

Honey, I Shrunk the Surplus: California's 2023-2024 Budget

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Abstract

The 2023 budgeting cycle in California was much different from the previous year. California's finances, always topsy-turvy, faced a dramatic reversal of fortune as surplus turned to deficit. Nonetheless, the state was able to weather the storm and avoid deep spending cuts, thanks to a combination of good economic times in years past and politically expedient decisions by the Governor and Legislature. However, delayed tax collections and projections for structural deficits, even absent a recession, meant storm clouds were on the horizon as the year drew to a close. The tough decisions that were sidestepped in 2023 might have to be made in 2024.

Introduction

California is a place that always surprises you. In 2022, despite enduring a global pandemic and economic meltdown, California was sitting on the largest budget surpluses in its history. The good times were rolling and the state dramatically increased its spending, even as legislative Democrats called for even more. Fast forward to 2023 and the state's surplus turned into a deficit. Programs were being cut or delayed. Still, the good times were so good before that the state was far better prepared for a shortfall and potential recession than it was back in 2008. With a newly re-elected Gavin Newsom at the helm, the 2023-2024 budget promised to be leaner in some places, but there was still plenty of gold in the Golden State.

Background

Demographics

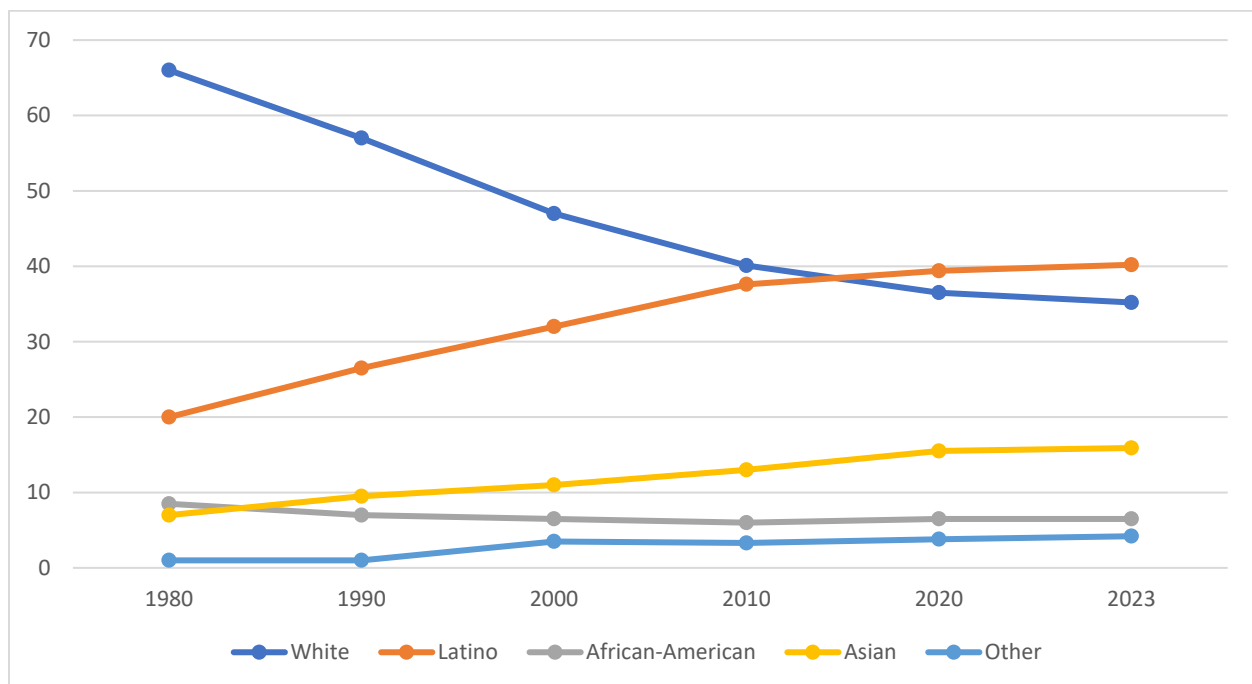
To understand California, it is important to recognize the state's rapidly changing demographics. California has been a majority-minority state since the late 1990s, and is one of the most diverse states in the nation. A decade ago, non-Hispanic Whites held a narrow plurality of 40.1% of the state's population, with non-White Latinos comprising 37.6%.¹ However, based on updated data from the U.S. Census Bureau, non-Hispanic Whites currently account for only 35.2%, while non-

¹ U.S. Census Bureau, 2023.

White Latinos have achieved a plurality of 40.2%.² Forty years ago, non-Hispanic Whites accounted for two-thirds of California's population.³

Also of note is the rapid rise in the Asian-American percentage. Back in 1980, this group accounted for just 7 percent of the state's population.⁴ By 2023, that number had more than doubled to nearly 16 percent.⁵ When non-White Latinos are combined with Asians, they represent a majority of the state's population; a majority which is nearly identical to that held by non-Hispanic Whites back in 1990.⁶ Figure 1 depicts the shifting makeup of the state from 1980 to 2023.

Figure 1. Changing Demographics in California, 1980-2023



Source: U.S. Census Bureau (Percentage of California's population). Non-Latino populations are non-Hispanic.

Politics

As renowned political columnist Dan Walters wrote in 2016, "The state's Republican Party...failed miserably to adjust to the new demographics. It continued to trumpet themes, such as strident resistance to undocumented immigrants...that alienated not only Latinos and other nonwhite communities but younger, well-educated white Californians as well."⁷

In the past decade, California has shifted from a Democratic state to a very Democratic state, a place where Republicans have become an endangered species. While Republicanism remains

² U.S. Census Bureau, 2023.

³ U.S. Census Bureau, 2023.

⁴ U.S. Census Bureau, 2023.

⁵ U.S. Census Bureau, 2023.

⁶ U.S. Census Bureau, 2023.

⁷ November 27, 2016. *Sacramento Bee*. How California became a very blue state.

strong in rural California, the Republican brand is sagging in the state's urban areas, which represent most of its population. The party is also struggling to attract nonwhite and younger voters, California's two fastest-growing groups. This was brought into stark relief in 2018 when Republican registration briefly fell below "No Party Preference", leading many Democrats to crow that Republicans had become a "third party" in the state. 2023 is seeing a slight rebound for the party, although there are still almost twice as many Democrats in the state as Republicans.

Democrats now make up 46.9% of the state's 22 million registered voters.⁸ In contrast, Republicans constitute slightly less than 24%, with No Party Preference a close third at 22.5%.⁹ In terms of raw numbers, this means that Democrats outnumber Republicans by nearly 5.1 million voters, while Republicans only have an edge over No Party Preference by around 295,000.¹⁰ This problem is particularly acute in Los Angeles County and the San Francisco Bay area. In Los Angeles County, Democrats comprise a majority of registered voters at 53.5%, while No Party Preference has 23%, and Republicans garner only 17.1%.¹¹ In San Francisco County, only 6.7% of registered voters are Republicans, in contrast to 63.2% Democratic and 25.1% No Party Preference.¹²

Over the past quarter century, Republican registration has dropped nearly 12.5 percentage points while Democratic registration has stayed nearly the same, down only 0.3% from 1996. Meanwhile, No Party Preference has nearly doubled from 11.3% to 22.5%.¹³ Figure 2 depicts the statewide changes in party registration from 1996 to 2023.

⁸ February 10, 2023. *California Secretary of State*. Report of Registration.

⁹ February 10, 2023. *California Secretary of State*. Report of Registration.

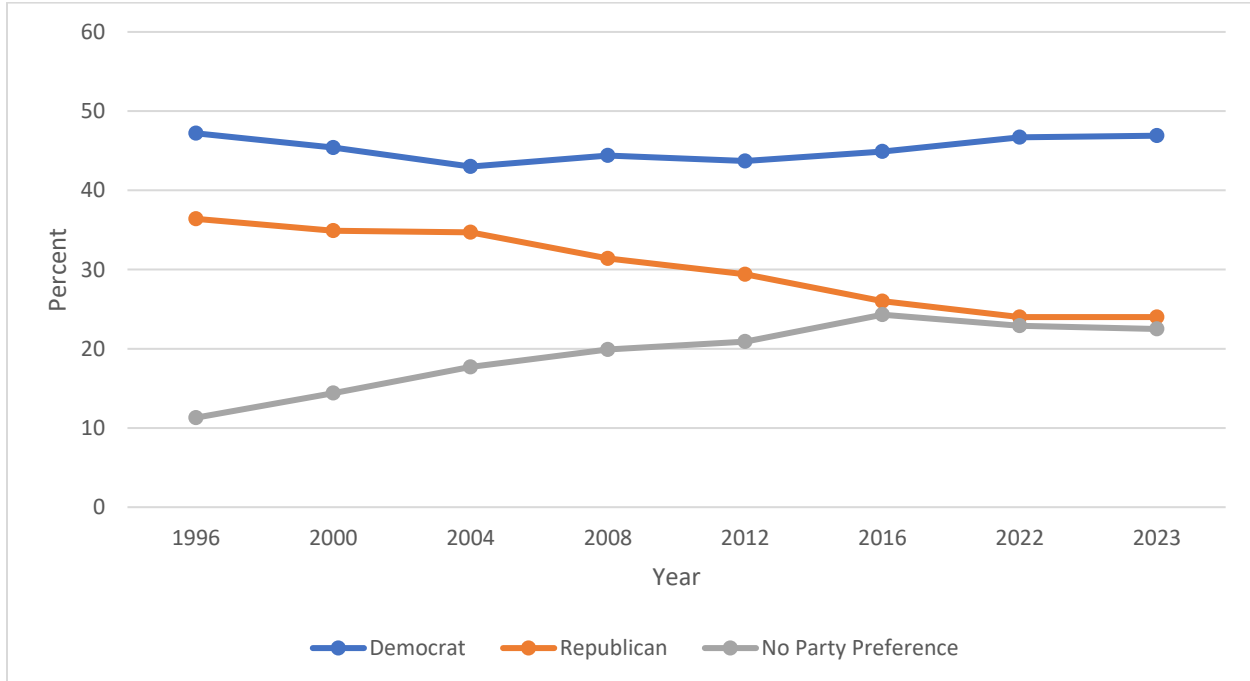
¹⁰ February 10, 2023. *California Secretary of State*. Report of Registration.

¹¹ February 10, 2023. *California Secretary of State*. Report of Registration.

¹² February 10, 2023. *California Secretary of State*. Report of Registration.

¹³ February 10, 2023. *California Secretary of State*. Report of Registration.

Figure 2. Party Registration in California, 1996-2023



Source: California Secretary of State. Report of Registration as of February 10, 2023.

These dynamics were on full display in the 2022 elections, as Democratic Governor Gavin Newsom easily defeated his Republican opponent, state Senator Brian Dahle, by two million votes (59%-41% margin). Casual observers might have been surprised a gubernatorial election was even taking place, as Newsom largely ignored his Republican opponent throughout the race to campaign for other candidates and causes. Only one debate was held between the two contenders, for one hour on a Sunday afternoon, coinciding with a marquee San Francisco 49ers home game against the Kansas City Chiefs.

Dahle tried to make hay out of Newsom's supposed national ambitions, saying, "I want to start out by thanking the governor for taking time out of going forward on his dream of being president of the United States and actually coming to California and having a debate. Californians are suffering. They're fleeing California and they're going to other states where he's campaigning nationally."¹⁴ For his part, Newsom labeled his opponent as extreme, particularly on the issue of abortion. "You're not pro-life. You're pro-government-mandated birth," Newsom said to Dahle.¹⁵ Unsurprisingly, the debate had little impact on the dynamics of the race and Newsom rolled to a second term.

Results were much the same in other races, where Democrats won all statewide offices with margins ranging from 55% – 61% of the vote. In the U.S. Senate race, Democrat Alex Padilla (appointed to fill out the remainder of Vice President Kamala Harris's term) easily won a full six-year term over his Republican opponent, attorney Mark Meuser, by a 61%-39% margin.

¹⁴ October 24, 2022. *CalMatters*. What you need to know about the California governor debate.

¹⁵ October 24, 2022. *CalMatters*. What you need to know about the California governor debate.

Republicans have not won statewide office in California since 2006, and have not won a U.S. Senate race since 1988. In the state legislature, Democrats maintained their supermajorities. After the election, Democrats had a 62-18 advantage in the Assembly and a 32-8 edge in the Senate. Republicans have not had a majority in the Assembly since 1996, and have not controlled the state Senate since 1970. This underscores the intraparty nature of legislative politics in the state.

On the Republican side, the only silver lining in the 2022 elections was winning certain competitive U.S. House races. In the 22nd District, Republican David Valadao held on to his seat, defeating Democratic state Assemblyman Rudy Salas. Valadao is fairly moderate and was one of only two Republican House members to vote for President Trump's second impeachment and still win re-election in 2022.¹⁶ Meanwhile, in the 13th District, Republican farmer John Duarte narrowly defeated state Assemblyman Adam Gray. This was the second-closest House race in the nation in 2022, with Duarte defeating Gray by only 564 votes.¹⁷

As usual, the California ballot also featured numerous propositions, ranging from a ban on flavored tobacco products, to more funding for K-12 art and music education, to a pair of competing propositions aiming to expand sports betting in the state.

Governor Newsom strongly supported Proposition 1, which codifies the right to abortion and contraception in the state constitution. This passed by an overwhelming 67%-33% margin, garnering 7.1 million votes to 3.5 million for the “no” side. Jodi Hicks, president and CEO of Planned Parenthood Affiliates of California, said “This overwhelming victory once again shows California’s leadership in moments of national crisis and that our values will not be compromised by a handful of conservative extremists on the U.S. Supreme Court.”¹⁸

Newsom also took a strong stance on Proposition 30, a measure to raise personal income taxes on wealthy Californians by 1.75% to fund clean air and climate change programs.¹⁹ Specifically, the measure sought to subsidize zero-emission vehicles and fund wildfire response and prevention efforts.²⁰ Surprisingly, Newsom came out strongly against this, contending it would be a huge giveaway to rideshare company Lyft (an allegation Prop 30’s supporters denied, despite Lyft being the principal funder of the pro-Prop 30 campaign).²¹ Many observers felt Newsom’s opposition sealed the measure’s fate, which went down 58%-42%.²² Matt Rodriguez, campaign manager for No on 30, said “You can’t remove the governor from it. He’s a credible messenger on the opposition side, simply because I think a lot of people and a lot of Democrats take their cues from him.”²³

Mary Creasman, CEO of California Environmental Voters, agreed saying Newsom “100%” contributed to the measure’s demise.²⁴ This was borne out by survey research conducted by the

¹⁶ The other was Rep. Dan Newhouse (R-Washington).

¹⁷ The closest was Rep. Lauren Boebert (R-Colorado) defeating Adam Frisch (D) by 554 votes.

¹⁸ November 8, 2022. *Associated Press*. Californians vote to protect abortion in state constitution.

¹⁹ Fall 2022. *CalMatters Voter Guide*. Prop 30: Tax Millionaires for Electric Vehicle Programs.

²⁰ Fall 2022. *CalMatters Voter Guide*. Prop 30: Tax Millionaires for Electric Vehicle Programs.

²¹ November 12, 2022. *Capital Public Radio*. Why California’s eco-friendly, tax-the-rich electorate killed Prop 30.

²² November 12, 2022. *Capital Public Radio*. Why California’s eco-friendly, tax-the-rich electorate killed Prop 30.

²³ November 12, 2022. *Capital Public Radio*. Why California’s eco-friendly, tax-the-rich electorate killed Prop 30.

²⁴ November 12, 2022. *Capital Public Radio*. Why California’s eco-friendly, tax-the-rich electorate killed Prop 30.

Public Policy Institute of California (PPIC). Dan Bonner, associate survey director at the PPIC, said “The drop [in support for Prop 30] among those who approve of Newsom was three times greater than those who were disapproving.”²⁵ Advocates for Prop 30 were quick to point out, however, that this was not a referendum on attempts to control climate change in the state. Creasman said, “Prop. 30 had a record number of billionaires against it, it had complete falsehoods thrown at it, and it had the most popular Democratic leader in the state against it. And we still got 40% of the vote.”²⁶

Leadership Turnover in the Legislature

In 2022, Assembly Speaker Anthony Rendon (D-Los Angeles County) was challenged for his leadership spot by Assemblyman Robert Rivas (D-Monterey County), but Rendon blocked the bid in a lengthy six-hour Democratic caucus meeting. The two Democrats then settled into an uneasy and uncomfortable stalemate. Although the longest serving speaker since California adopted term limits in 1990s, Rendon can only serve until November 2024.²⁷

A few days after the November elections, Assembly Democrats came to a deal after another lengthy caucus meeting. Rendon would stay on as Speaker until the end of June 2023, with Rivas then taking over the top leadership position. “Excited that we had the opportunity to walk out of there united,” Rivas told reporters afterwards, flanked by Assembly Democrats. “It was about bringing our caucus together, about planning for the future.”²⁸

Notably absent was Rendon. “I look forward to working with Assemblymember Rivas in anticipation of a smooth transition in 2023,” he said in a released statement. “Now, it is time to work together for California.”²⁹ Assemblyman Jesse Gabriel (D-Los Angeles), a Rivas supporter, said many in the caucus supported the compromise because they did not want the speakership fight to be a distraction in the new legislative session. “We need to put our internal politics behind us and get to the policy work,” Gabriel told reporters. “That was a heavy motivating factor for a lot of people.”³⁰

In a *Politico* article summarizing the intense political drama, the online newspaper noted Rivas comes from a rural part of the state usually not represented in legislative leadership. “California’s rural areas tend to be overshadowed by the urban centers around Los Angeles and San Francisco that send the most members to Sacramento,” the article mentioned. Rivas succeeded in part by pulling together a voting bloc in part from those areas often overlooked. “I think part of why he was able to ascend to the speakership is he could get people from different parts of the state and wings of the caucus,” said Gabriel.³¹

Legislative Democrats are extremely powerful in California, holding three-quarters of the seats in both houses. But to remain in power, Rivas will need to keep a majority of Assembly Democrats

²⁵ November 12, 2022. *Capital Public Radio*. Why California’s eco-friendly, tax-the-rich electorate killed Prop 30.

²⁶ November 12, 2022. *Capital Public Radio*. Why California’s eco-friendly, tax-the-rich electorate killed Prop 30.

²⁷ November 10, 2022. *CalMatters*. A speakership deal: Rendon, Rivas agree on handover.

²⁸ November 10, 2022. *CalMatters*. A speakership deal: Rendon, Rivas agree on handover.

²⁹ November 10, 2022. *CalMatters*. A speakership deal: Rendon, Rivas agree on handover.

³⁰ November 10, 2022. *CalMatters*. A speakership deal: Rendon, Rivas agree on handover.

³¹ June 15, 2023. *Politico*. A powerful Democrat emerges from rural California after bitter leadership fight.

on his side, said former Assembly Speaker Fabian Núñez. “The math works the same — every day when you’re speaker, you have to have 41 votes to support your speakership,” Núñez said, “no matter whether you have 70 Democrats or 40 Democrats.”³²

It’s unusual for Speakers to last more than a few years, even before the state adopted term limits. Rendon’s tenure through June made him the third-longest Speaker in California history, behind legends Willie Brown and Jesse Unruh. It’s a tough position, for as the *Associated Press* wisely noted, the “job relies on the changing whims of politicians who are constantly searching for ways to increase their own power and influence.” Former California Governor Jerry Brown knew Brown, Unruh, Rendon, and many other Speakers during his five-decade career in California politics. “They’re all unusual human beings,” Brown said. “These were not ordinary people.”³³

Rivas was sworn in June 30, with Newsom and former House Speaker Nancy Pelosi in attendance. “Any time you get a new speaker, you just don’t know how effective that person will be,” San Jose State political scientist emeritus Larry Gerston remarked. “At the end of the day, the most important power of the speaker is the power to persuade. We’ll just have to see how persuasive he is.”³⁴

In contrast to the messy affair in the Assembly, the leadership transition in the state Senate was simple and largely uneventful. Senate Pro Tem Toni Atkins (D-San Diego) was also term-limited, yet initially no successor emerged among Senate Democrats to replace her. Eventually in August 2023, Senator Mike McGuire (D-Sonoma County) emerged as her replacement, after a short leadership discussion largely outside of media scrutiny.

During a joint news conference, Atkins praised the Senate Majority Leader McGuire, calling him “a partner by my side”, stressing the desire to have an orderly transition. “You may ask, ‘Why now, why today?’” Atkins told reporters. “A big reason for the decision today is because the caucus concluded that a long, drawn-out successor campaign would not be in the best interest of the Senate, nor the people who were elected to represent.”³⁵

According to *Politico*, the more moderate McGuire pitched himself as a transitional leader to newer Senators, since he can serve no more than two and a half years as leader due to term limits. “We are going to work hand in glove with the pro tem to finish out the important work that we’ve all fought so hard for this year,” McGuire said at the press conference.³⁶

Unemployment, Housing, & Inflation

Over the past fifteen years, unemployment has also become an increasingly salient issue in California. Since the Great Recession, California’s unemployment rate has always been higher than the nation at large, even in relatively good times. When the coronavirus pandemic and related

³² June 15, 2023. *Politico*. A powerful Democrat emerges from rural California after bitter leadership fight.

³³ June 28, 2023. *Associated Press*. California Assembly Speaker Anthony Rendon is stepping down. He’s not happy about how it happened.

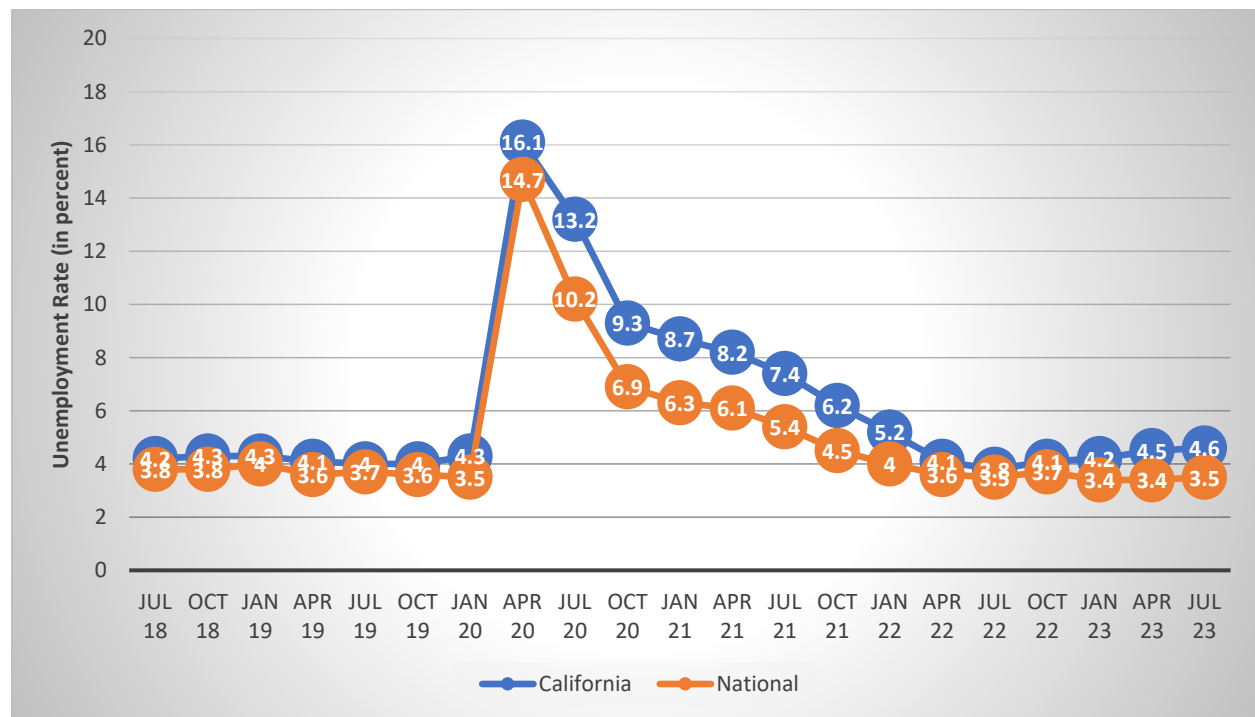
³⁴ July 5, 2023. *San Jose Mercury*. Mystery Surrounds New Speaker of the Assembly.

³⁵ August 28, 2023. *Politico*. California Senate Democrats choose North Coast lawmaker as next leader.

³⁶ August 28, 2023. *Politico*. California Senate Democrats choose North Coast lawmaker as next leader.

economic lockdowns began in Spring 2020, the problem got far worse. California's unemployment rate reached its zenith in April 2020 at a staggering 16.1%, up from just 4.3% three months earlier.³⁷ Since then, the state's jobless rate has dropped considerably to 4.6%.³⁸ Notably, however, California still has an unemployment rate which is 1.1% higher than that nation at large.³⁹ Figure 3 depicts the California and national unemployment rates from July 2018 to July 2023.

**Figure 3. California vs. National Unemployment Rates (%),
July 2018 – July 2023**



Source: U.S. Bureau of Labor Statistics, 2023.

In addition to higher-than-average unemployment, California has the nation's highest rate of expanded poverty and the second lowest rate of home ownership, just behind New York. Even though the state's population growth has slowed, perhaps even stopped, the state still isn't building enough housing stock. The state added more than three times the number of people than housing units the past ten years. Only Utah and Hawaii have more people per housing unit, and home prices are second in the nation only to Hawaii. Dan Walters in *CalMatters* noted this supply-demand mismatch drives up costs for both renters and potential homeowners.⁴⁰

Governor Newsom campaigned heavily on housing and housing costs when he initially ran for governor in 2018, promising California would build 3.5 million additional housing units by 2025,

³⁷ U.S. Bureau of Labor Statistics, 2023.

³⁸ U.S. Bureau of Labor Statistics, 2023.

³⁹ U.S. Bureau of Labor Statistics, 2023.

⁴⁰ December 7, 2021. *CalMatters*. California housing crisis both wide and deep.

requiring the state to quintuple the number of units built each year.⁴¹ But California has not seen a serious uptick in housing construction since Newsom was elected.⁴²

Moreover, the state's homelessness crisis is widely viewed as out of control by the public and policymakers alike. While accounting for 12% of the nation's total population, California accounts for nearly one-third of the country's homeless population.⁴³ California has the nation's highest homelessness rate, with 44 people out of every 10,000 experiencing homelessness.⁴⁴ This translates to a homeless population of over 172,000, nearly equivalent to the size of Eugene, Oregon.⁴⁵ Frustratingly, despite billions of dollars spent and Governor Newsom's insistence on "accountability and results", the problem continues to get worse.

In February 2023, California's Interagency Council on Homelessness released a report showing the state spent nearly \$10 billion between 2018 and 2021 providing services to more than 571,000 people experiencing homelessness (a number nearly equivalent to the entire population of Wyoming).⁴⁶ Despite this, less than half that number ended up receiving housing.⁴⁷ The report said that, "One of the largest challenges facing the state is the inflow of new people into homelessness, even as efforts to help people experiencing homelessness expand."⁴⁸

California's high cost of living and rising inflation are exacerbating these problems. In an effort to combat surging prices, particularly for gas and groceries, last year's budget included \$17 billion in direct payments to California taxpayers. Individuals received anywhere between \$200 and \$1,050 depending on filing status, income, and number of dependents.⁴⁹ In a joint statement, Governor Newsom, Senate President Pro Tempore Toni Atkins, and Assembly Speaker Anthony Rendon said, "California's budget addresses the state's most pressing needs, and prioritizes getting dollars back into the pockets of millions of Californians who are grappling with global inflation and rising prices of everything from gas to groceries. The centerpiece is a \$17 billion inflation relief package, which will offer tax refunds to millions of working Californians. Twenty-three million Californians will benefit from direct payments of up to \$1,050. The package will also include a suspension of the state sales tax on diesel, and additional funds to help people pay their rent and utility bills."⁵⁰

The California Budget Process

⁴¹ December 7, 2021. *CalMatters*. California housing crisis both wide and deep.

⁴² December 7, 2021. *CalMatters*. California housing crisis both wide and deep.

⁴³ December 20, 2022. *CalMatters*. California accounts for 30% of nation's homeless, feds say.

⁴⁴ December 20, 2022. *CalMatters*. California accounts for 30% of nation's homeless, feds say.

⁴⁵ December 20, 2022. *CalMatters*. California accounts for 30% of nation's homeless, feds say.

⁴⁶ February 16, 2023. *CalMatters*. California homelessness: Where are the state's billions going? Here's the new, best answer.

⁴⁷ February 16, 2023. *CalMatters*. California homelessness: Where are the state's billions going? Here's the new, best answer.

⁴⁸ February 16, 2023. *CalMatters*. California homelessness: Where are the state's billions going? Here's the new, best answer.

⁴⁹ June 27, 2022. *Associated Press*. Here's How Much Money to Expect from California's 'Inflation Relief' Payments.

⁵⁰ June 27, 2022. *Associated Press*. Here's How Much Money to Expect from California's 'Inflation Relief' Payments.

The kick-off to budget season is the governor's January budget proposal, which must be submitted to the Legislature by January 10 of each year, for the fiscal year beginning July 1. Once submitted, the proposed budget is referred to the Legislative Analyst's Office (LAO) for review. Similar to the Congressional Budget Office, the LAO is tasked with presenting the Legislature with independent, objective, and nonpartisan analysis of the state budget. LAO budget analysts craft several detailed reports on the governor's budget, and frequently highlight areas of either inadequate or excessive spending in various departments, as well as highlighting changes from the previous year's budget. The action then shifts to the Assembly Budget and Senate Budget and Fiscal Review Committees, before eventually proceeding to the Assembly and Senate floors for consideration. During this legislative review, the Department of Finance (DOF) issues a revision to the governor's budget numbers in May (colloquially known as the "May Revise") based on updated economic forecasts and revenue projections. The Legislature uses these updated figures in crafting its final budget.

Since the adoption of Proposition 25 in 2010, budgets without tax increases require only a simple majority of both houses (41 in the Assembly and 21 in the Senate) to pass, as opposed to the previously required two-thirds vote. Tax increases still require a two-thirds vote of each chamber for passage (54 in the Assembly and 27 in the Senate). Once approved, the budget is sent to the governor for his signature.

At that point, the governor may choose to exercise his line-item veto authority. The governor can zero-out appropriations and other provisions without vetoing the entire budget. However, the governor is not empowered to increase spending on any line-item. Line-item vetoes—like regular vetoes—can be overridden by a two-thirds vote of both houses of the Legislature; however, this is exceptionally rare in California. The last successful veto override took place in 1979. Lawmakers have not even voted on a veto override since 2003.⁵¹

The California Constitution requires the Legislature to adopt a budget by June 15, and the governor to affirm his signature by July 1, the beginning of the new fiscal year. This deadline was rarely met in the 1990s and 2000s, owing to the lack of a constitutional enforcement mechanism; Proposition 25 changed the political calculus. Since 2010, legislators must pass a budget by the June 15, or forfeit their pay until one is passed. Since its passage in 2010, Proposition 25 has proven quite effective in ensuring that California has its new budget in place by July 1.

Perennial Obstacles to California Budget-Making

As we have discussed before (DiSarro and Hussey 2022), California faces a series of structural and political challenges which tend to make the budget process more difficult than in other states. Several of these perennial obstacles to California budget-making are:

The Balanced Budget Requirement & Boom-and-Bust Budgeting. Like most states, California is constitutionally required to produce a balanced budget every year. However, unlike most states, California is disproportionately reliant upon income tax and capital gains tax revenue to fund its operations. This creates a boom-and-bust cycle giving the state large surpluses when times are

⁵¹ October 27, 2015. *Capital Public Radio*. Will California Lawmakers Ever Again Override A Veto?

good but huge deficits when times are bad (Cummins 2015). During difficult times, the state is forced to choose between tax increases opposed by Republicans and major spending cuts opposed by Democrats. Both options are politically unpopular with the public.

Supermajority Requirements for Tax Increases. Over the past sixty-five years, the Democratic Party has dominated the California Legislature. Republicans have won a majority in the Assembly only twice since 1958, while Senate Republicans have only controlled the chamber once in that time. However, state tax increases in California require a two-thirds legislative supermajority, due to Proposition 13, which passed in 1978. Historically, this gave the minority Republicans tremendous leverage over the budget-making process because they possessed an effective veto over tax policy. In recent elections, however, Democrats have frequently won 2/3 majorities (or greater) in the Legislature, snatching away one of the minority party's last major influences in state politics.

Ballot Box Budgeting. Of all the states that employ direct democracy, Californians make use of their initiative, referendum, and recall procedures more than citizens of any other state.⁵² On any given California ballot, voters can expect to decide the fate of five to fifteen different proposals. Very often, these proposals have significant fiscal impacts. California's reliance upon direct democracy complicates the job of the governor and state legislature in crafting a budget, because certain taxing and spending options are not available to them. For example, Proposition 98 mandates that approximately 40% of the state's budget be allocated for K-14 education (K-12 plus community colleges). Thus, 40% of the budget is off-the-table before any budget proposals can be made. This system of "ballot box budgeting" also tends to produce structural deficits for the state, even in the best of times. This is because voters have historically approved new spending measures but rejected new tax increases.

New Budget Year, Old Budget Problems

Governor Newsom approved California's largest budget in history in late June 2022, with gas refunds for millions of Californians and a smorgasbord of one-time spending closing in on \$50 billion. The almost \$310 billion budget had a projected \$100 billion surplus over two fiscal years, and included constitutionally-mandated large increases to public education. "This budget invests in our core values at a pivotal moment," Newsom said in a statement.⁵³ Lawmakers were equally thrilled, at the both the size of the budget and also their apparent fiscal restraint. "In any year this would be a great budget," said Senate President Pro Tem Toni Atkins (D-San Diego). "In a world where we're facing global inflation and ongoing pandemic issues, this budget is as remarkable and is responsible."⁵⁴

But Jerry Nickelsburg, director of the well-respected and influential UCLA Anderson Forecast, warned the *Los Angeles Times* in June that the state's budget could easily change if financial markets generated less stock options or bonuses for wealthy Californians that largely determine

⁵² Initiative & Referendum Institute, 2023.

⁵³ June 30, 2022. *Los Angeles Times*. Newsom signs state budget bills, with gas refunds to 17.5 million California taxpayers.

⁵⁴ June 30, 2022. *Los Angeles Times*. Newsom signs state budget bills, with gas refunds to 17.5 million California taxpayers.

the state's fiscal health. Fortunately, Nickelsburg added, the state had large budget reserves, including a rainy-day fund that has eluded the Golden State in previous boom and bust economic cycles.⁵⁵

But Newsom began signaling a growing budget cloud by even September 2022, with the same veto language on nearly a dozen spending bills. "With our state facing lower-than-expected revenues over the first few months of this fiscal year, it is important to remain disciplined when it comes to spending, particularly spending that is ongoing," the governor wrote in multiple vetoes.⁵⁶ His message noted that potential legislation would add collectively more than \$30 billion to the state budget. Newsom added the proposed programs "should be considered and accounted for as part of the annual budget process," concluding each veto with "For these reasons, I cannot sign this bill."⁵⁷

H.D. Palmer, the perennial spokesman for the Department of Finance, told reporters revenue was \$4.4 billion below forecast, primarily due to weaker-than-projected income and capital gains taxes. The veto messages were an "emphasis of cautionary notes" the administration had repeated consistently over the previous months.⁵⁸ "There continues to be a great deal of uncertainty in terms of the economic situation and in the revenue forecast, Palmer mentioned. "We noted in May that the Federal Reserve might increase interest rates even further," Palmer said, which then happened several times over the summer."⁵⁹

The governor even vetoed bills on issues he strongly supported, such as healthcare and kindergarten expansion. "There are many cases where he will indicate that he is supportive of the policy goals that a particular bill may put forward," Palmer indicated. "But the costs associated with them, given the risk of revenue and the concerns that we may have to turn around and reduce new programs ... outweigh the risk of going forward at that particular time."⁶⁰ Newsom later noted that of his 169 vetoes, seventy-five were directly budget related.⁶¹

The giant state surplus continued shrinking, and the LAO predicted an 80% chance of a state deficit by the end of the fiscal year in June 2023. While the state collects a sizable amount of income tax every April, California also receives revenue each month from withholding taxes, which were down substantially from the earlier, sunnier June forecast. "Those shortfalls not only will be coming, they will be ample and we'll have to make some adjustments," Newsom told reporters. "We're working with the Legislature right now to do just that."⁶²

⁵⁵ June 30, 2022. *Los Angeles Times*. Newsom signs state budget bills, with gas refunds to 17.5 million California taxpayers.

⁵⁶ September 22, 2022. *Capital Public Radio*. Facing lower-than-expected revenues, Newsom vetoes spending bills.

⁵⁷ September 22, 2022. *Capital Public Radio*. Facing lower-than-expected revenues, Newsom vetoes spending bills.

⁵⁸ September 22, 2022. *Capital Public Radio*. Facing lower-than-expected revenues, Newsom vetoes spending bills.

⁵⁹ September 22, 2022. *Capital Public Radio*. Facing lower-than-expected revenues, Newsom vetoes spending bills.

⁶⁰ September 27, 2022. *Sacramento Bee*. Too much spending for Gavin Newsom? Governor cites costs in vetoes, signaling a leaner budget.

⁶¹ December 20, 2022. *CalMatters*. \$24 billion projected budget deficit may test California's resolve to grow safety net amid recession.

⁶² October 29, 2022. *Associated Press*. California revenues decline amid economic worries.

But all hope was not lost. For a bit of comparison, during the state’s budget crisis during the Great Recession, California had less than \$8 billion to spend at the end of September 2008, and faced a massive state deficit reaching up to \$40 billion. In contrast, California in September 2022 had a potential \$8 billion budget hole with more than \$130 billion available, including \$37.2 billion in various savings and emergency accounts. “I think the state is far better positioned for a potential economic downturn this time around than it has been in contemporary history,” Chris Hoene, executive director of the California Budget & Policy Center, told the Associated Press.⁶³

But no one was optimistic about the LAO’s annual November fiscal forecast and the nonpartisan agency did not disappoint, predicting a seismic state budget reversal. California’s \$97 billion state surplus was now a predicted \$24 billion deficit, with the LAO warning the imbalance could be even larger if an economic recession hit. Stubbornly high levels of inflation substantially increased that risk. “The longer inflation persists and the higher the Federal Reserve increases interest rates in response, the greater the risk to the economy,” the Legislative Analyst’s Office summarized. “The chances that the Federal Reserve can tame inflation without inducing a recession are narrow.” (Hollingsworth 2023)

But with \$23 billion in reserves, Legislative Analyst Director Gabriel Patek put the state’s situation in perspective. “We don’t think of this as a budget crisis, we think of this as a budget problem,” he told reporters. Patek and his office recommended delaying spending and other budget approaches before applying the emergency reserves.⁶⁴

Palmer, the spokesman from the state’s Department of Finance, called the estimated shortfall a “realistic and reasonable assessment of the work that lies ahead.” He said the Newsom administration anticipated the economic slowdown and planned accordingly, putting California in a good position to weather the impact.⁶⁵ He was forced to spin a bit though about the discretionary \$9.5 billion in one-time stimulus payments given out to Californians as gas rebates. “This is precisely why the governor made clear that the state had to be smart with the surplus — which we’ve done,” Palmer said. “Using it to build up our budget reserves, pay down debt, and target the balance on one-time spending — like the \$9.5 billion in inflation relief payments that continue to be delivered to millions of Californians — and not building up higher ongoing spending that can’t be sustained.”⁶⁶

Republican Assembly Leader James Gallagher (Sutter County) blamed the state’s financial circumstances on Democratic leaders, who he said “overtaxed Californians and grew government while ignoring investments in critical infrastructure like new water storage.”⁶⁷

⁶³ October 29, 2022. *Associated Press*. California revenues decline amid economic worries.

⁶⁴ November 16, 2022. *San Francisco Chronicle*. ‘Threat of a recession’: California will see a \$25 billion budget deficit in 2023, forecast predicts.

⁶⁵ November 16, 2022. *Los Angeles Times*. With potential recession looming, California estimates \$25-billion deficit next year.

⁶⁶ November 16, 2022. *Los Angeles Times*. With potential recession looming, California estimates \$25-billion deficit next year.

⁶⁷ November 16, 2022. *Los Angeles Times*. With potential recession looming, California estimates \$25-billion deficit next year.

In contrast, legislative Democrats stayed positive. “Thanks to our responsible approach, we are confident that we can protect our progress and craft a state budget without ongoing cuts to schools and other core programs or taxing middle class families,” Senate President Pro Tem Toni Atkins (D-San Diego) said in a written statement. “The bottom line is simple: We are prepared to hold onto the gains we’ve made and continue where we left off once our economy and revenues rebound.”⁶⁸

Most of the surplus was in one-time spending, which at the time generated a fair amount of criticism towards Newsom for not agreeing to spend more on major California problems like homelessness and housing costs. But the governor’s relative budget prudence earned praise in light of the LAO’s dim prospects for the state’s budget future. “Had the governor been less prudent, we’d be in big trouble,” said Matt Regan, senior vice president of public policy for the Bay Area Council.⁶⁹

Assembly Budget Chair Phil Ting (D-San Francisco) also reemphasized the better fiscal position of the state than the last budget crisis in the late 2000s. “We have a significant amount of cash available, both in terms of reserves, but also in terms of liquidity,” Ting said. “So this is a very different situation than the state faced in 2008-2009, where they were running out of cash.” Moody’s Analytics agreed, rating California as one of the states most prepared for a recession, citing its extensive reserves.⁷⁰

January 2023: Bad Budget News Breaks

Newsom announced his fiscal year 2023-24 Budget in early January, estimating a \$22.5 billion deficit. The governor proposed a series of spending delays to balance the budget, while also slimming down state rebates for zero-emission vehicles. His budget proposal would cut almost \$6 billion in previously approved funding, with an additional \$4 billion in “trigger” cuts mainly in climate and transportation funding that could be restored if revenues increased. “Why climate and transportation? Because of the magnitudes of those budgets,” Newsom admitted.⁷¹ The governor also told reporters he was hopeful federal funding would backfill some of his cuts to climate change programs.⁷²

The budget estimated about \$30 billion less in revenue, mainly from capital gains taxes vanishing when the stock market dropped. “It’s an EKG and that sums up California’s tax structure,” Newsom remarked. “It sums up the boom-bust.”⁷³

⁶⁸ November 16, 2022. *Los Angeles Times*. With potential recession looming, California estimates \$25-billion deficit next year.

⁶⁹ November 16, 2022. *The Mercury News*. How did California yo-yo from a \$100 billion surplus to a projected \$25 billion shortfall — in just one year?

⁷⁰ December 20, 2022. *CalMatters*. \$24 billion projected budget deficit may test California’s resolve to grow safety net amid recession.

⁷¹ January 10, 2023. *CalMatters*. Reversal of fortune: Gov. Newsom outlines plan to deal with budget deficit.

⁷² January 10, 2023. *Los Angeles Times*. Newsom proposes cuts to climate change programs amid cloudy economic outlook.

⁷³ January 10, 2023. *Politico*. Newsom lays out spending cuts as California budget swings from surplus to deficit.

The Mercury News noted the governor's budget presentation was "more somber" than in previous years with record surpluses and expansive spending. "A lot of his big priorities, he's now having to say he's going to cut," Menlo College Political Science Professor Melissa Michelson told the newspaper. But, she added, he'll try to lessen the damage if the state can come up with extra funding later.⁷⁴

Sticking with the budget script of prudence and not panicking, Newsom's proposal did not tap the state's rainy day fund. He noted the drumbeat of consistent warnings about a potential nationwide recession. "That makes us very mindful of the uncertainty of this next calendar year, and as a consequence of that we're not touching the reserves because we have a wait and see approach to this budget," the governor told reporters, adding that he felt confident that California will be better positioned "than most other states to weather what's to come, to weather a recession."⁷⁵

Online newspaper *CalMatters* noted the governor oscillated between "optimism" and "economic uncertainty" in his budget presentation, acknowledging tech industry layoffs and rising credit card debts. But Newsom still told reporters he had "absolutely no trepidation around California's fate and future," and would keep his policy commitments. "We're keeping our promises," Newsom told reporters. "In spite of this modest shortfall, we're continuing to make transformative investments."⁷⁶ It was still hard to forget however, that just six months ago the governor and lawmakers boasted about a \$100 billion surplus, half of it discretionary.

The *Los Angeles Times* noted Newsom and his still enormous \$307.9 billion budget would have to make difficult policy decisions.⁷⁷ The governor told reporters that homelessness remains California's top priority. "People are dying on the streets all across this state," he said "The encampments, we've got to clean them up, we've got to take ownership, we've got to take responsibility."⁷⁸

Newsom's proposal continued planned increases in universal transitional kindergarten by 2025-2026. But additional childcare funding was pushed back a year, until 2024-25. Still, education lobbyist Kevin Gordon called Newsom's K-12 budget "surprisingly more impressive than expected" in the face of drastic cutbacks.⁷⁹ Other parts of education also saw cutbacks. Despite strong voter support for arts education in public schools, it would actually receive less money. California voters approved Proposition 29 in November 2022 by a 64%-36% margin, increasing state funding for arts and music education. The state's budget estimated a \$941 million increase, offset however, with \$1.2 billion in cuts in art and music instruction from discretionary funding.⁸⁰

⁷⁴ January 10, 2023. *The Mercury News*. 'We're keeping our promises:' Gov. Newsom unveils \$297 billion budget, \$22.5 billion deficit.

⁷⁵ January 10, 2023. *Los Angeles Times*. Newsom proposes cuts to climate change programs amid cloudy economic outlook.

⁷⁶ January 10, 2023. *CalMatters*. Reversal of fortune: Gov. Newsom outlines plan to deal with budget deficit.

⁷⁷ January 10, 2023. *Los Angeles Times*. Newsom proposes cuts to climate change programs amid cloudy economic outlook.

⁷⁸ January 10, 2023. *Los Angeles Times*. Newsom proposes cuts to climate change programs amid cloudy economic outlook.

⁷⁹ January 10, 2023. *Los Angeles Times*. Newsom proposes cuts to climate change programs amid cloudy economic outlook.

⁸⁰ January 10, 2023. *CalMatters*. Reversal of fortune: Gov. Newsom outlines plan to deal with budget deficit.

Democratic lawmakers shared Newsom's frustration with shrinking the budget. "It's something that's unnerving," Assembly Speaker Rendon told reporters a few days earlier before Newsom's announcement. But he noted the post-coronavirus budget deficit never materialized, instead leading to an unparalleled budget surplus. "So these things are fluid, to say the least," he said. "We are as prepared as we've ever been."⁸¹ But Rendon did signal Democrats might be more willing to tap the emergency fund than Newsom. In a statement released after the governor's presentation, the Assembly Speaker said, "This June, the large reserves built over the last decade may be important for protecting California's progressive investments."⁸²

Senate Republicans released a statement advising the governor to find a "prudent path forward." Locked out of the budget process with only about a quarter of the chamber's seats, Senate Republican Leader Brian Jones (San Diego County) and the other members of his caucus did not point to any specific reductions however. "It is likely that we can balance the budget by cutting ineffective spending, or by halting previously approved funds that have not yet been actually spent, and thus balance the budget without negatively affecting the people of California," they wrote.⁸³

Assembly Republicans were a little sharper despite also having no say the budget process. "Democrat politicians have wasted a record surplus on new social programs and pork projects, while allowing our aging infrastructure to crumble," Assembly Republican Leader James Gallagher released in a statement. "Now we are faced with a \$22 billion deficit as a result of their fiscal recklessness."⁸⁴

Chris Hoene, executive director of the California Budget and Policy Center, told the *Los Angeles Times* cutting one-time funding projects were understandable, but California would still feel their loss. "Those commitments largely sit in two categories: infrastructure funding and the one-time expansion of social services programs and ways to provide aide to people who can't afford to live here as easily," Hoene explained. "It might sound like good budget practice, but there are real implications."⁸⁵

The LAO tweeted a few days later, "The governor's emphasis on spending solutions to address the budget problem is prudent. We recommend the #CALeg maintain this approach given the downside risk to revenues posed by the current heightened risk of recession."⁸⁶

In a slightly longer report in mid-February, the agency gave the governor's budget proposal a bit more nuance. "Although the governor's budget revenue estimates are reasonable, they are likely a bit too high," it summarized. The LAO agreed with Newsom to preserve the state's budget reserves in case declining state revenues or a national recession widened the deficit. Their report

⁸¹ January 10, 2023. *Los Angeles Times*. Newsom proposes cuts to climate change programs amid cloudy economic outlook.

⁸² January 10, 2023. *San Francisco Chronicle*. Gavin Newsom says schools won't see cuts as he details plan to deal with projected \$22B budget deficit.

⁸³ January 10, 2023. *CalMatters*. Reversal of fortune: Gov. Newsom outlines plan to deal with budget deficit.

⁸⁴ January 10, 2023. *Politico*. Newsom lays out spending cuts as California budget swings from surplus to deficit.

⁸⁵ January 10, 2023. *Los Angeles Times*. Newsom proposes cuts to climate change programs amid cloudy economic outlook.

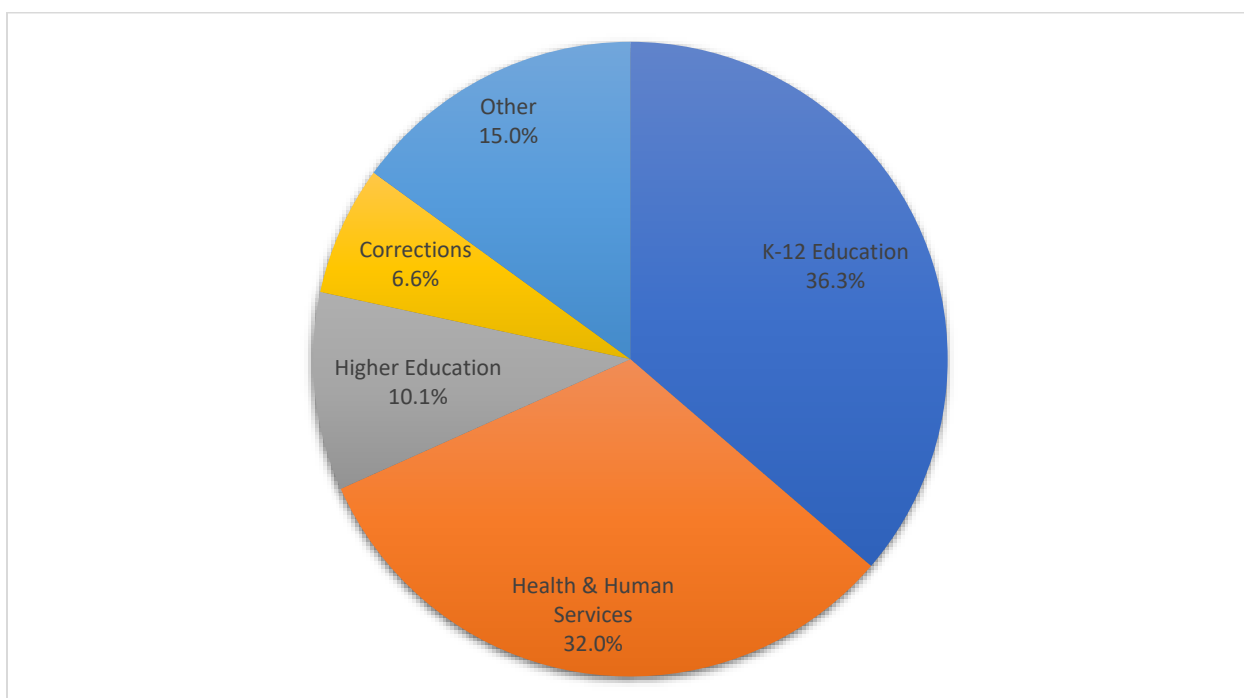
⁸⁶ January 13, 2023. *Twitter*. Legislative Analyst Office. https://twitter.com/LAO_CA/status/1613963597834493953

gave the Legislature several additional budget options: shift even more spending to later years, cut more temporary and one-time spending, and possibly increasing taxes temporarily.⁸⁷ That last suggestion is a non-starter even with large Democratic supermajorities in both chambers.

Governor's Proposed 2023-2024 Budget: The Big Four

When it comes to expenditures, the “Big Four” in California are K-12 Education, Health & Human Services, Higher Education, and Corrections. In the Governor's proposed budget, K-12 Education made up the plurality of General Fund spending at 36.3%, followed by Health & Human Services at 32%, Higher Education at 10.1%, and Corrections at 6.6% (see Figure 4 below) (DOF 2023a).

Figure 4. Governor's Proposed General Fund Expenditures, 2023-2024



Source: California Department of Finance

K-12 Education

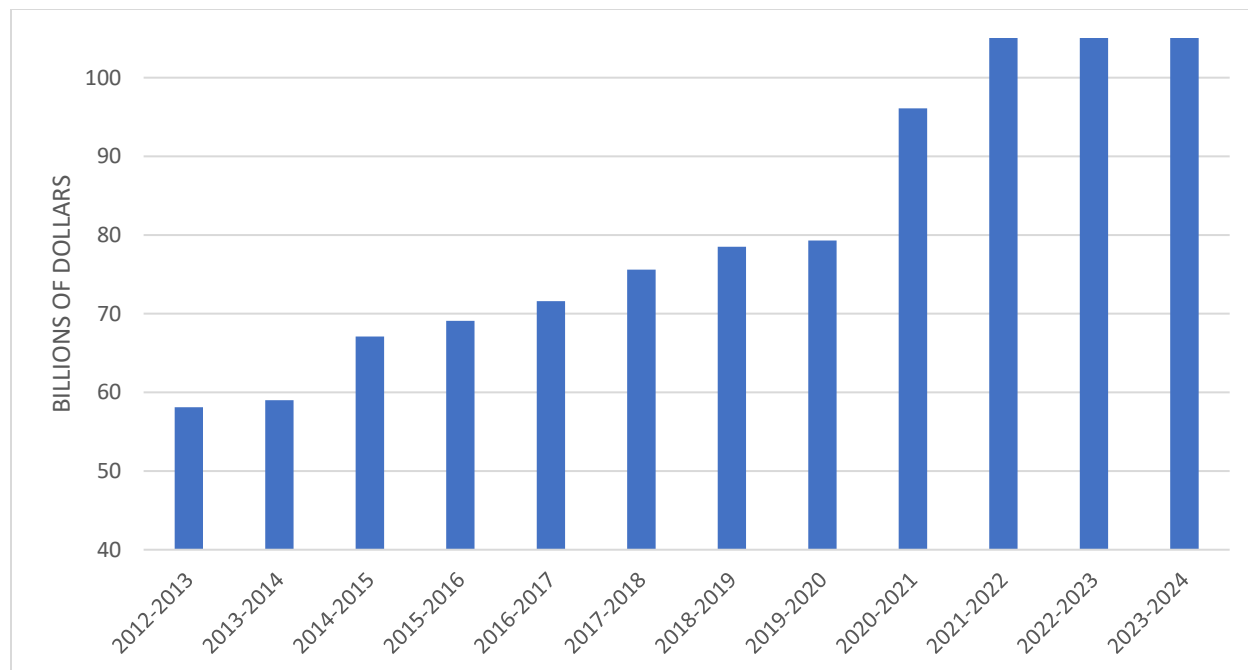
The biggest part of the California budget is K-12 education. All told, Governor Newsom proposed to spend \$128.5 billion on education in the coming year, with \$78.7 billion coming from the General Fund and \$49.8 billion from other funds (DOF 2023a). This would bring per pupil spending up to \$23,723 in the coming budget year (DOF 2023a).

The budget also raises the Proposition 98 minimum funding guarantee to \$108.8 billion, up \$1.8 billion from 2022-2023 (DOF 2023a). This is the second highest level of Prop 98 funding ever, behind only 2021-2022 at \$110.4 billion (DOF 2023a). As Figure 5 illustrates, Proposition 98

⁸⁷ February 16, 2023. *Sacramento Bee*. \$25 an hour minimum wage? + LAO budget forecast + Offshore drilling ban reintroduced.

funding stood at only \$58.1 billion in 2012-2013, and has risen nearly 188% over the past decade (DOF 2023a).

Figure 5. Proposition 98 Funding, 2012-2013 to 2023-2024



Source: California Department of Finance

Despite the large amount of funding, advocates for equity in education said the budget fell short. In 2022, Assemblymember Akilah Weber (D-La Mesa) proposed a bill that would specifically provide more funding for Black K-12 students, since they are the student group with the lowest standardized test scores in the state. Despite strong legislative support, Newsom was noncommittal and a deal was ultimately struck to drop the bill in exchange for more funding for Black students in the next budget.⁸⁸ However, concerned about laws that prohibit racial preferences, Newsom directed extra funding to go to high-poverty schools instead, rather than Black students specifically.⁸⁹ Margaret Fortune, president and CEO of Fortune School of Education (a charter school organization), said “It sounds good, but it doesn’t actually get to the students who need the help. This is an apple, and what we wanted was an orange.”⁹⁰ Tyrone Howard, education professor and faculty director at the UCLA Center for the Transformation of Schools, reacted by saying “I think we’re really afraid to have hard conversations and subsequent legislation around race and how we achieve racial justice in education. I don’t think you can take 245 years of slavery and Jim Crow and a legacy of separate and unequal education and expect this gap to not exist.”⁹¹ As the year progresses, it remains to be seen whether the Legislature will try to force the issue with the governor.

⁸⁸ January 23, 2023. *CalMatters*. School funding proposal aims to achieve equity, but does it go far enough?

⁸⁹ January 23, 2023. *CalMatters*. School funding proposal aims to achieve equity, but does it go far enough?

⁹⁰ January 23, 2023. *CalMatters*. School funding proposal aims to achieve equity, but does it go far enough?

⁹¹ January 23, 2023. *CalMatters*. School funding proposal aims to achieve equity, but does it go far enough?

Health & Human Services

The governor's proposed budget included \$230.5 billion in funding for Health & Human Services, with \$71.5 billion coming from the General Fund and \$159 billion from other funds (DOF 2023a).

Medi-Cal (California's version of Medicaid) is the largest health care program in the state and has grown substantially over the past decade. The Medi-Cal budget is projected to be \$138.9 billion in 2023-2024, with \$38.7 billion coming from the General Fund. With a projected caseload of 14.4 million, more than one-third of the state's population will be receiving Medi-Cal benefits. The most significant change to Medi-Cal over the past year has been its expansion to cover all Californians regardless of immigration status. In prior years, Medi-Cal eligibility has been expanded to all children, young adults up to 25, and those over age 50, including those residing in the country illegally.

In 2022, Governor Newsom got the Legislature to expand coverage to all those between 26 and 49 years old, regardless of immigration status. This idea did not have universal support, with state Senator Jim Nielsen (R-North Central California) calling the idea "a blank check providing for illegal individuals who have come to California."⁹² However, public opinion seemed to overwhelmingly support the idea, and it was included in the 2022-2023 budget passed by the Legislature. Jose Torres, a legislative and policy advocate for Health Access California, said "This has been a long time coming."⁹³ Sarah Dar, the director of health and public benefits policy at the California Immigrant Policy Center, added "The coronavirus has brought clarity to the fact that if only some of us have access to healthcare, that doesn't work. We are all healthier when we all have access to healthcare."⁹⁴

Other major programs in Newsom's Health & Human Services budget include CalWORKs, In-Home Supportive Services (IHSS), and SSI/SSP. CalWORKs is California's main social welfare program that offers cash assistance and child care for the poor. The In-Home Supportive Services program compensates individuals for providing domestic care services to low-income elderly, blind, and disabled Californians. Lastly, SSI/SSP is a federal/state program that provides a direct cash benefit to elderly, blind, and disabled residents on a monthly basis.

The California Department of Finance estimated that average monthly CalWORKs caseloads will be 360,000 families in the 2023-2024 budget year, and the governor allocated \$7.4 billion to cover those CalWORKs program expenditures (DOF 2023a). Notably, the budget projects a 2.9% increase in CalWORKs Maximum Aid Payment levels in the coming year (DOF 2023a). For IHSS, the governor's budget allocated \$20.5 billion (\$7.8 billion from the General Fund) for 2023-2024 (DOF 2023a). The average monthly caseload is expected to be 642,000 in the coming budget year (DOF 2023a). And, for SSI/SSP, the budget called for General Fund expenditures of \$3.5 billion, with an average monthly caseload of 1.1 million in 2023-2024 (DOF 2023a). Due to cost-of-living

⁹² January 10, 2022. *Sacramento Bee*. California lawmakers respond to Newsom's budget: 'Good ideas shouldn't have party lines.'

⁹³ June 27, 2022. *KCRA-3 (NBC) Sacramento*. California budget includes expanding Medi-Cal for undocumented residents.

⁹⁴ January 10, 2022. *Los Angeles Times*. California poised to remove all immigration status rules for Medi-Cal healthcare.

adjustments, the maximum SSI/SSP grant levels rose to \$1,134/month for individuals and \$1,928/month for couples, effective January 1, 2023 (DOF 2023a).

Higher Education

The governor's proposed budget included \$40.3 billion in funding for higher education, with \$27.3 billion coming from the General Fund and local property taxes, and \$13 billion from other funds (DOF 2023a).

The University of California (UC) system would receive slightly over \$4.63 billion in ongoing General Fund appropriations (DOF 2023a). This would represent an increase of \$256 million in ongoing funding compared to 2022-2023 (DOF 2023a). In addition, the UC would also receive nearly \$101 million in one-time funding in 2023-2024 (DOF 2023a). Similarly, the governor's budget calls for the California State University (CSU) system to receive \$5.34 billion in ongoing support from the General Fund (DOF 2023a). This represents an increase of \$291 million in ongoing funding compared to 2022-2023 (DOF 2023a). The CSU would also receive \$10 million in one-time funding in the coming budget year (DOF 2023a).

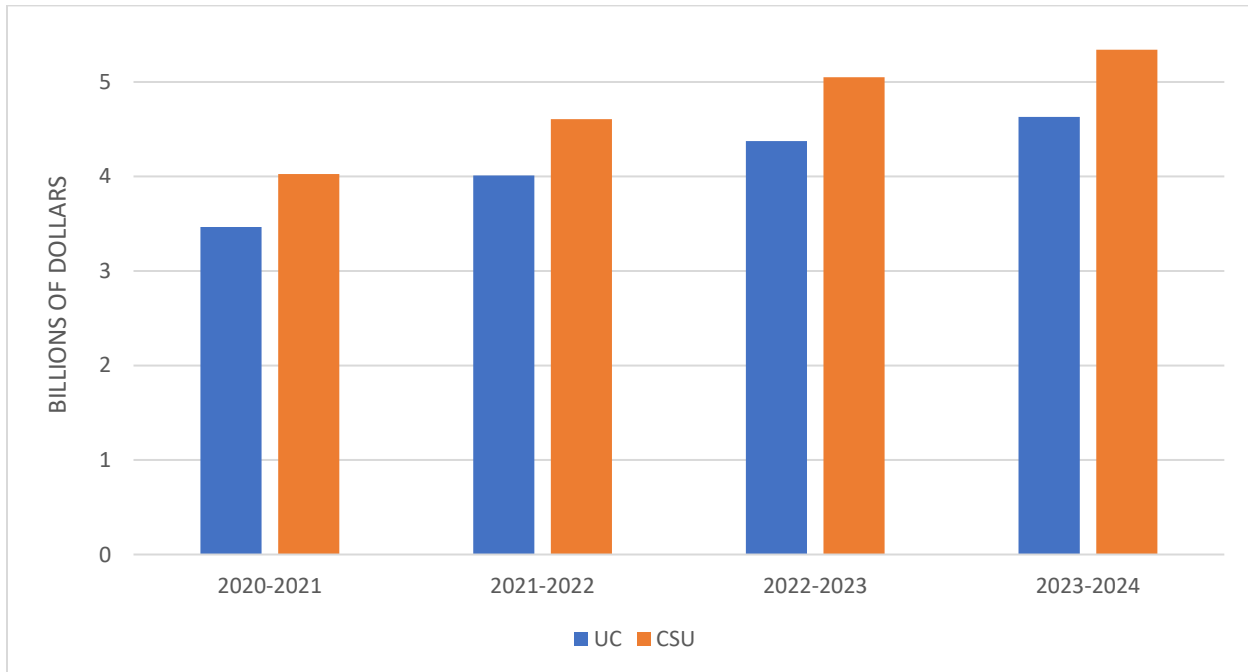
CSU Interim Chancellor Jolene Koester said in a statement, "This proposal, despite uncertainty surrounding the state's economic circumstances, reinforces the administration's commitment to the CSU, its belief in our mission and appreciation of our successes in transforming the lives of Californians."⁹⁵ Michael Drake, president of the UC system, added that it was "truly extraordinary" Newsom was providing so much support to higher ed despite declining state revenues.⁹⁶

Figure 6 illustrates the ongoing General Fund budget for the UC and CSU systems over the past four years.

⁹⁵ January 10, 2023. *EdSource*. Newsom's higher education budget includes promised increases to UC and CSU.

⁹⁶ January 10, 2023. *EdSource*. Newsom's higher education budget includes promised increases to UC and CSU.

**Figure 6. Ongoing General Fund Support,
UC & CSU Systems, 2020-2021 to 2023-2024**



Source: California Department of Finance

A large portion of these increases came from Newsom’s pledge to add 5% per year to the UC and CSU’s base budgets if they showed improvement in graduation rates, made college more affordable, and increased their enrollment of California residents versus those from out-of-state.⁹⁷ The CSU, in particular, has made great strides in these areas over the past ten years. The CSU four-year graduation rate among first-time freshmen rose from just 19% in 2015, to 33% last year, with a goal of reaching 40% by 2025.⁹⁸ Similarly, the CSU six-year graduation rate has risen from 57% to 63% since 2015, with a goal of reaching 70% by 2025.⁹⁹ However, it’s important to note that these systemwide averages mask considerable variation among the 23 CSU campuses statewide. For example, the six-year graduation rate at CSU-Los Angeles is only 54% compared to the 77% figure at San Diego State, considered the flagship campus of the system (with a considerably more affluent student body).¹⁰⁰ In addition, troublesome equity gaps persist. While approximately 72% of White and Asian freshmen earned a CSU degree in six years, only 58% of Latino and 50% of Black freshmen did the same.¹⁰¹

Another problem area for UC and CSU students is housing. With some of the most expensive housing in the nation, many students are being priced out and forced to live in hotels or vehicles.¹⁰² According to the *Los Angeles Times*, “An estimated 417,000 students lack stable places to sleep,

⁹⁷ January 10, 2023. *EdSource*. Newsom’s higher education budget includes promised increases to UC and CSU.

⁹⁸ May 18, 2022. *EdSource*. More CSU students graduate during pandemic, but drop may loom.

⁹⁹ May 18, 2022. *EdSource*. More CSU students graduate during pandemic, but drop may loom.

¹⁰⁰ May 18, 2022. *EdSource*. More CSU students graduate during pandemic, but drop may loom.

¹⁰¹ May 18, 2022. *EdSource*. More CSU students graduate during pandemic, but drop may loom.

¹⁰² March 14, 2023. *Los Angeles Times*. As California student housing crisis deepens, solutions face roadblocks at UC and elsewhere.

according to surveys conducted across the three systems, representing about 5% of undergraduates at the University of California, 10% at California State University and 20% at California Community Colleges.”¹⁰³ Zennon Ulyate-Crow, a UC Santa Cruz student who heads a housing advocacy coalition, said “What we’ve seen across the board is that students are starting to make different choices about where to go to school based on housing costs.”¹⁰⁴

Despite this, Governor Newsom’s largesse towards higher education extended only so far. His budget proposed delaying a \$1.8 billion program to provide more student housing until 2024-2025.¹⁰⁵ This was met with disappointment and frustration in the Legislature. Assemblyman Mike Fong (D-Alhambra) said, “It is disappointing to see some of the progress we have made in addressing housing for college students delayed. Student housing is critical for addressing housing insecurity and enrollment decline.”¹⁰⁶ Assemblyman Kevin McCarty (D-Sacramento) put it more bluntly when he said, “We do not support the delay. The [housing] demand is off the charts, and we see a lot of shovel-ready projects...that will make a dent in the housing crisis, as well as the cost of college.”¹⁰⁷ Time will tell whether we will see any progress on the student housing front this year.

Corrections

The governor’s proposed budget included \$14.5 billion in funding for the California Department of Corrections and Rehabilitation (CDCR), with \$14.1 billion coming from the General Fund and \$374.9 million from other funds (DOF 2023a). This represented a 6.6% decrease in General Fund support for Corrections compared to the 2022-2023 budget, largely because California prisons will be spending less in the coming year to mitigate the effects of COVID-19 compared to the height of the pandemic (DOF 2023a). Still, \$3.8 billion (27%) of the proposed General Fund spending in this category is for inmate health care programs (DOF 2023a).

Tax Shift

California’s winter showers also brought additional spring budget problems. California’s Franchise Tax Board extended most Californians’ state income tax deadlines to October 16. They were following the lead of the Internal Revenue Service, who delayed tax returns because much of the state was in federally declared disaster zones due to historically deadly storms blanketing the state from in early 2023. But California relies on those April taxes, often borrowing until tax returns trickle in. During the 2009 fiscal crisis, it even had to issue IOUs.¹⁰⁸

April receipts often account for approximately 1/5th of total personal tax revenue; last April the state collected \$25 billion in just that one month alone. State experts acknowledged the increased

¹⁰³ March 14, 2023. *Los Angeles Times*. As California student housing crisis deepens, solutions face roadblocks at UC and elsewhere.

¹⁰⁴ March 14, 2023. *Los Angeles Times*. As California student housing crisis deepens, solutions face roadblocks at UC and elsewhere.

¹⁰⁵ January 10, 2023. *EdSource*. Newsom’s higher education budget includes promised increases to UC and CSU.

¹⁰⁶ January 10, 2023. *EdSource*. Newsom’s higher education budget includes promised increases to UC and CSU.

¹⁰⁷ March 14, 2023. *Los Angeles Times*. As California student housing crisis deepens, solutions face roadblocks at UC and elsewhere.

¹⁰⁸ March 3, 2023. *San Francisco Chronicle*. Will California bust its budget by extending tax deadline?

budget difficulty but downplayed any larger crisis. “It’s unlikely that pushing deadlines to October would lead us to running out of money to pay the bills,” said Brian Uhler, in the Legislative Analyst’s Office. But “it could make it harder for the Legislature to put together the budget plan in June.”¹⁰⁹

State finance spokesman Palmer noted the extensions would complicate the budget process but couldn’t change state budget deadlines due to constitutional and statutory requirements. “We’re going to have to make more projections and assumptions because the cash we could normally have in the bank in April, we’re not going to receive until mid-October,” he told reporters, noting April receipts serve as a harbinger of the state’s fiscal health. “Forecasters want as much data as they can in order to try to project where the economy is going to go in the state and what the revenue picture is going to look like. A big piece of that is what the state takes in April in a ‘normal’ tax year.”¹¹⁰

State of the State Mystery Tour

In early March, Newsom announced he would not offer a traditional State of the State address; instead, he would travel around California announcing new policy initiatives at press conferences. He would then send the state legislature a letter on the state’s status, fulfilling his constitutional requirement. Newsom has routinely acknowledged his struggle with speech preparation due to his dyslexia. He prefers to memorize talking points and give impromptu speeches using visual aids.¹¹¹ As we pointed out in 2022 (DiSarro and Hussey), the governor famously gave his 2021 address to an empty Dodger Stadium in Los Angeles, using the stadium’s 55,000 seats as an allusion to the number of Californians who had died from COVID at that point.

Newsom had four events scattered across the state, slowly making his way North to South. He talked about homelessness in Sacramento, criminal justice at San Quentin Prison in Marin County, health care in Los Angeles suburb Downey, and mental health care in San Diego. During much of his magical mystery tour, *CalMatters* noted the governor was often “joking and jovial”, but became more somber and personal talking about mental health, something Newsom has focused on for years, including as San Francisco Mayor. He noted the consequences of inadequate care and shared that both his school prom date and grandfather died from suicide. “We own this. We own this moment,” he told reporters. “But we have now the tools and the capacity to turn this ship around.”¹¹²

Republicans objected to the theatrics. “Californians want solutions to their everyday problems,” tweeted Assembly GOP leader James Gallagher of Chico. “The governor’s shiny object routine is tired.”¹¹³ And the press grew tired of the governor “repacking or rebranding programs already

¹⁰⁹ March 3, 2023. *San Francisco Chronicle*. Will California bust its budget by extending tax deadline?

¹¹⁰ March 2, 2023. *KCRA-3 (NBC) Sacramento*. Extended tax deadline in California could complicate the state’s spending plan.

¹¹¹ March 7, 2023. *San Francisco Chronicle*. Gavin Newsom is skipping his usual State of the State speech. Here’s what he’s doing instead.

¹¹² March 20, 2023. *CalMatters*. Homelessness, rehabilitation and health care: What to know about Newsom’s legacy tour.

¹¹³ March 20, 2023. *CalMatters*. Homelessness, rehabilitation and health care: What to know about Newsom’s legacy tour.

underway,” or urging “Californians to imagine a vision for something that doesn’t exist.”¹¹⁴ But, *CalMatters* pointed out that “by orchestrating four days of events across the state instead of delivering a single speech in Sacramento, the governor did succeed on one score: He drew a torrent of media coverage.”¹¹⁵

Prop 63 Revise

Newsom’s most comprehensive policy proposal would require voters to approve a change to Proposition 63 (also known as the Mental Health Services Act), which passed in 2004 and taxes millionaires a 1% income tax surcharge to fund additional mental health services. The LAO estimates it generates \$3.3 billion currently, and accounts for about 30% of the state’s mental public health budget.¹¹⁶

The governor would ask voters in 2024 to redirect 30% of those funds towards community housing for those with mental illness and substance-abuse problems. “It’s unacceptable what we’re dealing with, at scale now, in the state of California,” Newsom said at Alvarado Hospital Medical Center in San Diego to announce his plan. “We have to address and come to grips with the reality of mental health in this state and our nation.” “Substance abuse itself was not an eligible benefit of the Mental Health Services Act, and we want to address that,” Newsom said.¹¹⁷ Sacramento Mayor Darrell Steinberg, who helped author Prop 63 when he was an Assemblymember, supported Newsom’s changes. “We’re coming on 20 years, and after nearly two decades, it’s always time to update and modernize a good law and to make it more focused on the most serious consequences of untreated mental illness,” Steinberg told reporters as Newsom looked on.¹¹⁸

If approved by voters, Newsom’s plan would also authorize the state to raise at least \$3 billion in bond funding for new mental health campuses, with the redirection of Prop 63 money intended to help operate these facilities. state Senator Susan Talamantes Eggman (D-Stockton) said she’ll sponsor Newsom’s plan in the legislature and get it on the ballot. She told reporters at the policy announcement that Proposition 63 was a good beginning, but that it’s time for a “remodel.” Newsom agreed, saying, “This is a big idea. It’s half a century overdue in the state of California.”¹¹⁹

It will require a 2/3 vote in both legislative chambers to put a revised Prop 63 in front of voters. However, Newsom ran into opposition from many local governments and children’s advocates. County governments were concerned that the requirement to provide services for people with substance abuse disorders, without any additional funding, would lead to less money to serve other

¹¹⁴ March 20, 2023. *CalMatters*. Homelessness, rehabilitation and health care: What to know about Newsom’s legacy tour.

¹¹⁵ March 20, 2023. *CalMatters*. Homelessness, rehabilitation and health care: What to know about Newsom’s legacy tour.

¹¹⁶ March 19, 2023. *Los Angeles Times*. Newsom proposes bond measure, sweeping mental health reform in California.

¹¹⁷ August 24, 2023. *Politico*. Newsom’s mental health proposal has lost a key mandate.

¹¹⁸ March 19, 2023. *Los Angeles Times*. Newsom proposes bond measure, sweeping mental health reform in California.

¹¹⁹ March 19, 2023. *Los Angeles Times*. Newsom proposes bond measure, sweeping mental health reform in California.

populations. “We’re still slicing up the too-small pie. What happens to the people with services now? What happens to the people with housing now?” said Clare Cortright, policy director for Cal Voices.¹²⁰

Particularly influential were the voices of children’s mental health advocates, who said the governor was prioritizing the homeless population over the needs of the state’s youth.¹²¹ “One-third is a big chunk of money,” said Christine Stoner-Mertz, executive director of the California Alliance of Child and Family Services.¹²² “The question in our minds is what is the approach and process to solving some of these problems.”¹²³ Others feared that additional housing without enough services will create new obstacles. “My concern is robbing Peter to pay Paul,” said Debbie Manners, president and CEO of Sycamores, a Los Angeles behavioral health and child welfare agency. Sycamores serves children and families daily through its school-based mental health program. “I’m not sure how that will fill in the gap. I don’t think it will fill the gap,” Manners said.¹²⁴ These concerns were given further credence when the Legislative Analyst’s Office (LAO) estimated that \$718 million in funding would need to be redirected from children and youth services to conform to Newsom’s new mandate.¹²⁵

In response to the criticism, Newsom made the substance abuse coverage optional, thereby angering some of his earlier supporters. “I think the whole vision for this proposal, and the way that it was shared from the very beginning, is that we’re taking a really deep look at how we can actually ensure that people are getting access to care. And we’re making one of the core provisions, the substance use piece, optional,” said Andrea Rivera, Associate Director of Legislative Affairs at the California Pan-Ethnic Health Network.¹²⁶

This criticism was echoed by Assemblymember Joaquin Arambula (D-Fresno), who said “We’re changing this name from mental health to behavioral health, which means we’re to be inclusive of (substance use disorder) and yet we’re not mandating treatment for each county. I think that’s problematic as we are seeing the overdose rates that we have.”¹²⁷ The state’s Health and Human Services secretary, Dr. Mark Ghaly, tried to tamp down the criticism by arguing, “It’s not a requirement, per se. But driven by the data, there isn’t a county I can imagine in California that doesn’t have some compelling data...to start to invest some of these dollars in substance use disorder services alone.”¹²⁸

¹²⁰ August 17, 2023. *CalMatters*. Gavin Newsom gives ground to critics on his mental health plan. Will voters back it?

¹²¹ August 17, 2023. *CalMatters*. Gavin Newsom gives ground to critics on his mental health plan. Will voters back it?

¹²² April 3, 2023. *CalMatters*. Homelessness, rehabilitation and health care: What to know about Newsom’s legacy tour.

¹²³ April 3, 2023. *CalMatters*. Homelessness, rehabilitation and health care: What to know about Newsom’s legacy tour.

¹²⁴ April 3, 2023. *CalMatters*. Homelessness, rehabilitation and health care: What to know about Newsom’s legacy tour.

¹²⁵ July 13, 2023. *Legislative Analyst’s Office*. Mental Health Services Act: Proposed Restructuring of the MHSA Funding Categories and Impacts on County Spending.

¹²⁶ August 24, 2023. *Politico*. Newsom’s mental health proposal has lost a key mandate.

¹²⁷ August 24, 2023. *Politico*. Newsom’s mental health proposal has lost a key mandate.

¹²⁸ August 24, 2023. *Politico*. Newsom’s mental health proposal has lost a key mandate.

Given the back-and-forth, it is uncertain whether the measure will get the necessary 2/3 vote in both houses of the Legislature to go on the ballot. Moreover, it is much more uncertain if voters will agree to the changes, if they have a chance to weigh in.

Back to the Budget

Senate Democrats put forward a budget proposal in late April that included a \$6 billion tax increase on corporations along with temporary suspending a business tax credit. Senate Budget Chair Nancy Skinner (D-Berkeley) said their alternative would avert the cuts in Newsom's budget plan. Within two hours of its release, however, Newsom quashed the idea. His spokesperson Anthony York released a statement saying, "It would be irresponsible to jeopardize the progress we've all made together over the last decade to protect the most vulnerable while putting our state on sound fiscal footing."¹²⁹

Publicly, the Assembly Democrats remained silent. But the *Sacramento Bee* pointed out there were private disagreement within their ranks, with opposing letters from moderate Jacqui Irwin (D-Thousand Oaks), and progressive Alex Lee (D-San Jose) to Assembly Budget Chair Phil Ting (D-San Francisco). Lee advocated for the Senate Democratic proposal, with Irwin criticizing it. "We aren't currently in a recession, but we certainly could be headed into one," Irwin told the *Bee*. "And I think we have to be really insistent in living within our means."¹³⁰

But opposition to the proposed cuts remained, especially among progressives. "I think one of the most important things to understand is there is no silver budget," said Scott Graves, director of research at the California Budget & Policy Center. "There are lots of ways of solving a shortfall. It doesn't have to be cuts."¹³¹

A few days before Newsom released his revised budget proposal in May, Budget Director for the Assembly Democrats, Jason Sisney, put the state's budget woes in perspective on his Substack. He noted in 2009, Governor Arnold Schwarzenegger and the legislature made \$59.5 billion in cuts with a General Fund of about \$100 billion. That compared to Newsom's projected January \$22.5 billion deficit with a General Fund of \$222 billion. Sisney also noted California has more budget tools than in the past, including \$35.6 billion in reserves, and around \$55 billion of state money available for internal borrowing, largely in the myriad number of state special funds.¹³²

The almost unanimous predictions of a larger budget deficit came true when Newsom announced his May Revision, projecting a \$31.5 deficit out of a \$306.5 billion budget, including a \$224 billion General Fund. Both the budget deficit and the overall budget were larger than January's projections.

¹²⁹ April 27, 2023. *CalMatters*. Newsom slaps down Senate Democrats' tax hike.

¹³⁰ May 9, 2023. *Sacramento Bee*. Taxing corporations, closing prisons? Gavin Newsom weighs options to close California's deficit.

¹³¹ May 9, 2023. *Sacramento Bee*. Taxing corporations, closing prisons? Gavin Newsom weighs options to close California's deficit.

¹³² May 10, 2023. Jason Sisney. *Substack*. "California's extensive budget-balancing toolkit"
<https://jasonsisney.substack.com/p/californias-extensive-budget-balancing>

“We’re going into a budget in a way we’ve never gone into a budget before,” Newsom told reporters. “We need to prepare not just for the short term, but for the medium and the long term.” The governor continued to resist calls to tap the state’s emergency reserves, making up the deficit largely with spending delays and cuts. He did call for \$100 million in new flood control and flood relief spending since his January proposal, due to the 2023 winter storms that hit the state. Newsom even proposed to shift \$125 million from drought response to flood protection.¹³³

Newsom credited “prudent” budgeting that spent previous budget surpluses on one-time expenses for avoiding even deeper cuts. “We don’t get ahead of our skis,” Newsom said. “This was not an easy budget. We try to do the best to hold the line, take care of the needy. You don’t have to be profligate to be progressive.”¹³⁴

The governor also reiterated that it was not “the right time to raise taxes and I was crystal clear on that,” referring to his previous rejection of the Senate Democratic proposal to balance the budget with corporate tax increases.¹³⁵ The California Chamber of Commerce praised the governor for his position. “California businesses particularly appreciate the governor’s comments emphasizing that tax increases are not the right thing to do and this is not the right time to consider them,” California Chamber of Commerce President Jennifer Barrera said.¹³⁶

Assembly Republican Leader Gallagher attacked the governor’s plans to cut money from drought programs and said Newsom should have spent less in previous years on projects like high-speed rail.¹³⁷ “Only Gavin Newsom could turn a \$100 billion surplus into a \$31 billion deficit in less than a year,” Gallagher said in a statement. “His approach to closing this budget gap is more of the same. His cuts to drought programs are dangerous, his ‘fiscal gimmicks’ are shortsighted, and his words about good government and efficiency are yet another empty promise. Californians deserve better.”¹³⁸

Legislative Democrats were more focused on the lack of state support for struggling public transportation agencies like BART (Bay Area Rapid Transit), still struggling from declining ridership post-COVID. With the support of Senator Scott Weiner (D-San Francisco), agencies have asked for \$5.1 billion to avoid cuts in services. “I’m very concerned about what’s going on with BART,” Newsom acknowledged. “We’re just not in a position to solve for their short-term needs at the moment.” The governor said he was still open to finding a solution.¹³⁹

¹³³ May 12, 2023. *San Francisco Chronicle*. California’s budget deficit has grown to \$31.5 billion — almost \$10 billion higher than January predictions.

¹³⁴ May 12, 2023. *San Jose Mercury News*. How Newsom solves California budget that went from a \$97.5 billion surplus to \$31.5 billion deficit.

¹³⁵ May 12, 2023. *CalMatters*. Balancing act: Newsom’s plan to cover California’s ballooning budget deficit.

¹³⁶ May 12, 2023. *San Jose Mercury News*. How Newsom solves California budget that went from a \$97.5 billion surplus to \$31.5 billion deficit.

¹³⁷ May 12, 2023. *San Francisco Chronicle*. California’s budget deficit has grown to \$31.5 billion — almost \$10 billion higher than January predictions.

¹³⁸ May 12, 2023. *San Francisco Chronicle*. California’s budget deficit has grown to \$31.5 billion — almost \$10 billion higher than January predictions.

¹³⁹ May 12, 2023. *San Francisco Chronicle*. California’s budget deficit has grown to \$31.5 billion — almost \$10 billion higher than January predictions.

Legislative leaders Atkins and Rendon both urged further negotiations over disputed areas of spending. “Public transit is the vanguard of California’s fight against climate change, and it will be important to restore the transit capital funding the governor and Legislature approved last year,” the Assembly Speaker said in a statement. “Boosting California’s child care system has been a priority of my Speakership.” The Speaker Pro Tem largely staked out similar values. “We appreciate the revised proposal reflecting many of the Senate’s key values,” Atkins said in a statement. “Which includes avoiding ongoing cuts to core programs, preserving our primary Rainy Day Fund, and expanding responsible borrowing — including a new Climate Bond — to avoid cuts to climate and infrastructure projects.”¹⁴⁰

As already mentioned, state officials won’t know exactly how much revenue California will receive until October, since the state extended the tax deadline from mid-April due to severe storms earlier in the year. Newsom told reporters the state estimates \$42 billion. “I want all \$42 billion and more,” Newsom said. “I want to be surprised.”¹⁴¹

A few weeks later, venerable *Los Angeles Times* columnist George Skelton noted the LAO predicted Newsom’s May Revision wouldn’t generate a balanced budget. “There is less than a one-in-six chance the state can afford the May Revision spending level across the five-year period,” Skelton wrote, quoting the LAO. “This means that if the Legislature adopts the governor’s May Revision proposals, the state very likely will face more budget problems over the next few years.” Skelton suggested Newsom would either need to cut additional spending or raise taxes, maybe both.¹⁴²

“Newsom finds himself in an unaccustomed role,” Skelton observed. “Budget trouble is a new predicament for him. Until now, he has been lucky enough to escape the politically risky dilemma that has confronted virtually every California governor for the past 64 years: the need to erase budget deficits, usually with higher taxes plus spending cuts.”¹⁴³

Newsom’s refusal to consider tax increases even drew praise from the president of the antitax Howard Jarvis Taxpayers Association. “Give some credit where credit is due,” John Coupal wrote in a column. “Despite heavy pressure from far-left progressives in the Legislature and public sector labor organizations, the governor is not proposing any significant tax increases.”¹⁴⁴

Mass Transit Blues

Funding for mass transit became the toughest obstacle to a budget compromise between Newsom and legislative Democrats. Assembly Democrats were particularly upset because they felt the Governor proposed a \$2 billion cut in transportation funding that had been fiercely negotiated the previous year. Democrats had allowed Newsom to continue building the states’ beleaguered high-speed rail program in the Central Valley, in exchange for \$7 billion in regional infrastructure

¹⁴⁰ May 12, 2023. *Sacramento Bee*. Gavin Newsom’s \$307 billion California budget has a bigger shortfall. Here’s what he’ll cut.

¹⁴¹ May 12, 2023. *Associated Press*. Governor says California’s budget deficit has grown to nearly \$32 billion.

¹⁴² May 29, 2023. *Los Angeles Times*. Column: Newsom’s budget math doesn’t add up.

¹⁴³ May 29, 2023. *Los Angeles Times*. Column: Newsom’s budget math doesn’t add up.

¹⁴⁴ May 29, 2023. *Los Angeles Times*. Column: Newsom’s budget math doesn’t add up.

funding. Newsom's budget proposal cut \$2 billion from that \$7 billion. Newsom's administration acknowledged the cut as part of the plan to balance the budget without tapping emergency reserves or raising taxes.¹⁴⁵

"It's frustrating," Laura Friedman, Assembly Transportation Chair (D-LA County) told the *San Francisco Chronicle*. "These were funds that were negotiated as part of that agreement that took a couple of years. We've been underfunding transit for a very long time in California." The tension between Assembly Democrats and Newsom added to already intense negotiations over additional funding for mass transit, especially in the Bay Area. Assembly Budget Chair Ting admitted the predicament. "We were not pleased because that was all part of the negotiation," Ting told *The Chronicle*. "We saw that as a package deal, not as two separate deals."¹⁴⁶

A few days before the June 15 legislative budget deadline, the Assembly and Senate announced a placeholder budget, admitting they were still at odds with Newsom, particularly over transportation. In addition to disputes over funding mass transit, Democratic lawmakers also were upset that the Governor had announced in May a sweeping plan to streamline major infrastructure projects without including them in the traditional legislative process. "I just want to express my extreme disappointment that this comes at this time," said Senator Susan Talamantes Eggman (D-Stockton) during a Senate hearing. "It feels disrespectful to the process, to all the work that we've done."¹⁴⁷

Senate Pro Tem Atkins said the Senate was engaging in talks with the Assembly and the administration. "It's important to my Senate Democratic colleagues and I that streamlining is in keeping with California's commitment to environmental protections," Atkins said. Speaker Rendon agreed. "We are digging in to understand what specific problems the Governor is trying to solve and working toward legislation that will address those problems in a workable way," his office said in a statement.¹⁴⁸

The Legislature makes sure to annually pass a budget before June 15, or else they forfeit their pay. The June 15 deadline does not require a completed final budget deal, with the state's fiscal year beginning July 1. The *Los Angeles Times* noted "the act of passing a preliminary budget and following up with an amended bill later has become commonplace in Newsom's tenure."¹⁴⁹

"The wrinkle this year, relative to other years, is there is a new degree of challenge when you're trying to close a shortfall," said H.D. Palmer, spokesperson for the governor's Department of Finance. Palmer declined to discuss what specific issues remain unresolved in the negotiations, though he acknowledged that the infrastructure streamlining proposal is a priority for Newsom. "We hope we'll be able to resolve those differences sooner than later," Palmer said. Senate Budget

¹⁴⁵ June 8, 2023. *San Francisco Chronicle*. Did Newsom backtrack on a transit funding deal? Some Democrats fume as systems face 'death spiral'.

¹⁴⁶ June 8, 2023. *San Francisco Chronicle*. Did Newsom backtrack on a transit funding deal? Some Democrats fume as systems face 'death spiral'.

¹⁴⁷ June 12, 2023. *Los Angeles Times*. Newsom and Democratic lawmakers remain divided on infrastructure plan.

¹⁴⁸ June 12, 2023. *Los Angeles Times*. Newsom and Democratic lawmakers remain divided on infrastructure plan.

¹⁴⁹ June 12, 2023. *Los Angeles Times*. Newsom and Democratic lawmakers remain divided on infrastructure plan.

Chair Skinner characterized the remaining differences between the Legislature and the governor as a matter of details. “The money will be very comparable,” she told *CalMatters*.¹⁵⁰

An in interview with *Capital Public Radio*, Rendon acknowledged the key sticking points, including whether to tap into the state’s “rainy-day” reserves. Rendon said he originally “wanted to dip into the rainy-day fund” to help fill the deficit, but was unsure what state revenues will look like after the elongated tax deadline. “Maybe the Governor’s right. Maybe we don’t have to” use budget reserves, he said. The Speaker also said both sides were “getting there” on transit funding.¹⁵¹

But Rendon admitted the biggest remaining dispute was the infrastructure streamlining. “That’s the big point of negotiation right now between the Legislature as a whole and the Governor,” Rendon noted. “Generally, I think it’s best when things go through our legislative process,” Rendon said, though he indicated he may be supportive of an exception for Newsom’s plan. “I certainly understand the need to do things quickly.”¹⁵²

Lawmakers restored the \$2 billion in transportation cuts proposed by Newsom, and also added \$1.1 in additional spending over the next three years. Wiener has led a group of more than 50 state lawmakers and congressmembers in supporting more transportation funding, but his office noted that the legislative budget still would only provide about half the operations money transit agencies need.¹⁵³

The Governor’s office released a statement saying “we recognize the role transit plays in the state and have welcomed conversations with the Legislature on the subject.” It added that “accountability will be a critical part of any deal, and local transportation officials must thoroughly assess their operations and take steps to reform and stabilize their programs in the long run while continuing to meet the needs of their ridership in the near-term.”¹⁵⁴

The \$311.7 billion budget bill passed in both chambers with only Republicans voting no. In addition to the increased transportation funding, lawmakers also added \$1 billion for child care providers over Newsom’s May proposal. Senate Budget Chair Nancy Skinner said during final committee hearings that the additional money was needed to keep struggling child care providers afloat. “Our families desperately need child care to be able to go to work,” Skinner said. “The fees that are paid to the child care providers are too low.” The *San Francisco Chronicle* noted overall the legislature’s budget bill makes fewer cuts than the Governor’s proposal, instead relying more heavily on internal borrowing.¹⁵⁵

¹⁵⁰ June 12, 2023. *CalMatters*. Let’s make a deal: Legislative leaders make California budget offer to Newsom.

¹⁵¹ June 14, 2023. *Capital Public Radio*. Newsom’s infrastructure package a main sticking point in budget negotiations, Speaker says.

¹⁵² June 14, 2023. *Capital Public Radio*. Newsom’s infrastructure package a main sticking point in budget negotiations, Speaker says.

¹⁵³ June 14, 2023. *San Jose Mercury*. Lawmakers pass state budget with transit aid — when will we know if Gov. Newsom is on board?

¹⁵⁴ June 14, 2023. *San Jose Mercury*. Lawmakers pass state budget with transit aid — when will we know if Gov. Newsom is on board?

¹⁵⁵ June 15, 2023. *San Francisco Chronicle*. Lawmakers pass California budget to keep getting paid — but there’s still no deal with Newsom.

Assemblymember and Republican Budget Committee Vice-Chair Vince Fong (R-Bakersfield), criticized his Democratic colleagues for failing to reach a deal with Newsom in time for the deadline and for not incorporating Republican feedback in their bill. “This budget exemplifies a broken process,” Fong said.¹⁵⁶ Senator Roger Niello (R-Sacramento suburbs), Fong’s budget counterpart in the Senate, told reporters that the Democrats’ bill relies on overly optimistic tax projections and that it will lead to bigger deficits in future years.¹⁵⁷

Compromise

Yet a few days before the start of the fiscal year, a \$310 billion budget compromise was reached. Newsom agreed to narrow the types of infrastructure projects that can be streamlined, leaving out a controversial water tunnel in the Sacramento Delta that has flummoxed politicians for decades. “We are accelerating our global leadership on climate by fast-tracking the clean energy projects that will create cleaner air for generations to come,” the Governor said in a statement.¹⁵⁸

While Newsom had claimed the reforms were necessary to expedite the state’s lengthy development and construction process, legislators accused the Governor of using the budget process to bypass traditional legislative policy changes. The controversial 45-mile Delta tunnel that would transport water from the Sacramento River to other regions of California was particularly upsetting to Central Valley lawmakers, long opposed to the project. Assemblyman Carlos Villapudua (D-Stockton) called the infrastructure proposals and the tunnel “the elephant on the table.”¹⁵⁹

“At the end of the day, the body will speak,” Villapudua said. “Both the Assembly, both the Senate. And the governor’s going to have to accept this.”¹⁶⁰

The Los Angeles Times noted despite disagreements, “it’s rare for Democrats at the Capitol to openly criticize the Governor,” highlighting a letter sent to the Governor from 10 bipartisan state lawmakers opposing Newsom’s streamlining proposal. Several other Democratic lawmakers had earlier publicly called out Newsom in legislative hearings as well, criticizing the Governor for trying to “ram such critical legislation through the budget process at the last minute.”¹⁶¹

The budget deal also restored the \$2 billion in transportation funding, providing \$5.1 billion in additional funding over four years. “Public transportation is easy to take for granted, but allowing it to collapse would have been devastating for our state’s future,” said Senator Wiener in a

¹⁵⁶ June 15, 2023. *San Francisco Chronicle*. Lawmakers pass California budget to keep getting paid — but there’s still no deal with Newsom.

¹⁵⁷ June 15, 2023. *San Francisco Chronicle*. Lawmakers pass California budget to keep getting paid — but there’s still no deal with Newsom.

¹⁵⁸ June 27, 2023. *CalMatters*. What you need to know on the California budget deal.

¹⁵⁹ June 27, 2023. *Sacramento Bee*. Gavin Newsom, California lawmakers face looming budget deadline. Here’s what they’re debating.

¹⁶⁰ June 27, 2023. *Sacramento Bee*. Gavin Newsom, California lawmakers face looming budget deadline. Here’s what they’re debating.

¹⁶¹ June 26, 2023. *Los Angeles Times*. Takeaways from the California budget deal between Newsom and Democratic lawmakers.

statement. “This budget extends a critical lifeline that will help transit agencies maintain service while making critical improvements to cleanliness and safety.” In addition, Newsom agreed to increase funding for child care providers, with the actual amount to be determined later after the state finished bargaining with employee unions.¹⁶²

The other big component concerned the state’s tax on health care plans, generating almost \$20 billion between 2023 and 2026. The tax has primarily gone into the state’s General Fund to help balance the budget. But health advocates were able to get more than half of the money dedicated to current and future health spending.¹⁶³

A few weeks after Newsom signed the budget, *Politico* reported that the Governor largely got what he wanted on infrastructure streamlining by using the Delta Tunnel as a negotiating tactic. Newsom abandoned its inclusion when faced with intense legislative opposition, who then agreed to most of Newsom’s other reforms. “As the dust settled, three people familiar with the negotiations confirmed to POLITICO that the Governor was indeed bluffing.” The article also made the point that the Governor used the Assembly’s leadership transition to his advantage, as incoming Speaker Robert Rivas was about to be sworn in, weakening outgoing Anthony Rendon’s power.¹⁶⁴

Final 2023-2024 Budget

The final state budget agreed to by Newsom and the Legislature was \$310.8 billion, with \$225.9 billion coming from the General Fund and \$84.9 billion coming from other funds (DOF 2023b). Lawmakers managed to close a nearly \$32 billion budget deficit by cutting \$8 billion in spending, borrowing \$6.1 billion, and making up the rest through delaying some planned spending and shifting other expenses.¹⁶⁵ In the final budget, K-12 Education accounted for 35.2 percent of General Fund expenditures, Health and Human Services for 32.7 percent, Higher Education for 12 percent, and Corrections for 6.2 percent (see Figure 7 below) (DOF 2023b).

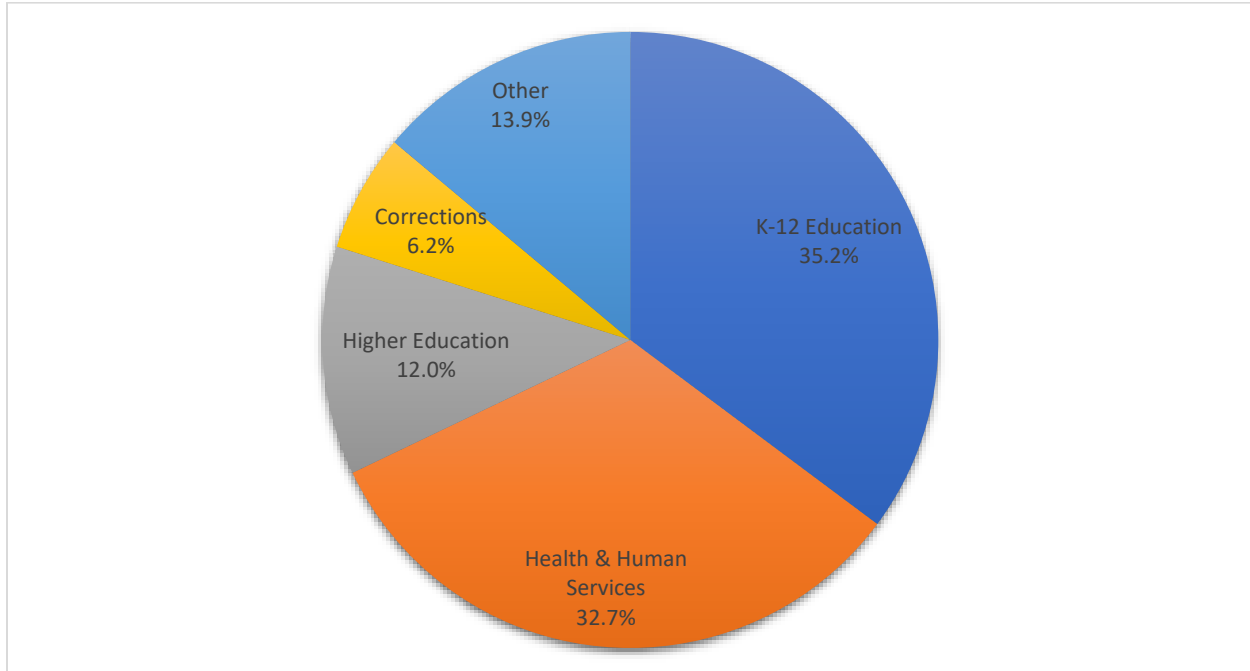
¹⁶² June 27, 2023. *CalMatters*. What you need to know on the California budget deal.

¹⁶³ June 27, 2023. *CalMatters*. What you need to know on the California budget deal.

¹⁶⁴ June 27, 2023. *Politico*. 5 things we learned about Gavin Newsom during the budget.

¹⁶⁵ June 27, 2023. *Associated Press*. California’s new budget covers \$32 billion deficit while extending tax credits for film industry.

Figure 7. California's General Fund Expenditures, 2023-2024



Source: California Department of Finance

K-12 Education

K-12 education is the single largest expense facing the state of California, and consumed over a third of General Fund revenues in 2023–2024 (DOF 2023b). Overall, the state provided \$129.2 billion of funding to support primary and secondary education, with \$79.5 billion coming from the General Fund and \$49.7 billion coming from other funds (DOF 2023b).

In the end, the Proposition 98 minimum funding guarantee rose from \$107.4 billion in 2022-2023 to \$108.3 billion in 2023-2024 (DOF 2023b). While an increase of \$900 million, this figure fell \$500 million short of Newsom’s original proposal for \$108.8 billion (DOF 2023a). In addition, the budget provided for an 8.22 percent cost-of-living increase to the Local Control Funding Formula, or LCFF (DOF 2023b). LCFF is a program that funds school districts based on the needs of their students, so “higher need” students receive more support.

Education advocates were pleased. “We know the state’s revenues remain precarious, but this is an education budget to be celebrated. Given the state’s \$31.5 billion budget deficit, the Legislature and governor deserve full credit for boosting core educational services under the Local Control Funding Formula while largely avoiding any painful cuts...At the same time, the parties have increased investments for two groups of students with significant equity needs: socioeconomically disadvantaged students, under the LCFF equity multiplier, and students being educated in juvenile court and county community schools,” said Derick Lennox, senior director of governmental relations and legal affairs for the California County Superintendents association.¹⁶⁶

¹⁶⁶ June 27, 2023. *EdSource*. Legislature, Newsom compromise, quickly pass and sign 2023-24 state budget with fewer cuts for K-12.

There was also good news for the Golden State Pathways program. The program, created in 2022, provides career opportunities in education and the trades for low-income high school students. Originally slated to have most of its funding deferred this year, the Legislature ultimately included the full funding of \$500 million in the current budget, a major Newsom priority.¹⁶⁷ Brian Rivas, senior director for policy and government relations at Education Trust-West, said “We are thrilled the governor and Legislature did not attempt to balance the budget on the backs of students of color and other marginalized students by cutting the Golden State Pathways program... We hope the California Department of Education will move quickly to roll out these funds so that more students get the preparation they deserve for high-quality college and career opportunities.”¹⁶⁸

Health & Human Services

Health, welfare, and social service programs were the second largest General Fund expense in the 2023–2024 budget, accounting for 32.7 percent of all state spending (DOF 2023b). The budget provided a total of \$248.1 billion for such programs, with \$74 billion coming from the General Fund and \$174.1 billion coming from other funds (DOF 2023b).

Medi-Cal is the largest health care program in the state and has seen substantial growth over the past decade. In addition to rising caseloads, last year’s 2022-2023 budget also expanded eligibility, allowing all Californians up until age 25 and over age 50 to enroll, regardless of their immigration status. The current budget deepens those investments by providing for rate increases to providers in the Medi-Cal program (DOF 2023b). Katie Heidorn, the director of state health policy for the California Health Care Foundation, said “One of the most exciting aspects of the new state budget is that it preserves the major health coverage gains of recent years. The budget keeps California on track to ensure that immigration status will not block Medi-Cal enrollment for any eligible Californian with a low income... We can now dig into what needs to be done in the delivery system to make that coverage high quality, affordable, accessible, and equitable for enrollees and their families.”¹⁶⁹

CalWORKs also saw new investments, with \$111.2 million earmarked for an ongoing 3.6 percent increase to CalWORKs grants, beginning October 1, 2023 (DOF 2023b). In addition, the temporary 10 percent CalWORKs grant increase in the 2022-2023 budget was made permanent (DOF 2023b). There were also additional one-time increases to state food assistance (DOF 2023b).

Higher Education

Higher education was the third largest area of state spending in 2023–2024, consuming 12 percent of General Fund revenues (DOF 2023b). Overall, the state provided \$40 billion in funding, with \$22.7 billion coming from the General Fund, \$4.3 billion coming from local property taxes, and \$13 billion coming from other funds (DOF 2023b).

¹⁶⁷ June 27, 2023. *EdSource*. Legislature, Newsom compromise, quickly pass and sign 2023-24 state budget with fewer cuts for K-12.

¹⁶⁸ June 27, 2023. *EdSource*. Legislature, Newsom compromise, quickly pass and sign 2023-24 state budget with fewer cuts for K-12.

¹⁶⁹ July 21, 2023. *The California Health Care Foundation (CHCF) Blog*. State budget continues California’s progress on health care.

Both the University of California and California State University systems received their 5% base funding rises, representing an increase in ongoing General Fund support of \$215.5 million for the UC and \$227.3 million for the CSU.¹⁷⁰ These increases are conditional, based on enrollment targets and other goals mentioned earlier. For example, to keep the money, UC needs to add 7,800 full time students in Fall 2023, while CSU needs to add 4,057.¹⁷¹ CSU must also further increase enrollment by 9,866 students in 2024 and 10,161 students in 2025.¹⁷²

On the contentious issue of student housing, the budget backed away from earlier plans to provide state grants to colleges and universities to build more housing facilities. Instead, the state proposed that the UC, CSU, and community colleges finance these new construction projects through university-issued bonds. Colleges pushed back, and community college leaders across the state wrote an open letter to the Legislature urging them to reconsider. They wrote, “The revised program structure jeopardizes the viability of affordable student housing projects across the state and our opportunity to address growing housing insecurity among community college students.”¹⁷³ By early September 2023, there seemed to be informal agreement that new student housing would be financed by state-issued bonds instead of university-issued ones (although this is still subject to approval by the Legislature).¹⁷⁴

However, while the politicians wrangle, students returning for Fall semester are still trying to find places to stay. At the College of the Redwoods in remote Eureka, California, students are being housed in a nearby casino hotel, after an M.O.U. was signed between the C.R. administration and the Bear River Rancheria.¹⁷⁵ Dr. Keith Flamer, president of the College of the Redwoods, said “We are delighted to enter into this partnership with the Bear River Tribe...These additional housing options will allow our students to fully immerse themselves in their academic journey without the burden of finding suitable accommodation elsewhere.”¹⁷⁶ Whether college students can immerse themselves in academics while staying at a casino remains to be seen.

Corrections

Corrections is the last of the “big four” spending categories, with funding for the California Department of Corrections and Rehabilitation (CDCR) accounting for 6.2 percent of the 2023-2024 General Fund budget (DOF 2023b). Overall, CDCR received a total of \$14.4 billion in funding, with \$14 billion coming from the General Fund and \$365.5 million coming from other funds (DOF 2023b). This is nearly identical to Newsom’s January budget proposal, with only a

¹⁷⁰ June 27, 2023. *EdSource*. Legislature, Newsom compromise, quickly pass and sign 2023-24 state budget with fewer cuts for K-12.

¹⁷¹ June 27, 2023. *EdSource*. Legislature, Newsom compromise, quickly pass and sign 2023-24 state budget with fewer cuts for K-12.

¹⁷² June 27, 2023. *EdSource*. Legislature, Newsom compromise, quickly pass and sign 2023-24 state budget with fewer cuts for K-12.

¹⁷³ August 18, 2023. *EdSource*. Changes to student housing program threaten ‘viability’ of affordable housing projects.

¹⁷⁴ September 3, 2023. *San Diego Union-Tribune*. SDCC eyes next step in ambitious affordable student housing project, as state funding shifts.

¹⁷⁵ June 27, 2023. College of the Redwoods Press Release.

¹⁷⁶ June 27, 2023. College of the Redwoods Press Release.

\$100,000 reduction in General Fund support (DOF 2023a).

Epilogue, Looking Forward Cautiously

California fiscal experts worry more about California's true budget, not the one signed into law with pomp and circumstance. Newsom's Department of Finance released a multi-year budget forecast a few weeks after the fiscal year 2023-24 budget was signed. It projected tepid tax revenues for the remainder of the governor's second term, and increasing operating deficits, \$14.3 billion by fiscal year 2026-27, even if the state avoids a recession. The LAO largely concurs with this reasoning, with chief LAO Analyst Gabe Petek estimating the state will have a \$11 billion deficit just this fiscal year. As longtime California columnist Dan Walters best summarized, "Given the administration's forecast and Petek's gloomier income and outgo projections, the 2023-24 budget's politically expedient decision to avoid deep spending cuts could turn out to be a fiscal disaster."¹⁷⁷

It is hard to estimate California's budget even in the best circumstances, and looming behind the equations this year is the state's delayed tax collection from April to October. The state estimates \$42 billion will be collected. Everyone would like to see more. But what if it's less? What if the state enters a recession? What if California's wealthiest tax households have a relatively bad financial year?

The nearly \$40 billion California has in reserves is unprecedented for this state, largely the work of Governor Jerry Brown to get the Legislature and the public to adopt a strong rainy-day reserve. But \$40 billion pales in comparison to a \$225 billion General Fund and \$310 billion total state budget. California might have to ready itself for major spending cuts or significant tax increases to balance a recessionary budget. And that is not a legacy Gavin Newsom is interested in pursuing right now as he readies himself to run for president...some day.

¹⁷⁷ July 25, 2023. *CalMatters*. Budget deficits could plague California for years. When will Capitol leaders take it seriously?

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