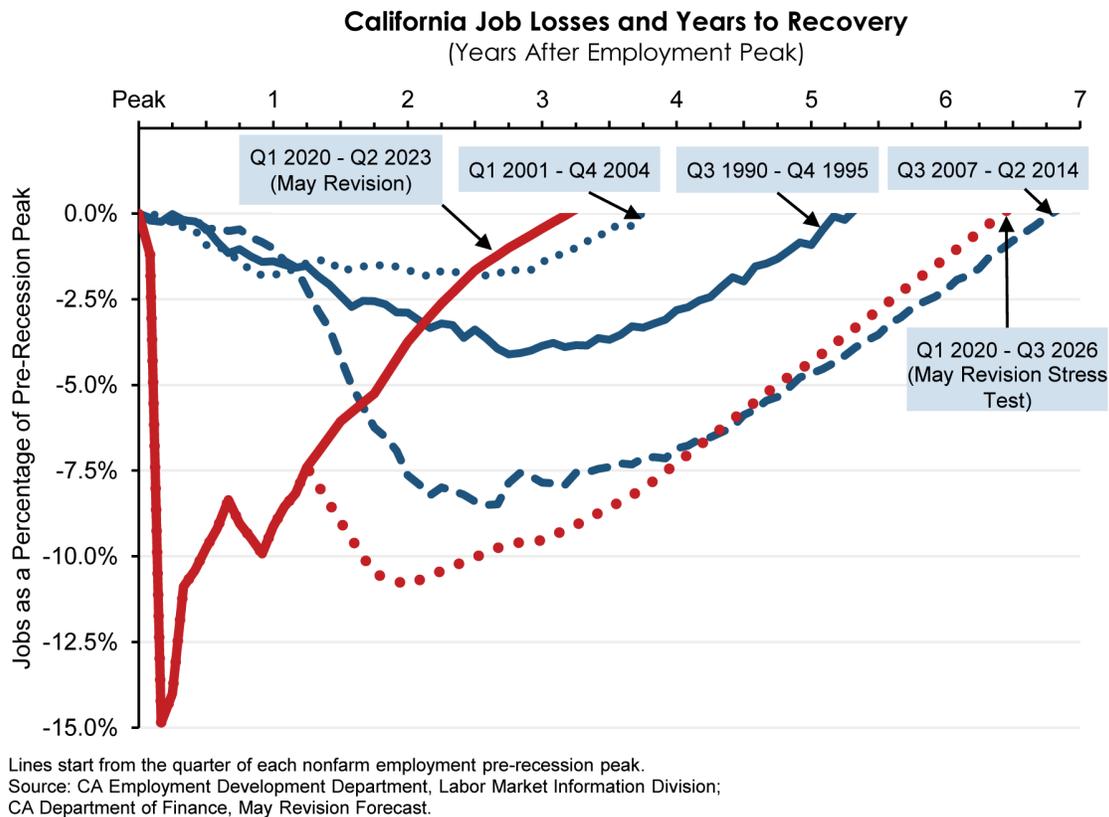


Shaded areas indicate previous U.S. recessions.
 Source: U.S. Bureau of Labor Statistics; CA Employment Development Department, Labor Market Information Division;
 CA Department of Finance, May Revision Forecast.

California's labor force is projected to recover by mid-2022 and civilian employment is expected to grow faster than nonfarm employment in 2021 and 2022 as reopening of the economy allows for the resumption of some self-employment and independent contractor work that saw reduced demand during the pandemic. While re-entry of independent contractors boosts civilian employment and lowers California's unemployment rate, contractor work tends to yield lower wages and offers fewer benefits.

Following an annual job loss of 1.2 million, or 7 percent, in 2020, California nonfarm employment is projected to grow by 2.6 percent on average during the forecast window and recover to the first quarter of 2020 pre-pandemic level in mid-2023. This projected nonfarm employment recovery is faster than after any recession since the early 1990s. (See figure on California Job Losses and Years to Recovery.) Mirroring the nation, high-wage sectors generally recover faster than low-wage sectors as jobs in high-wage sectors were more compatible with telework and less affected by the recession. Manufacturing and retail trade are not projected to recover to their respective pre-recession peaks during the four-year forecast window due to expectations of continued long-term structural change, such as automation. The leisure

and hospitality sector, which lost about half of its jobs in March and April 2020, is projected to inch back to pre-recession levels by the fourth quarter of 2024.

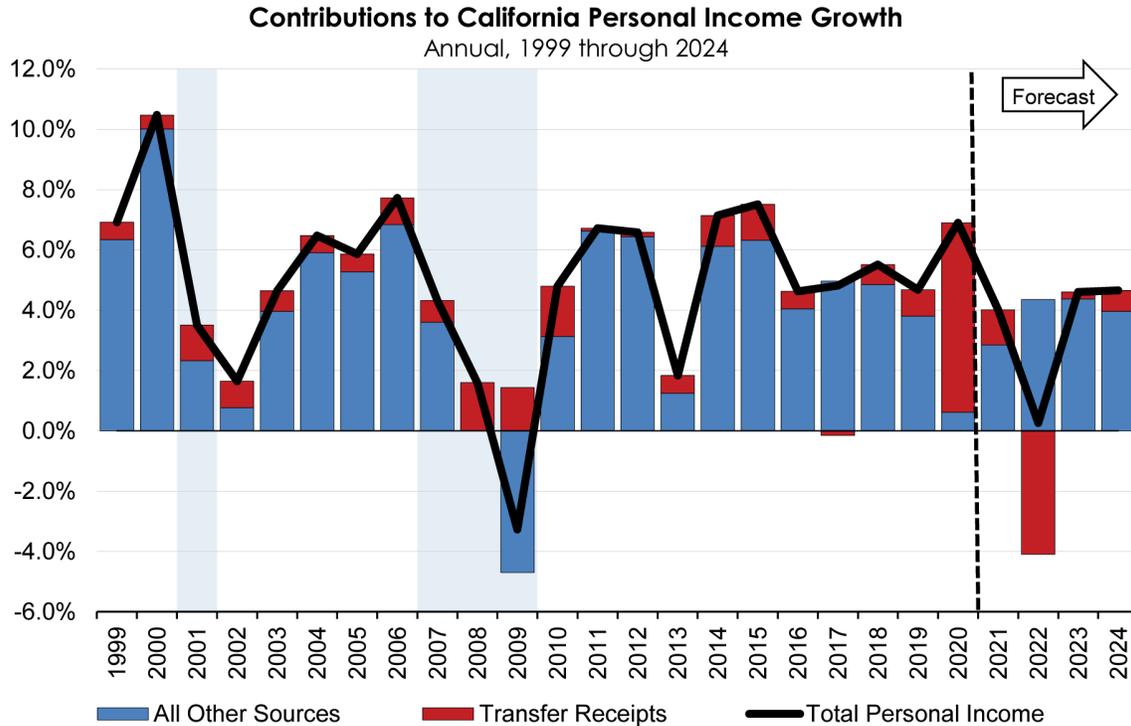


Robust nonfarm employment growth is projected to support growth in wages and salaries, which account for roughly half of total personal income. Growth in California total wages and salaries slowed from 5.9 percent in 2019 to 1.6 percent in 2020, the lowest annual growth since the decrease of 5.2 percent in 2009 during the Great Recession. Despite nonfarm employment decreasing by a record 7 percent in 2020, total wages and salaries continued to grow, albeit at a significantly slower rate, as nearly three out of every four jobs lost were in low-wage sectors. High-wage sectors were relatively insulated from the impact of the pandemic, exacerbating inequality that predated the economic and public health crisis.

In contrast to the decline of 3.3 percent in total personal income in 2009 during the peak of the Great Recession, California personal income accelerated from 4.7 percent in 2019 to 6.9 percent in 2020. This was largely driven by transfer payments which rose by a record 44.4 percent in 2020, compared to an increase of 13.1 percent in 2008, and increases of around 11 percent in 2009 and 2010. Moreover, nearly all other major personal income components continued to grow in 2020, with the exception of

property income, which decreased by 1 percent due to interest income falling by 2.4 percent and dividends declining by 1.3 percent. Interest income is projected to continue decreasing until the Federal Reserve starts to raise interest rates in 2024. The decrease of 1.3 percent in dividends followed a decrease of 1.1 percent in 2019. The S&P 500 Index fell by 33.9 percent from February 2020 to March 2020, compared to a drop of over 50 percent over a period of nearly one-and-a-half years during the Great Recession. Thereafter, the S&P 500 Index recovered within just five months, compared to four years during the Great Recession. The S&P Index has since continued to set new record-highs, closing the month of April at 4,181, or 23.5 percent above the February pre-recession high. Excluding transfer payments, all other personal income components combined grew by 0.7 percent in 2020, compared to a decrease of 5.4 percent in 2009. (See figure on Contributions to California Personal Income Growth.)

California total personal income is projected to increase by 4 percent in 2021, slowing to 0.3 percent in 2022 as many unemployment, direct stimulus, and other assistance programs are scheduled to end in 2021. With transfers boosting personal income growth through the fourth quarter of 2020, and with the majority of those payments ending in 2021, per capita personal income growth is expected to substantially decelerate from the fourth quarter of 2020 to the fourth quarter of 2021. Transfer payments are projected to fall by 21 percent in 2022 before accelerating to 4.7 percent in 2024, with social security benefits, Medicaid, and Medicare benefits returning to their historical share of around one-quarter of transfers each. The remaining 25 percent of transfers includes various historically smaller assistance programs such as unemployment insurance, veterans' benefits, and food assistance. California personal income is then projected to grow at 4.6 percent in 2023 and at 4.7 percent 2024, around the same pace as in 2019.



Shaded areas indicate previous U.S. recessions.
 Source: U.S. Bureau of Economic Analysis; CA Department of Finance, May Revision Forecast.

Construction and housing activity remained fairly resilient in California despite California's historically high cost of housing due to the strength of the purchasing power of high-income households. California median home sales price of existing single-family homes exceeded \$700,000 for the first time in August 2020 and continued to increase to a record-high of \$758,990 in March 2021, 30.9 percent above the February 2020 level. With strong continued demand for housing in California, the number of housing units authorized by permits remained above 100,000 units in 2020, at around 105,000 units. Authorized housing units decreased by 4.7 percent in 2020, a smaller decline than the drop of 4.9 percent in 2019, as long-term issues of permitting and housing supply constraints predate the recession. Permitted housing units are projected to increase by 10.2 percent to 116,000 units in 2021 and to reach 135,000 units by 2024.

Higher housing costs and housing constraints in the state continue to drive California inflation to remain higher than the nation in the long-run. After a deceleration from 3 percent in 2019 to 1.7 percent in 2020, California headline inflation is projected to accelerate to 2.5 percent in 2021, on par with the nation, but from a higher base. Beginning in 2022, headline inflation in California is expected to grow slightly faster than the nation in line with historic trends. Overall California inflation is then projected to slow

to 2.2 percent in 2022 before gradually increasing to 3 percent by 2024, in line with the pre-pandemic pace in 2019.

RISKS TO THE OUTLOOK

Despite significant improvements over the past year, there is a long road to full recovery and risks to the outlook remain. Immediate risks include public health concerns with new virus strains and vaccine hesitancy, higher inflation if disrupted supply chains cannot support increased consumer demand, more frequent and more widespread wildfires, and a stock market correction that would impact higher-income Californians and state revenues.

High-income workers have been largely insulated during the recession, limiting the negative impacts of the public health and economic crisis on California's personal income and revenues. However, public health challenges and complications could lead to reinstated public health restrictions and a loss of business and consumer confidence that could affect the stock market, resulting in a more generalized recession that impacts all sectors. Individuals and businesses could experience a more difficult transition to the new post-COVID-19 normal than anticipated, leading to a slower recovery or even to a new downturn. If more businesses enter bankruptcy due to weak economic activity high-income workers may also lose employment.

To illustrate these economic risks, the Department of Finance has developed a Stress Test scenario. This scenario would more closely resemble the unfolding of the Great Recession, which also began in a few sectors of the economy before becoming widespread. Under the Stress Test scenario, California would lose jobs in both low- and high-wage sectors starting in the third quarter of 2021 and through the first quarter of 2022, undoing economic growth since the second half of 2020. California nonfarm employment would recover to pre-pandemic levels three years later than in the baseline scenario, reaching pre-pandemic levels in 2026 rather than in 2023. The overall nonfarm employment recovery would then take about the same time as during the Great Recession. (See previous figure on California Job Losses and Years to Recovery.)

The stock market has continued to benefit from federal policy to cushion the financial sector, and the large increase in private savings in 2020 also likely led to more investment in stocks. The shift towards telework has supported information and technology companies which also tend to be among the top S&P 500 companies, many of which are headquartered in California. However, risks of a second and potentially worse stock market downturn remain, and would happen from a much

higher base given recent record-highs. Given California's reliance on capital gains, a stock market correction would significantly and adversely impact the state's revenues.

Climate change and more frequent extreme weather events continue to be a risk to California. The year 2020 was California's most widespread wildfire year on record and 2021 is on pace to become one of the driest years on record. The ongoing risk of worsening wildfire seasons will likely affect individuals' and businesses' livelihoods and decisions on where to reside and conduct business, which may impact the growth of regions that are most at risk, as well as cities and towns which are regularly impacted by smoke and pollution. Rising sea levels may also introduce new challenges to some coastal communities in the future. Other environmental risks such as the ongoing threat of droughts remain, with 41 counties in California having a drought-related state of emergency in place as of May 2021.

Finally, other longer-term structural risks that predated the recession remain, and some of these risks have been exacerbated by the pandemic. These risks include California's housing shortage, which continues to put pressure on inflation and prices, limiting Californians' ability to afford a home. Other risks include increased inequality as many households are struggling to provide for essentials, slowing population growth as migration flows and fertility rates decline, and the challenges of an aging population.

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REVENUE ESTIMATES

In 2020 there was a dramatic decline in economic activity in the second quarter, followed by an uneven recovery for the remainder of the year. For 2021, the economy, buoyed by multiple rounds of federal stimulus, an accommodative monetary policy, a massive vaccination program and the consequent reopening of the economy, appears poised for rapid expansion through the remainder of 2021 and continued growth in 2022 and beyond. This improvement in the projected path of economic activity has led to a significant improvement in the revenue forecast. In addition to the improved economic picture, stock markets have continued to show strength, and wage withholding has continued to outpace even the upgraded wage growth forecast; both factors lead to higher revenue projections. All three major revenue sources are expected to show significant increases relative to the Governor's Budget forecast. The changes in the three largest tax sources are:

- Personal income tax revenues are revised up by almost \$38 billion due to a more optimistic economic outlook, but particularly wages, proprietorship income, and capital gains.
- Sales tax receipts have been revised upward by \$4.5 billion due to an upgraded forecast for taxable consumer spending and private investment.
- Corporation tax revenues are up almost \$4.6 billion based on strong cash receipts and faster than anticipated recovery from the economic impacts of the COVID-19 Pandemic.

REVENUE ESTIMATES

After accounting for transfers, which includes loan repayments as well as automatic and discretionary transfers to the Rainy Day Fund, baseline General Fund revenues at the May Revision forecast are up relative to the Governor's Budget by \$41.6 billion over the budget window; lower than the Governor's Budget by \$224 million in 2019-20, and higher by \$24.3 billion in 2020-21 and \$17.6 billion in 2021-22.

On March 29, 2021, the federal government delayed the Internal Revenue Service tax filing deadline for personal income tax returns, along with payments associated with those returns, from April 15 to May 17. The state conformed to the federal deadline. It is anticipated that a large amount of personal income tax payments that would typically be received in April will be deferred until May. The delay in receiving payments is not expected to affect revenue as the deferred payments will be received in the same fiscal year; however, it does increase the near-term uncertainty of the May Revision forecast as less was known about April payments prior to the forecast than in a typical year.

The General Fund Revenue Forecast table compares the revenue forecasts by source in the Governor's Budget to the May Revision forecast.

2021-22 May Revision
General Fund Revenue Forecast
(Dollars in Millions)

Source	2021-22 Governor's Budget	May Revision	Change From Governor's Budget Forecast	
Fiscal 2019-20: Preliminary				
Personal Income Tax	\$99,509	\$99,599	\$89	0.1%
Sales & Use Tax	25,495	25,509	13	0.1%
Corporation Tax	14,035	13,954	-82	-0.6%
Insurance Tax	3,128	3,135	7	0.2%
Alcoholic Beverage	383	383	0	0.0%
Cigarette	60	60	0	0.0%
Pooled Money Interest	516	521	5	0.9%
Other Revenues	1,943	1,923	-21	-1.1%
Subtotal	\$145,070	\$145,082	\$12	0.0%
Transfers ^{1/}	-4,447	-4,682	-235	5.3%
Total	\$140,623	\$140,400	-\$224	-0.2%
Fiscal 2020-21				
Personal Income Tax	\$102,208	\$124,151	\$21,942	21.5%
Sales & Use Tax	\$26,508	\$27,936	1,428	5.4%
Corporation Tax	\$16,948	\$20,120	3,172	18.7%
Insurance Tax	\$3,253	\$3,348	95	2.9%
Alcoholic Beverage	\$385	\$385	0	0.0%
Cigarette	\$55	\$60	5	9.6%
Pooled Money Interest	\$105	\$126	21	20.3%
Other Revenues	\$4,158	\$3,215	-944	-22.7%
Subtotal	\$153,621	\$179,342	\$25,721	16.7%
Transfers ^{1/}	9,121	7,678	-1,443	-15.8%
Total	\$162,742	\$187,020	\$24,277	14.9%
Fiscal 2021-22				
Personal Income Tax	\$107,360	\$123,298	\$15,938	14.8%
Sales & Use Tax	\$25,925	\$28,986	3,061	11.8%
Corporation Tax	\$16,636	\$18,106	1,470	8.8%
Insurance Tax	\$3,319	\$3,428	109	3.3%
Alcoholic Beverage	\$389	\$390	0	0.1%
Cigarette	\$46	\$58	12	25.2%
Pooled Money Interest	\$22	\$83	61	272.8%
Other Revenues	\$7,876	\$7,397	-479	-6.1%
Subtotal	\$161,574	\$181,745	\$20,171	12.5%
Transfers ^{1/}	-3,204	-5,824	-2,620	81.8%
Total	\$158,370	\$175,921	\$17,551	11.1%
Three-Year Total			\$41,605	
Totals may not add because of rounding.				
^{1/} Includes transfers to Budget Stabilization Account for each year.				

LONG-TERM FORECAST

The Long-Term Revenue Forecast table below shows the forecast for the largest three sources of General Fund revenues from 2019-20 through 2024-25. Total General Fund revenues from these sources are expected to increase from \$139.1 billion in 2019-20 to \$181.3 billion in 2024-25. The majority of the increase occurs in the current year 2020-21 as revenues are expected to surge 23.8 percent.

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Average Year-Over-Year Growth
Personal Income Tax	\$99.6	\$124.2	\$123.3	\$128.5	\$131.2	\$133.6	6.4%
Sales and Use Tax	\$25.5	\$27.9	\$29.0	\$29.1	\$29.8	\$30.5	3.7%
Corporation Tax	\$14.0	\$20.1	\$18.1	\$17.4	\$16.8	\$17.2	5.9%
Total	\$139.1	\$172.2	\$170.4	\$175.0	\$177.8	\$181.3	5.8%
Growth	-0.3%	23.8%	-1.1%	2.7%	1.6%	2.0%	

Note: Numbers may not add due to rounding.
Source: California Department of Finance, May Revision Forecast

PERSONAL INCOME TAX

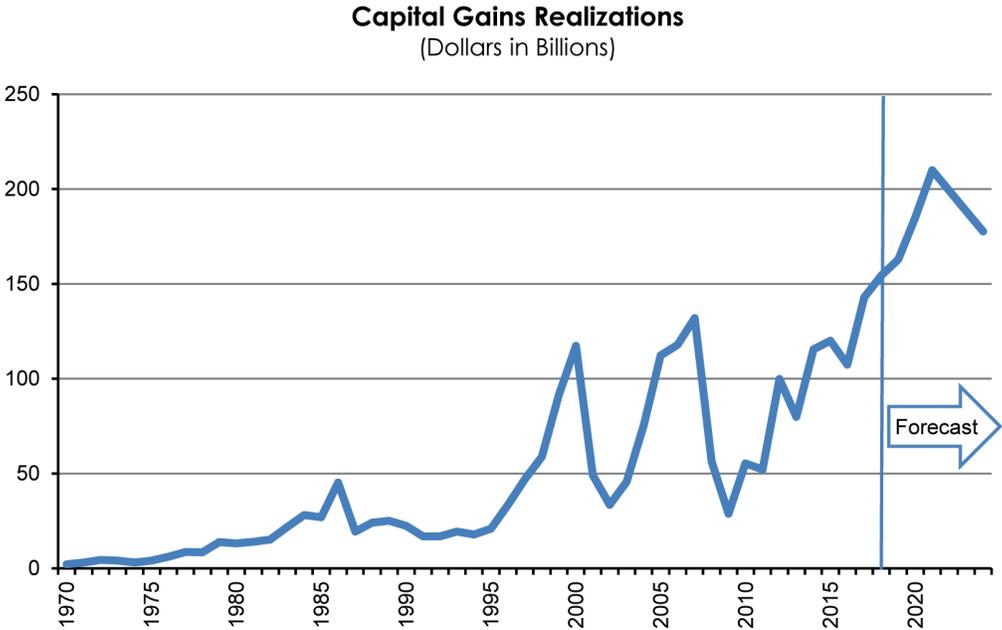
Compared to the Governor's Budget forecast, the personal income tax forecast is higher by \$89 million in 2019-20, \$21.9 billion in 2020-21, and \$15.9 billion in 2021-22. Over the three-year period, the personal income tax forecast reflects a total increase of \$38 billion.

Due to stronger wage growth for existing employees, as well as lower unemployment than forecast in the Governor's Budget, taxable wages have been revised higher, which positively impacts personal income tax wage withholding receipts. Typically, wages comprise around 55 percent to 60 percent of all personal income tax receipts. Taxable wages were revised from 1.4 percent growth to 3.7 percent in 2021, and from 3.5 percent growth to 6.3 percent in 2022.

Personal income tax wage withholding receipts were very strong in 2020, with 7.4 percent year-over-year growth, despite the pandemic, compared to 5.6 percent in the Governor's Budget. Further, the first 4 months of 2021 have shown very strong year-over-year growth of 13.9 percent, which continues to reflect a larger share of the wage gains going to high-income earners with higher effective tax rates. As a result,

withholding growth in 2021 has been revised to 7.3 percent compared to 1.3 percent in the Governor's Budget.

The S&P 500 has significantly outperformed the expectations in the Governor's Budget and is forecast to be at 4,147 in the second quarter of 2021. This is a significant upgrade from the Governor's Budget, which assumed that the S&P 500 would be at 3,586 in the second quarter of 2021, or nearly 14 percent lower. This upgraded market forecast leads to a significant increase in the forecast for capital gains realizations from \$173 billion to \$185 billion in 2020 (see figure with Capital Gains Realizations), \$185 billion to \$210 billion in 2021, and \$177 billion to \$199 billion in 2022. Capital gains realizations are forecast to return to a lower level of 4.5 percent of personal income by 2026 at \$156 billion as high market valuations are expected to lead to a 2 percent annual decline in the S&P 500 from current levels.



Forecasting revenues associated with capital gains is subject to significant uncertainty because realizations are heavily dependent upon stock market performance and when taxpayers choose to buy or sell stock. Stock market performance is inherently unpredictable. In the last recession, the S&P 500 dropped by over 50 percent; in the technology-driven recession of 2001, it dropped by about 47 percent. The personal income tax forecast includes Propositions 30 and 55 revenues, which are estimated at \$9.8 billion in 2019-20 and \$11.1 billion in 2020-21. These estimates are higher than the Governor's Budget by \$797 million and \$1.6 billion, respectively, due primarily to higher wages and capital gains realizations.

REVENUE ESTIMATES

The highest-income Californians continue to pay a very large share of the state's personal income tax. For the 2018 tax year, the top one percent of income earners paid over 46 percent of personal income taxes. This percentage has been greater than 40 percent for 14 of the last 15 years.

The personal income tax forecast is significantly affected by two major tax policies. First, the Golden State Stimulus is expected to provide \$2.8 billion in tax refunds to 4.5 million low-income households in California. This estimate is up from \$2.4 billion in the Governor's Budget and as of early May, \$1.5 billion in tax refunds had already been distributed. Second, AB 80 (2021) conformed state law, with modifications, to federal law with regard to the tax treatment of forgiven PPP loans and is expected to decrease personal income tax revenues by \$70 million in 2020-21 and \$1.5 billion in 2021-22, with an additional \$1.6 billion in revenue losses in the subsequent four fiscal years.

SALES AND USE TAX

The sales tax forecast is higher by \$1.4 billion in 2020-21 and \$3.1 billion in 2021-22. Taxable sales are expected to increase by 8.1 percent in 2020-21 and a further 5.7 percent in 2021-22. In the Governor's Budget, taxable sales were expected to grow 4.1 percent in 2020-21 and decline by 0.8 percent in 2021-22.

Taxable consumer spending is expected to be higher than Governor's Budget by 4.4 percent in 2020-21 and by 11 percent in 2021-22. Taxable sales have remained strong throughout the pandemic, in large part due to a shift in consumer spending from services to durable goods, which are more likely to be taxed. Of the industries that generate significant taxable consumer sales, non-store retailers, building material and garden improvement stores, and new car dealers have seen strong sales growth during the pandemic. This shift from goods to services spending is expected to unwind somewhat as the vaccine rollout continues, lockdowns end, and services become more accessible.

Taxable capital investment, which is expected to be the primary driver of taxable sales growth in 2021-22, is expected to be greater than Governor's Budget by 5.7 percent in 2020-21 and 18.4 percent in 2021-22. Investment is expected to benefit from low interest rates and a ramp-up in businesses' productive capacity in response to increased sales.

CORPORATION TAX

The corporation tax forecast is lower by \$82 million in 2019-20, higher by \$3.2 billion in 2020-21, and higher by \$1.5 billion in 2021-22. Due to a lower-than-expected impact of the pandemic on corporation profits, particularly large multi-state corporations that pay the majority of the corporate tax revenues, corporate profits are expected to decline only 3 percent in 2020-21 and then grow 8 percent in 2021-22. In the Governor's Budget, corporate profits were forecast to decline by 7 percent in 2020-21 and grow by 1.8 percent in 2021-22.

The corporation tax forecast includes the impact of two major tax policies that have offsetting revenue impacts. First, AB 80 (2021) conformed state law, with modifications, to federal law with regard to the tax treatment of forgiven PPP loans and is expected to decrease corporation tax revenues by \$70 million in 2020-21 and \$1.5 billion in 2021-22, with an additional \$1.6 billion in revenue losses in the subsequent four fiscal years.

Second, the elective pass-through entity tax is intended to help California business owners by allowing them to partially circumvent the \$10,000 limit of state and local tax deductions that was imposed as part of the 2017 federal Tax Cut and Jobs Act. The proposal is intended to be revenue neutral as the tax paid electively by the entity is equal to the credit generated at the entity owner level. However the actual behavior of taxpayers and timing of payments is uncertain, with some personal income taxpayers who are not able to fully use the credits generated potentially electing to pay higher state taxes in return for significantly reduced federal taxes. The proposal is currently scored as increasing corporate tax revenue by \$1.3 billion in 2021-22 and \$650 million in 2022-23. While the elective pass-through entity tax is scored on a net basis as affecting corporate tax revenues only, it will result in a much larger shift from personal income tax to corporate income tax as personal income tax credits are provided to taxpayers to offset the elective taxes paid at the pass-through entity level.

The corporation tax forecast includes the impact of the temporary suspension of net operating loss usage and limitation on business incentive tax credit usage adopted in the 2020 Budget Act, which was expected to increase corporation tax revenues by \$3.7 billion in 2020-21 and \$3.3 billion in 2021-22.

INSURANCE TAX

The insurance tax forecast is higher by \$95 million in 2020-21 and by \$109 million in 2021-22. Insurance tax premiums are expected to increase 6 percent in 2020 versus

growth of 4 percent assumed in the Governor's Budget, and are expected to grow 3 percent in 2021 and 2022, which is unchanged from the Governor's Budget.

CANNABIS EXCISE TAX

Proposition 64, commonly referred to as the Adult Use of Marijuana Act, levies excise taxes on the cultivation and retail sale of both recreational and medical cannabis. The cultivation tax is paid on all recreational and medicinal cultivation of cannabis, and was increased, to adjust for inflation, to \$9.65 per ounce of flower, \$2.89 per ounce of trim, and \$1.35 per ounce of fresh cannabis plant on January 1, 2020. The next increase for inflation is scheduled to occur on January 1, 2022. In addition, there is a 15-percent tax on the retail price of cannabis. Both cannabis excise taxes together generated \$491 million in 2019-20. The revenue from excise taxes was revised up from \$544 million to \$730 million in 2020-21 and from \$658 million to \$748 million in 2021-22, as cannabis sales during the Pandemic have remained relatively strong

PROPERTY TAX

The property tax is a local revenue source; however, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools generally offset General Fund expenditures.

Preliminary data suggest statewide property tax revenues increased around 5.3 percent in 2020-21, which is 0.7 percentage point higher than the 4.6 percent growth rate anticipated in the Governor's Budget. Property tax revenues are expected to grow 6.4 percent in 2021-22, which is 0.9 percentage point higher than the 5.6 percent growth expected in the Governor's Budget due to strong home price growth and data that shows a higher rate of property transfers in 2020 compared to recent years. Approximately 42 percent (\$37.7 billion) of 2021-22 property tax revenues will go to K-14 schools. This includes \$2.7 billion that schools are expected to receive in 2021-22 pursuant to the dissolution of redevelopment agencies.

GOLDEN STATE STIMULUS II

Chapter 8, Statutes of 2021 (SB 88) enacted the Golden State Stimulus, which is expected to provide about \$2.8 billion in tax refunds to low-income Californians to help deal with the economic hardship arising from the pandemic that disproportionately

affected low-income households. First, the Golden State Stimulus provides \$600 to low-income households that receive the California EITC for tax year 2020. Second, the Golden State Stimulus provides a \$600 payment to taxpayers with Individual Tax Identification Numbers (ITINs) and income of \$75,000 or less who were excluded from some of the federal stimulus payments. In total, it is expected that 4.5 million households will receive a Golden State Stimulus payment. SB 88 also authorized 1.6 million payments of \$600 to households that participate in the CalWORKs program, the Supplemental Security Income/State Supplementary Payment program, and the Cash Assistance Program for Immigrants.

The May Revision proposes a significant expansion of the Golden State Stimulus. This program significantly increases the reach of the Golden State Stimulus by extending the \$600 payments to tax filers that filed a 2020 tax return and have adjusted gross income greater than \$0 and up to \$75,000, and wages of \$75,000 or less but did not receive a payment under the first Golden State Stimulus program.

The May Revision also proposes a \$500 payment to most tax filers who filed a 2020 tax return with adjusted gross income greater than \$0 and up to \$75,000, and wages of \$75,000 or less who claim at least one dependent on their return. Receiving a payment under one aspect of Golden State Stimulus II does not preclude a household from also receiving a payment under a different aspect of the program. This program is accounted for as an expenditure rather than a revenue reduction.

TAX INCENTIVES TO STIMULATE ECONOMIC DEVELOPMENT

The May Revision continues the proposals focused on encouraging the economic recovery and the creation of jobs, providing assistance to businesses hurt by the pandemic, and promoting projects to move California closer to its clean-energy climate goals. These revenue measures are expected to cost only \$18 million in 2021-22 as much of the costs of these proposals do not occur until later years. The CalCompetes grant program is not a revenue reduction but an expenditure, and the \$250 million expenditure is expected to occur in the 2021-22 fiscal year. The proposals include the following:

- Expansion of the Main Street hiring tax credit by allocating \$147 million to assist firms who made hires during the current fiscal year.
- One-time expansion of the CalCompetes tax credit allocations by \$180 million for 2021-22.

REVENUE ESTIMATES

- Creation of a one-time \$250 million CalCompetes grant program for businesses that promise to meet one of the following four criteria: establish at least 500 net new jobs; make a significant infrastructure investment; commit to a high-need, high-opportunity area of the state; or receive a designation from the Director of the Governor's Office of Business and Economic Development that the application is a strategic priority of the state.
- One-time expansion of the California Alternative Energy and Advanced Transportation Financing Authority sales tax exclusion by \$100 million for 2021.
- One-time expansion of the film credit program with an additional \$30 million focused on relocating productions.
- Creation of an elective pass-through entity tax to allow passthrough business owners to use state taxes paid to reduce their federal taxable income.

In addition to these May Revision proposals, the Legislature took early budget action on conforming state law to the federal treatment of Paycheck Protection Program (PPP) forgiven loans. Chapter 17, Statutes of 2021 (AB 80) conformed state law, with modifications, to federal law with regard to the tax treatment of forgiven PPP loans and is expected to decrease personal income tax and corporate tax revenues by \$140 million in 2020-21 and \$2.9 billion in 2021-22, with an additional \$3.2 billion in revenue losses in the subsequent four fiscal years. This conformity will allow a significant majority of the hundreds of thousands of small businesses in California that received a federal PPP loan that will be forgiven to avoid paying tax on that income and to be able to deduct expenses related to the forgiven loan. This tax benefit is not allowed for public companies or for companies that did not have at least a 25-percent reduction in sales in one quarter of 2020 versus a comparable quarter in 2019. AB 80 also conformed state law to federal law with regard to the tax treatment of forgiven advance grants under the federal Economic Injury Disaster Loan (EIDL) program. EIDL advance grants that did not need to be repaid were given to small businesses that operate in low-income communities and were for a maximum of \$10,000.

In addition to the proposals aimed at spurring economic growth, the May Revision also removes the sunset on the sales tax exemption for diapers and menstrual products. This permanent exemption will provide ongoing assistance to women and families with young children.

DEMOGRAPHIC INFORMATION

The once-a-decade count, known as the Census, has significant and long-lasting consequences. An accurate census count is essential as it determines congressional representation, realigns legislative and congressional districts, and informs the allocation of hundreds of billions of dollars in federal funding. With a large and diverse population, California faces significant challenges to counting every person and every household, no matter the census year. Census 2020 was especially challenging due to the COVID-19 Pandemic and governmental distrust among immigrant communities over a potential question on citizenship status and use of that information. To support an accurate and complete count of Californians, the State of California launched a comprehensive Complete Count Census 2020 Campaign that placed considerable emphasis on the hardest-to-count populations and those least likely to participate in the Census. The state complemented work done nationally by the U.S. Census Bureau to reach those households most likely to be missed because of barriers, whether operational or motivational, which prevent people from completing the census questionnaire.

The state census efforts helped California to achieve a statewide Self-Response Rate of 69.6 percent, or an estimated 10.5 million households, exceeding its final 2010 Self-Response Rate of 68.2 percent by 1.4 percentage points. Self-Response is the best and most accurate way to gather this information, as individuals know themselves and their household best. Among the ten largest states, California achieved the highest average Self-Response Rate in the hardest-to-count tracts. California also outpaced the national Self-Response Rate by 2.6 percentage points. While California lost the 53rd

congressional seat, the state retained the 52nd by a margin of only 284,400 in part due to the efforts of the Campaign. More detailed Census results are needed, however, to assess the population count by subgroup and sub-state geographies. The state will continue to evaluate both the outreach efforts of the Campaign and relative accuracy of Census 2020 using statistics from the Census Bureau and the results of the California's Neighborhoods Count survey administered in the fall of 2020.

ESTIMATES AND PROJECTIONS

Every decade with a new Census, Finance re-benches the population projections and estimate series. Despite the recent release of the apportionment count for California from the 2020 Census, that work cannot yet begin. Further detailed files with population and housing counts at the county level will be required, files scheduled for release in early fall 2021. Population estimates released around this budget are therefore still on a 2010 basis and subject to some further revision. However, population revisions incorporating Census 2020 results are not likely to be excessive since Finance's estimate commensurate with April 1, 2020, or Census day, was greater only by 0.4 percent. The first estimates to reflect the 2020 numbers will be released in December of 2021 and will represent an adjusted July 1, 2020 and new July 1, 2021 population estimate. With the release of detailed age data from the 2020 Census in early 2022, work on new population and household projection series will begin, with an expected release date of late 2022.

COVID-19 AND POPULATION DECLINE

Finance's latest population estimates indicated that California's population decreased by -0.46 percent between January 2020 and January 2021, marking the first time Finance has measured a 12-month population decline. Three factors explain this 12-month drop in population: Continuing declines in natural increase (births minus deaths); continuing declines in foreign immigration—accelerated in recent years by federal policy; and, increased deaths in 2020 associated with the pandemic. In recent years, the first two factors—nationwide trends affecting California more than other states—have contributed to the state's population growth slowing and plateauing. The addition of pandemic-related deaths to these existing trends tipped the annual population change into an annual loss.

Changes to work policies resulting from the pandemic have had significant impacts on migration flows—not just to and from California but within California. Many were offered flexibility to work from home or other remote location, and most public schools offered

distance learning options for children through college. Within the state, new inter-county migration patterns have been observed, much of it coastal to inland. Estimated net international migration to California was negative for calendar year 2020 – a direct impact of federal policies to suspend immigration visa issuance starting March 18, 2020 until December 31, 2020, which was extended to certain types of foreign worker visas on June 22, 2020. Global lockdown restrictions during the pandemic also yielded declines in international students in California.

Over the past three decades, California has seen negative net domestic migration, or more people moving out of the state than coming in, for all but two years. Starting in 2018, net domestic out-migration began to outpace net international migration, leaving natural increase (the difference between births and deaths) as the only source of population growth. Natural increase declined with slowing births and increased deaths, due largely to the aging of the “Baby Boomers”. The pandemic increased California deaths in 2020 by 51,000—19 percent above the average death rate for the three preceding years. “Excess deaths,” rates above that past three-year average, were observed in 51 of 58 counties which substantially reduced natural increase.

Many of the forces that drove California's growth negative in the last year were temporary and pandemic-related. While fertility declines are a long-term trend, slowing immigration and imbalance in inter-state flows are not expected to last. Finance will likely estimate positive growth in the January 1, 2022 year-over-year estimates that will be published in May 2022.

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