



RCRC
THE RURAL
RUNDOWN

May 12, 2023

GOVERNOR'S 2023-24
MAY REVISE

RURAL COUNTY REPRESENTATIVES OF CALIFORNIA
1215 K STREET, SUITE 1650
SACRAMENTO, CA 95814
RCRCNET.ORG

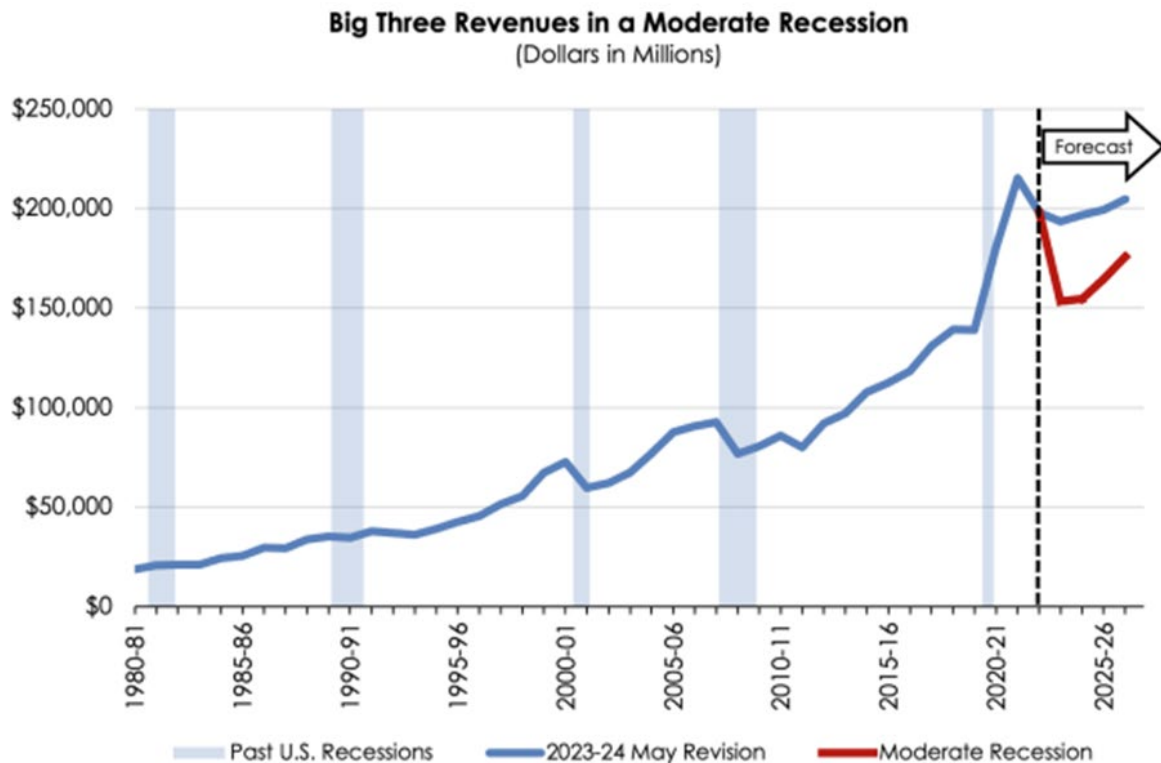
RCRC'S SUMMARY OF GOVERNOR NEWSOM'S 2023-24 MAY REVISION

Earlier today, Governor Newsom released his Administration's 2023-24 May Revision. *The Rural Rundown* captures highlights of the proposal as it relates to RCRC member counties. This revision is the next step in the State's budget negotiations with lawmakers, who must pass a budget by June 15 for the July 1 start of the 2023-2024 fiscal year.

While the Governor's January proposal estimated a \$22.5 billion shortfall for the 2023-24 fiscal year, the Governor's May Revision estimates a General Fund shortfall of \$31.5 billion, exacerbated by continued monthly revenue shortfalls since the Governor's January proposal. The projected shortfall is accompanied by uncertainty due to federal and state tax filing deadline delays that have ultimately led to ongoing instability in the state's revenues.

Overview

The Governor's May Revision focuses on strategies to close the revenue shortfall while still funding vital state programs. The Administration is not predicting a recession; however, increased risks due to higher interest rates, uncertainty in financial institutions and the federal debt limit impasse could significantly change California's short-term fiscal outlook. In fact, the Administration cautions that revenues could decrease by as much as \$40 billion in 2023-24 alone and could reach an additional \$100 billion through 2026-27.



Shaded areas indicate previous U.S. recessions.

Source: California Department of Finance, 2023-24 May Revision Forecast.

The Governor's May Revision focuses on adjustments to the Governor's January proposal to address the additional \$9.3 billion budget shortfall, including:

- \$1.1 billion in decreased spending and pullbacks across the 2021-22 through 2023-24 fiscal years, which includes reverting unused and unspent funds for various programs back to the General Fund.
- \$695 million in additional delayed spending, including \$295 million moved into the out-years for the Foreclosure Intervention Housing Prevention Program.
- \$3.3 billion in fund shifts for programs included in the 2022-23 and 2023-24 fiscal years from the General Fund to other funds, including \$1.1 billion in climate-related investments shifted to a climate bond, \$635 million in zero emission vehicle projects to the Greenhouse Gas Reduction Fund (GGRF), and \$1.1 billion for student housing projects shifted to bonds.
- \$3.7 billion in revenue and borrowing, consisting primarily of an additional \$2.5 billion from the Managed Care Organization tax and \$1.2 billion from special funds. This is in addition to the January proposed amount of \$1.2 billion, for a total of \$4.9 billion in new revenue or borrowing.
- \$450 million withdrawn from the Safety Net Reserve, which represents half of the available funds.

The Governor's May Revision also reflects \$37.2 billion in budgetary reserves. This includes \$22.3 billion for the Budget Stabilization Account to fulfill the constitutional maximum mandatory deposit General Fund tax proceeds. The reserve total also includes \$10.7 billion in the Public School System Stabilization Account, \$450 million in the Safety Net Reserve, and \$3.8 billion in the state's operating reserve. It also includes a required \$951 million dedicated to infrastructure investments in 2023-24. The Governor's 2023-24 Proposed Budget accelerates the paydown of state retirement liabilities as required by Proposition 2, with \$2.3 billion in additional payments in 2023-24 and approximately \$5.1 billion projected to be paid over the next three years.

For additional detail about the Governor's 2023-24 May Revision, [see here](#) for analysis by RCRC's advocacy partners, *Hurst Brooks Espinoza, LLC*.

Despite the significant projected revenue shortfall, the Governor's May Revision continues to reflect the Governor's commitment to sustaining key investments in recent budgets to continue advancing the shared priorities of the Administration and the Legislature. These priorities include investments in homelessness, housing, infrastructure, workforce development, and reducing the impacts of climate change, including forest resilience and wildfire mitigation.

2023-24 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2022-23	2023-24
Prior Year Balance	\$55,462	\$24,119
Revenues and Transfers	\$205,129	\$209,054
Total Resources Available	\$260,591	\$233,173
Non-Proposition 98 Expenditures	\$158,357	\$145,733
Proposition 98 Expenditures	\$78,115	\$78,368
Total Expenditures	\$236,472	\$224,101
Fund Balance	\$24,119	\$9,072
Reserve for Liquidation of Encumbrances	\$5,272	\$5,272
Special Fund for Economic Uncertainties	\$18,847	\$3,800
Public School System Stabilization Account	\$9,936	\$10,684
Safety Net Reserve	\$900	\$450
Budget Stabilization Account/Rainy Day Fund	\$22,252	\$22,252

Note: Numbers may not add due to rounding.

The Governor’s May Revision also suggests that the Administration will soon propose trailer bill language to expedite infrastructure projects while maintaining appropriate environmental review.

Agriculture

The Governor’s May Revision provides a 5 percent (\$4.8 million) base increase to support UC Agriculture and Natural Resources.

Community & Economic Development

Broadband. The Governor’s May Revision does not make changes to his January proposed budget and maintains funding deferrals to two broadband infrastructure programs established by Senate Bill 156 (Statutes of 2021). Specifically, the Governor proposes to:

- Defer appropriation of \$550 million from the California Public Utilities Commission’s (CPUC) \$2 billion Federal Funding Account for last mile infrastructure projects to future years (\$200 million in 2024-25, \$200 million in 2025-26, and \$150 million in 2026-27).
- Defer a total appropriation of \$575 million from the CPUC’s \$750 Loan Loss Reserve program to future years. The Governor proposes to redirect \$175 million from fiscal year 2022-23 back to the General Fund and defer \$400 million from the 2023-24 budget, making appropriations of \$300 million in 2024-25 and \$275 million in 2025-26.

On April 26, 2023, Senate Pro Tempore Atkins (D-San Diego) released the Senate Democrats' Plan to "Protect our Progress" which rejects the Governor's proposal and fully funds the broadband infrastructure programs.

Housing and Homelessness. The Governor's May Revision maintains his proposed January budget funding for homelessness programs. As part of the \$1 billion one-time General Fund included in the Governor's January Budget for the Homeless Housing, Assistance and Prevention Program (HHAP), the Administration proposed trailer bill language to focus that HHAP funding allocation on the highest priority needs, with a specific focus on reducing unsheltered homelessness.

Although no detailed policy proposal has been released, the Governor states that he remains focused on local government progress toward meeting their state housing obligations and holding city and counties accountable for "planning and developing their fair share of housing across the state."

County Operations

Cannabis. The Governor's May Revision increases a General Fund backfill of \$150 million to maintain the Cannabis Tax Fund's baseline "Allocation 3" programs that fund education, environmental clean-up, and public safety related activities. While the Cannabis Tax Fund requires a \$670 million baseline funding, the Governor's May Revision estimates \$567.4 million will be available for 2023-24; a \$102.2 million decrease.

Sales and Use Tax Forecast. The Governor's 2023-24 May Revision includes the following observations pertaining to the anticipated revenues from sales and use tax:

- The sales tax forecast is revised upward by \$100 million due largely to strong cash receipts through the first nine months of fiscal year 2022-23.
 - The sales tax forecast has been updated to reflect an increase of \$112 million in 2021-22, an increase of \$222 million in 2022-23, and a decrease of \$233 million in 2023-24.
- Overall, sales tax revenues have tracked closely to the Governor's Budget forecast, with cash receipts through March up a cumulative \$215 million.
- Taxable consumer spending is expected to be 0.8 percent higher than projected at Governor's Budget in 2022-23 but lower by 1.6 percent in 2023-24 as spending patterns are projected to normalize and shift back from goods to services.

Property Tax.

- The Governor's May Revision estimates statewide property tax revenues increased around 7.4 percent in 2022-23, which is 1.4 percentage points higher than the 6-percent growth rate anticipated in the Governor's Budget forecast.

- Property tax revenues are expected to grow 4.5 percent in 2023-24, which is 0.5 percentage point lower than the 5-percent growth expected in the Governor’s Budget.
- Strong growth in 2022-23 is likely due to home price increases that took place in 2021.
- A more moderate growth is expected in 2023-24 due to higher interest rates that led to lower property transfers and price declines in 2022.

1991 and 2011 Realignment.

- Realignment shifted administrative and fiscal responsibility to counties for a variety of programs (i.e., public safety, mental health, child welfare), along with a dedicated source of funding.
- The programs for 1991 and 2011 Realignment are funded through two sources: state sales tax and vehicle license fees.
- The Governor’s May Revision projects these fund sources to increase by 3.1 percent from 2021-22 to 2022-23 and by 0.1 percent from 2022-23 to 2023-24.

Energy

The Governor’s May Revision seeks to increase and expand a volumetric consumer energy surcharge to provide an additional \$6 million to the California Energy Commission annually.

The Governor’s May Revision allocates \$1 million the Air Resources Board to develop a Transportation Fuels Transition Plan and provides nearly \$6 million to the Energy Commission to better oversee and evaluate gasoline prices.

Forest and Public Lands Stewardship

The Governor’s May Revision preserves \$2.7 billion over four years in forest resilience and wildfire mitigation, which is 98 percent of the original investment in restoring the health and resilience of California’s forests and wildlands. The proposal also restores \$25 million in one-time General Fund to the Climate Catalyst Fund, which helps jump-start advanced technologies to encourage private financing for climate solutions. Urban greening programs would be included in a future climate bond proposal.

Nature-Based Solutions. The Governor’s May Revision maintains \$1.4 billion in investments over multiple years in programs and projects to support nature-based solutions.

State Parks. The Governor’s May Revision includes \$86.6 million in the climate bond proposal for the Statewide Parks Program, which was reduced by \$150 million in the Governor’s January proposal.

Health Care and Social Services

The Governor's May Revision includes \$245.7 billion for all health and human services programs in 2023-24. General Fund dollars account for \$73.3 billion of that allocation, with \$172.4 billion from other funds. Highlights of the proposal include:

- **Managed Care Organization (MCO) Tax.** On May 8, 2023, the Department of Health Care Services (DHCS) released an updated [Managed Care Organization \(MCO\) Provider Tax proposal](#) that includes the renewal of the MCO Provider Tax, via [trailer bill language](#) (TBL), effective April 1, 2023, nine months earlier than planned in the proposed 2023-24 Governor's Budget. This earlier start results in approximately \$3.7 billion in additional General Fund revenue, on an accrual basis, that was not accounted for in the proposed Governor's Budget. The Governor's May Revision proposes the renewal of the Managed Care Organization (MCO) Tax effective April 1, 2023, through December 31, 2026, resulting in \$19.4 billion in funding to help maintain the Medi-Cal program and support increased investments while minimizing the need for reductions to the program.
- **Distressed Hospital Loan Program.** The Governor's May Revision includes up to \$150 million one-time General Fund in total over 2022-23 and 2023-24 for the Distressed Hospital Loan – as detailed in AB 112, which was part of the Legislature's early action budget package last week. The Governor was asked about distressed hospitals during his press conference, and he responded that he is "very aware" of hospital financial issues, including distressed hospitals. He did not provide a date by which he will sign AB 112.
- **Public Health Workforce Investments.** The Governor's May Revision restores funding of \$49.8 million General Fund over four years for various public health workforce training and development programs.
- **Opioid and Fentanyl Response.** In addition to the January investments, the Governor's May Revision includes an additional \$141.3 million in Opioid Settlements Fund over four years for DHCS to support the Naloxone Distribution Project, for a total of \$220.3 million over four years. Additionally, the May Revision includes \$30 million one-time Opioid Settlements Fund in 2023-24 to support the development of a lower cost, generic version of a naloxone nasal spray product through the CalRx Naloxone Access Initiative at the Department of Health Care Access.

BEHAVIORAL HEALTH

988 Suicide and Crisis Lifeline (AB 988). The Governor's May Revision includes \$15 million one-time 988 State Suicide and Behavioral Health Crisis Services Fund in 2023-24 to support eligible 988 call center behavioral health crisis services, for a total of \$19 million in 2023-24 and \$12.5 million in 2024-25 and ongoing.

Community Assistance, Recovery & Empowerment (CARE) Act. To support CARE Act (Chapter 319, Statutes of 2022) implementation, the Governor’s May Revision includes:

- \$128.9 million General Fund in 2023-24
- \$234 million General Fund in 2024-25
- \$290.6 million in 2025-26
- \$290.8 million in 2026-27 and annually thereafter.

Of this amount allocated the following is earmarked to support estimated county behavioral health department costs for the CARE Act:

- \$67.3 million General Fund in 2023-24
- \$121 million General Fund in 2024-25
- \$151.5 million in 2025-26 and annually thereafter.

The annual increase is between \$43 million and \$54.5 million to account for refined county behavioral health department cost assumptions based on engagement with county stakeholders.

The additional funding is still significantly lower than projections from counties for both Behavioral Health and County Counsel costs to implement. RCRC continues to work with county partners and the Administration to advocate for adequate funding.

Behavioral Health Bridge Housing Program. The Governor’s May Revision includes \$500 million one-time Mental Health Services Fund in 2023-24 in lieu of General Fund for the Behavioral Health Bridge Housing Program, effectively eliminating the Governor’s Budget proposed delay of \$250 million General Fund to 2024-25. The Governor’s May Revision shifts \$817 million General Fund from 2022-23 to the next three fiscal years to reflect updated programmatic timelines. The Governor’s May Revision maintains the \$1.5 billion augmentation for the Behavioral Health Bridge Housing Program.

Behavioral Health Bond/ Mental Health Services Act Modernization. The Governor talked about the behavioral health bond and proposed Mental Health Services Act modernization at the press conference. However, there are no materials about the bond or the MHSA reforms in the Department of Finance’s May Revise document. The Administration has indicated that these items will be addressed in a policy bill – not through the budget process.

Medi-Cal Mobile Crisis Services Benefit. In December 2022, DHCS released policy guidance outlining Mobile Crisis Services implementation and operational requirements for all counties. In April 2023, DHCS extended the implementation timeframe for rural counties by six months to June 30, 2024, for Alpine, Amador, Colusa, Del Norte, Glenn, Inyo, Mariposa, Modoc, Mono, Plumas, Sierra, and Trinity Counties. The Governor’s May Revision reflects this change. All other counties continue to be required to implement the service during calendar year 2023.

Medi-Cal Adjustments. The Governor’s May Revision reflects lower Medi-Cal expenditures of approximately \$1.4 billion General Fund in 2022-23 compared to the Governor’s Budget.

The Governor's May Revision projects Medi-Cal expenditures of \$37.6 billion General Fund in 2023-24, an increase of \$6.7 billion General Fund compared with the revised 2022-23 expenditures.

HUMAN SERVICES

CalWORKs Grant Increase. The Governor's May Revision reflects a 3.6-percent increase to CalWORKs Maximum Aid Payment levels, effective October 1, 2023, which is estimated to cost \$111.2 million in 2023-24. These increased grant costs are funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund.

CalWORKs Single Allocation Early Reversion. The Governor's May Revision proposes to revert approximately \$280 million General Fund from 2021-22 that is projected to go unexpended in the CalWORKs Single Allocation. The Administration will engage with the County Welfare Directors Association to determine the precise amount.

In-Home Supportive Services. The Governor's May Revision includes \$22.4 billion (\$8.4 billion General Fund) for the IHSS program in 2023-24. Average monthly caseload in this program is estimated to be 645,000 recipients in 2023-24. The Governor noted in his opening remarks about the growth in the deficit that it is partially due to caseload increases and specifically mentioned IHSS caseload.

County CalFresh Administration Rebase. The Governor's May Revision includes \$406.5 million (\$159.5 million General Fund) to reflect a revised budgeting methodology for county CalFresh administration activities, pursuant to Chapter 537, Statutes of 2022 (AB 207).

Local Child Support Administration. The Governor's May Revision continues the Governor's January proposal for an additional \$35.8 million (\$12.1 million State General Fund) for local child support administration in 2023-24 and ongoing.

Public Safety, Emergency Management, and Criminal Justice

Community Assistance, Recovery, And Empowerment (CARE) Act. The Governor's May Revision includes an additional \$16.8 million in 2023-24, \$29.8 million in 2024-25, and \$32.9 million ongoing to double the number of hours per participant for legal services from 20 hours to 40 hours. In total, the Budget provides \$22.9 million in 2023-24, \$51.6 million in 2024-25, and \$64.4 million ongoing to support public defender and legal services organizations that will provide legal counsel to CARE participants.

Juvenile Justice. The Division of Juvenile Justice (DJJ) will close on June 30, 2023, pursuant to Chapter 18, Statutes of 2021 (SB 92). DJJ ceased intake of new youth on July 1, 2021, with limited exceptions, consistent with Chapter 337, Statutes of 2020 (SB 823). Consistent with the Governor's Budget, the Governor's May Revision reflects a decrease of \$92.1 million (\$89.3 million General Fund and \$2.8 million various funds) in 2023-24, and \$95.8 million beginning in 2025-26 (\$93 million General Fund and \$2.8 various funds) associated with the closure of DJJ.

Post-Release Community Supervision. The Governor's May Revision includes an additional \$1.1 million General Fund for county probation departments to supervise the temporary increase of individuals on Post Release Community Supervision as a result of Proposition 57 credit earning opportunities. The addition brings the total investment to \$9.3 million General Fund for this purpose in 2023-24.

Proposition 47. Approved by California voters in 2014, Proposition 47 reduces penalties for a variety of specified offenses and dedicates the 'savings' from prosecuting and housing these offenders into programs that support K-12 truancy and dropout prevention, victim services, and recidivism reduction programs primarily focused on mental health and drug treatment. The Governor's May Revision includes an additional \$11.9 million General Fund in savings for Proposition 47, for a total savings of \$112.9 million in 2023-24.

Courts. The Governor's May Revision includes funding for a new Nevada City Courthouse in Nevada County and continues funding for construction of the New Fort Ord Courthouse in Monterey County.

Solid Waste Management

The Governor's May Revision maintains \$443 million in previously committed funding for solid and organic waste and recycling, including for implementation of the SB 1383 organic waste recycling regulations. Funding had been directly allocated to local governments for early implementation efforts; however, more recent grant programs have sought to assist with the construction of new organic waste recycling facilities and development of edible food recovery programs.

The Governor's May Revision also loans \$100 million in unredeemed consumer deposits from the Beverage Container Recycling Fund (BRCF) to the General Fund to address the current budget deficit. It also loans \$40 million from BRCF to the Department of Toxic Substances Control to address an unexpected shortfall in revenues from the recently-increased Hazardous Waste Generation and Handling Fee.

Transportation

The Governor's May Revision slightly increases the net reduction of \$2 billion over three years. Caltrans will:

- Continue planned state highway repair and rehabilitation projects from State Highway Operations and Protection Program (SHOPP) over the next five years.
- Allocate approximately \$12 billion in local assistance direct funding.
- Invest over \$3 billion in State Transportation and Improvement Program (STIP) projects (e.g. regional Sustainable Communities Strategies, interregional travel).

- Provide over \$3.5 billion for congested corridors, state/local partnerships, and trade corridor enhancement projects through 2027-28.

Boating. The Governor’s May Revision proposes to increase Boating Registration Fees from \$10 to \$40 per year, which is expected to raise nearly \$21 million annually and addresses a structural deficit in the Harbors and Watercraft Revolving Fund.

The Governor’s May Revision reduces funding for aquatic invasive species programs by \$5.3 million and local grants for boat launching facilities by \$6 million.

Water

The Governor’s May Revision mostly maintains previously proposed spending for major water-related programs, but does make reductions in spending in a few targeted areas. These include:

- **2023 Drought Contingency Funds Now Flood Contingency Funds.** The Governor’s May Revision includes a reduction of \$125 million one-time previously set aside in the General Fund for future drought contingency. These funds have been shifted to a Flood Contingency fund in response to the shift from drought to potential flood conditions in the state.
- **Delta Salinity Barriers Funds Reduced.** The Governor’s May Revision includes a reduction of \$24.5 million from the General Fund for Department of Water Resources to install the salinity barriers, as a result of improved statewide water conditions.
- **Agriculture and Delta Drought Response Program (LandFlex).** The Governor’s May Revision proposes to reduce \$25 million of the \$50 million in General Fund for the LandFlex program, for block grants to local government agencies to incentivize farmers to limit agricultural groundwater use near drought-stricken communities whose drinking water wells have gone dry or are close to going dry. The Department of Water Resources awarded \$25 million in the first round of grants. Given improved water conditions, the Governor’s May Revision proposes a reversion of the remaining \$25 million for this program.

Flood. Much of the change to proposed spending for water resources in the Governor’s May Revision responds to major winter flooding and continued springtime snowmelt-based flooding this year. The new spending proposed in the May Revision—over \$200 million—adds to the nearly \$300 million proposed in January, as well as in last year’s budget. The spending changes include:

- **New Flood Contingency Funds.** The Governor’s May Revision repurposes \$125 million in one-time General Fund from last year’s budget for drought as a flood contingency set aside to support costs associated with preparedness, response, recovery, and other associated activities related to the 2023 storms.

- **Flood Control Funding (including for Pajaro Risk Management Project).** The Governor’s May Revision includes \$75 million in one-time General Fund to support local flood control projects, including in communities impacted by recent storms, such as the Pajaro River Flood Risk Management Project.
- **Small Agricultural Business Drought Relief Grants.** The Governor’s May Revision proposes an increase of \$25 million one-time General Fund to expand currently eligible activities for the California Small Agricultural Business Drought Relief Grant Program to provide direct assistance to eligible agriculture-related businesses that have been affected by the recent storms.
- **San Joaquin Floodplain Restoration.** The Governor’s May Revision includes \$40 million one-time General Fund for San Joaquin Floodplain Restoration, which restores the current year General Fund reduction proposed in the Governor’s Budget. This funding would provide for multi-benefit floodplain reconnection and habitat restoration projects in the San Joaquin and Tulare Basins.
- **Corcoran Levee Repair and Improvement (Tulare Basin).** While new funding for repair and improvement of the Corcoran Levee are not specifically earmarked in the Governor’s May Revision, other budget materials from the administration indicate that the project would be funded from new allocations made in the Governor’s May Revision.

Groundwater. The Governor’s May Revision includes \$4.8 million General Fund in 2023-24 and 2024-25 to State Water Board to fund additional oversight for basins deemed inadequate. This is in addition to funding proposed in January to GSAs to support local SGMA implementation.